Chemistry is our world, Responsibility is our way

# Reference Document 2008

# Contents



In the present reference document, "Company" refers to Rhodia S.A., "Group" or "Rhodia" refers to Rhodia S.A. and all of its subsidiaries, and "Enterprise" refers to its operating entities and the Group companies composing such entities by sector of activity.

A French business corporation (société anonyme)
with a capital of €1,213,044,816
Registered Office: Immeuble Cœur Défense, Tour A,
110, esplanade Charles de Gaulle – 92400 Courbevoie
Registered with the Company and Commercial Registry
of Nanterre, France, under number 352 170,161

# Reference Document 2008

This is a free translation into English of Rhodia's *document de référence* (the "reference document"), filed by Rhodia with the French *Autorité des Marchés Financiers* on March 24, 2009, and is provided solely for the convenience of English speaking readers.

This reference document was filed with the *Autorité des Marchés Financiers* on March 24, 2009, pursuant to Article 212-13 of its general regulations.

This reference document may be used in connection with a financing transaction if supplemented by a *note d'opération* approved by the *Autorité des Marchés Financiers*.

Copies of the reference document are available from Rhodia,
Immeuble Cœur Défense, Tour A, 110, esplanade Charles de Gaulle – 92400 Courbevoie,
from Rhodia's website: http://www.rhodia.com, under the heading "Regulated information",
and from the website of the *Autorité des Marchés Financiers*: www.amf-france.org

# 1 Persons responsible

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## 1.1 Person responsible for the 2008 reference document

Jean-Pierre Clamadieu, Chairman and Chief Executive Officer.

## 1.2 Certification by the person responsible for the 2008 reference document (containing the annual financial report)

«I hereby certify, after having taken all reasonable care to ensure that such is the case, that the information contained in this reference document is to the best of my knowledge in accordance with the facts and contains no omissions likely to affect its content.

I hereby certify, to the best of my knowledge, that the financial statements presented in this reference document were prepared in conformity with applicable accounting standards and provide accurate information about the assets, financial condition and profits of the Company and the consolidated Group of companies, and that the management report incorporated in this reference document provides an accurate picture of the business developments, profits and financial condition of the Company and the consolidated Group of companies, as well as a description of the principal risks and uncertainties that these companies face.

I have received an audit completion letter from the statutory auditors in which they state that they have verified the information regarding the financial condition and financial statements presented in this reference document and that they have reviewed the entire reference document.

The reference document incorporates by reference the historical financial information related to the years ended December 31, 2006 and December 31, 2007, as well as related reports by the statutory auditors.

The consolidated financial statements for the year ended December 31, 2006, prepared in accordance with International Financial Reporting Standards ("IFRS") and the auditors' report for the consolidated financial statements for the year ended December 31, 2006, as well as the financial statements for the year ended December 31, 2006, and the auditors' report for the financial statements for the year ended December 31, 2006, are set forth respectively on pages 128 to 207 and 208 to 235 of the reference document of the Company filed with the *Autorité des Marchés Financiers* on March 30, 2007, under number D.07-0257.

The consolidated financial statements for the year ended December 31, 2007, prepared in accordance with International Financial Reporting Standards ("IFRS") and the auditors' report for the consolidated financial statements for the year ended December 31, 2007, as well as the financial statements for the year ended December 31, 2007, and the auditors' report in respect to the financial statements for the year ended December 31, 2007, are set forth respectively on pages 123 to 195 and 196 to 224 of the reference document of the Company filed with the *Autorité des Marchés Financiers* on March 31, 2008, under number D. 08-0182.»

Chairman and Chief Executive Officer

Mr. Jean-Pierre Clamadieu

# 2 Auditors

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## 2.1 Statutory auditors

PricewaterhouseCoopers Audit, member of the Regional Association of statutory auditors of Versailles

63, rue de Villiers
92200 Neuilly-sur-Seine

Represented by Mr. Christian Perrier

appointed on April 29, 2003 with a mandate that ends at the close of the shareholders' general meeting called to approve the financial statements for the year ended December 31, 2008.

KPMG S.A., member of the Regional Association of statutory auditors of Versailles

Immeuble Le Palatin, 3, cours du Triangle
92939 Paris La Défense Cedex

Represented by Mr. Denis Marangé

appointed on May 16, 2008 with a mandate that ends at the close of the shareholders' general meeting called to approve the financial statements for the year ending December 31, 2013 (note that this appointment was made at the end of the mandate as regular statutory auditor of Salustro Reydel, member of KPMG International since 2005, which started on May 22, 2002).

## 2.2 Alternate auditors

Mr. Yves Nicolas

63, rue de Villiers
92200 Neuilly-sur-Seine

appointed on April 29, 2003 with a mandate that ends at the close of the shareholders' general meeting called to approve the financial statements for the year ending on December 31, 2008.

Mr. Jean-Paul Vellutini

1, cours du Triangle
92923 Paris La Défense Cedex

appointed on May 16, 2008 with a mandate that ends at the close of the shareholders' general meeting called to approve the financial statements for the year ending December 31, 2013.

## 2.3 Expected developments

As indicated above, the mandate of both the regular statutory auditor, PricewaterhouseCoopers Audit, and the Alternate Auditor, Mr. Yves Nicolas, end at the close of the shareholders' general meeting called to approve the financial statements for the year ended December 31, 2008.

Consequently, at the shareholders' general meeting scheduled to be held on May 20, 2009 (upon first notice of meeting), the following proposals will be made:

- the renewal of PricewaterhouseCoopers Audit's appointment as regular statutory auditors;
- the renewal of Mr. Yves Nicolas' appointment as Alternate Auditor.

# 3 Selected financial information

### SIMPLIFIED CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31, 2008 (IFRS)

| | Year ended December 31 | | |
|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2006 (1)** |
| **Net sales** | 4,763 | 4,781 | 4,500 |
| Other revenue | 550 | 463 | 430 |
| **Operating profit/(loss)** | 309 | 422 | 323 |
| **Profit/(loss) from continuing operations** | 75 | 47 | 76 |
| **Profit/(loss) from discontinued operations** | 32 | 84 | (10) |
| **Net profit for the period** | 107 | 131 | 66 |
| Attributable to: | | | |
| **Equity holders of Rhodia S.A.** | 105 | 129 | 62 |
| Minority interests | 2 | 2 | 4 |
| **Basic earnings per share** *(in euros)* | 1.05 | 1.29 | 0.62 |
| **Diluted earnings per share** *(in euros)* | 1.04 | 1.27 | 0,62 |

*(1) Unaudited. Restated to reflect the disposal of the Isocyanates business completed in September 2008.*

### SIMPLIFIED CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2008 (IFRS)

| ASSETS | at December 31 | | |
|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2006** |
| Non-current assets | 2,155 | 2,363 | 2,471 |
| Current assets | 2,169 | 2,115 | 2,682 |
| **TOTAL ASSETS** | **4,324** | **4,478** | **5,153** |

| EQUITY DEFICIT AND LIABILITIES | at December 31 | | |
|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2006** |
| Total equity deficit | (356) | (368) | (628) |
| Non-current liabilities | 3,117 | 3,219 | 3,630 |
| Current liabilities | 1,563 | 1,627 | 2,151 |
| **TOTAL EQUITY DEFICIT AND LIABILITIES** | **4,324** | **4,478** | **5,153** |

### SIMPLIFIED CONSOLIDATED CASH FLOW AS OF DECEMBER 31, 2008 (IFRS)

| | Year ended December 31 | | |
|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2006** |
| Net profit for the period attributable to equity holders of Rhodia S.A. | 105 | 129 | 62 |
| Net cash flow from operating activities before changes in working capital | 375 | 413 | 244 |
| Net cash from operating activities | 319 | 413 | 102 |
| Net cash from/(used by) investment activities | (82) | (52) | (170) |
| Net cash from/(used by) financing activities | (129) | (412) | (376) |
| Effect of foreign exchange rate changes | (31) | (1) | (9) |
| Net increase/(decrease) in cash and cash equivalents | 77 | (52) | (453) |
| Cash and cash equivalents at the beginning of the year | 415 | 467 | 920 |
| Cash and cash equivalents at the end of the year | 492 | 415 | 467 |

| **Other information** | Year ended December 31 | | |
|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2006** |
| Recurring EBITDA(1) | 664 | 758 | 636 (2) |
| Free Cash Flow(3) | 37 | 161 | (139) |
| Net Indebtedness(4) | 1,311 | 1,484 | 1,949 |

*(1) Recurring EBITDA is defined as operating profit or loss prior to depreciation and impairment, restructuring costs and other operating income and expenses.*

*(2) Unaudited. Restated to reflect the disposal of the Isocyanates business completed in September 2008.*

*(3) Free Cash Flow is defined as cash from operating activities, before margin calls excluding non-recurrent refinancing expenses, less the acquisition of tangible fixed assets and other non-current assets.*

*(4) Defined as the sum of long-term borrowings, short-term borrowings and the current portion of long-term borrowings less cash and cash equivalents and other current financial assets.*

# 4 Risk factors

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The information provided below includes certain assumptions and expectations that, by their nature, may not prove to be accurate.

The risks presented below could have a negative impact on the Group's activities, financial condition, profit or share price. Certain other risks not yet identified or not considered relevant by Rhodia could also have negative impacts.

Additional information is presented in the Chairman's Report provided for in Article L. 225-37 of the Commercial Code, set forth in chapter 16.5.1 of this reference document.

## 4.1 Issuer's risks

### 4.1.1 RISKS RELATED TO RHODIA'S MARKETS AND ACTIVITIES

#### 4.1.1.1 RISKS RELATED TO MARKET CYCLES

Some of the sectors in which Rhodia operates, particularly the automotive, consumer, textile, electronics and building sectors, may be cyclical in nature, which could have, and in the past has had, a negative impact on the results of its operations and its financial condition.

Following the sharp acceleration of the deterioration in the macroeconomic environment in the fourth quarter of 2008, Rhodia suffered a major drop in demand in several of its end markets. The inventory reductions by its customers have spread to numerous sectors, affecting especially the Polyamide, Silcea and, to a lesser extent, Novecare Enterprises. The Acetow, Energy Services and Eco Services Enterprises have maintained their levels of performance. In this context, the Polyamide, Silcea and Novecare Enterprises recorded declines in sales of (31)%, (23)% and (9)%, respectively, in the fourth quarter of 2008, compared to the fourth quarter of 2007.

The fluctuations in prices and demand in the business sectors in question depend on factors beyond Rhodia's control, such as the general economic environment, competitors' activities, international circumstances and events, the evolution of regulations in France, the United States of America, China and other countries, could again cause Rhodia to experience periods of overcapacity, downward price trends and margin reductions.

In order to limit the likelihood of such risks occurring, Rhodia's business portfolio consists of activities in which the Group holds strong positions, which helps reduce its exposure to fluctuations in demand and prices. The organization of the Group into Enterprises and "*Cash Business Units*" by product line also promotes high levels of reactivity in case of changes in the economic environment. Finally, the management system adopted by the Group, which involves, in particular, quarterly reviews of projections and monthly follow-up on actual figures, provides very short-term follow-up on economic performances and rapid decision making.

### 4.1.1.2 COMPETITION RISK

While the degree of Rhodia's exposure to competition in the markets in which it operates varies significantly, it faces intense competition in certain markets. The competitive pressure on Rhodia and its products can be expressed as follows: strong price competition, primarily caused by overcapacity, competition from low-cost producers in a particular economic situation, and/or consolidation among our competitors or customers. A continuation of the significant decline in demand recorded by certain Enterprises in the fourth quarter of 2008 could contribute to causing overcapacity in certain of Rhodia's business activities and possibly cause stronger price competition. New products and new technologies developed by Rhodia's competitors may also affect its competitive position in these markets.

Rhodia's principal competitors in the markets in which it operates are described in chapter 6 of this reference document.

Rhodia manages this risk in accordance with the four following principles:

- a portfolio of activities with solid leadership positions;
- a policy of continuously improving its industrial performance aimed at operational excellence offering Rhodia's customers the best products, in the best time frames and at the best cost. This policy is based on two programs: *World Class Manufacturing* ("*WCM*") and *Six Sigma*. Competitiveness, continuous improvement, reliable facilities, quality products and flexibility are the five pillars of the WCM program, which is applied through the use of appropriate methods and training in the Group's production plants. The *Six Sigma* program is designed to promote a culture focused on the variability and evaluation of performance;
- research and development, which strives to improve process competitiveness and to offer Rhodia's customers innovations that meet their specific needs, particularly in the fields that help strengthen the Group's leadership positions. To reach this objective, a committee in charge of strategic innovation marketing has been formed in the R&D support function, and its mission is to identify the means for developing the most promising markets, anticipating their needs, focusing research on new products and solutions that can meet these needs and allocating the resources and skills that will make it possible to increase the chances of success. The general direction adopted by this committee in 2008 is presented in chapter 11 of this reference document; and
- the creation of lasting relations with certain customers and close cooperation with them to develop new products that meet their needs.

### 4.1.1.3 CUSTOMER AND SUPPLIER RISK

The results of some of Rhodia's Enterprises depend substantially on continued contractual relations with certain customers and suppliers.

Rhodia cannot guarantee that its customers and suppliers will continue and renew these contractual relations. This could adversely affect Rhodia's operating profit and its financial condition. To manage this risk, Rhodia seeks to secure a portion of its sales by signing long-term contracts with some of its customers when the market and the relationship permit.

In some cases, contractual relationships exist with only a limited number of customers and suppliers. Nevertheless, given the diversity of its portfolio made up of six activities serving highly diversified markets, Rhodia believes that it is not dependent, at the Group level, on any particular client that could have a significant impact on the Group's financial condition, operations or earnings. The Group's 30 largest customers represent cumulatively less than 30% of the Group's sales, and no customer represents more than 2.5% of the Group's sales. However, sales of Acetow and Silcea depend on a very limited number of customers. The markets for acetate tow used in cigarette filters and silica used in tires are highly concentrated both on the producer and customer levels.

Where the Group depends on a few significant suppliers for certain key raw materials, Rhodia has put in place security measures to minimize the impact of any decrease or interruption in supply.

Furthermore, with respect to purchasing, supply, and marketing and sales, the Group's policy reflects an interest in and need for formalizing and tracking purchasing and sales when commitments exceed certain thresholds defined in terms of duration and amount.

Rhodia is also exposed to a risk of non-payment of customer receivables. In order to mitigate this risk, Rhodia has put in place procedures to analyze customer risk, leading to the establishment of credit lines for each client and the reduction of its financial exposure. Rhodia has also taken out insurances covering a portion of its net sales. This insurance policy is principally used to cover exports by Group subsidiaries.

### 4.1.1.4 RISK RELATED TO RAW MATERIALS AND ENERGY

Raw materials and energy expenses, excluding packing and shipping costs, amounted to approximately €2.2 billion in 2008. These expenses correspond to the Group's principal recurring purchases of raw materials and energy and are broken down as follows:

- 20% for energy;
- 24% for raw materials derived from benzene;
- 19% for raw materials derived from natural gas;
- 11% for raw materials derived from naphtha; and
- 26% for other raw materials.

Petrochemical products account for a significant portion of raw material costs, particularly products derived from benzene. Rhodia is therefore indirectly exposed to the volatility of oil prices and/or directly exposed to changes in the price of benzene. Rhodia is also exposed to price fluctuations for other raw materials, particularly natural gas. Rhodia's ability to maintain its operating margins depends on its ability to pass on increases in the cost of raw materials through price increases.

In view of the continued increases in the cost of raw materials and energy in 2008 (an increase of €417 million in 2008 compared to 2007, on the basis of a constant scope of consolidation and constant exchange rates), Rhodia continued its voluntary policy of sale price increases in all its activities. The increases in sales prices, in local currencies, therefore largely offset the very sharp increase in the cost of raw materials and energy that occurred in 2008.

The Energy Services Enterprise plays a special leading role in the field of energy. The objective of this Enterprise is to optimize the supply and management of the Group's energy resources in an energy market with high volatility.

Actions such as the optimization of co-generation (an industrial tool permitting the simultaneous production of thermal energy and electricity using gas turbines) or intended to improve energy efficiency in the Group's manufacturing facilities were pursued by Energy Services and generated significant savings in 2008 (See chapter 6.4, "Summary of Activities - Energy Services", below). These economies are calculated on the basis of historical costs prior to implementation of the energy efficiency measures and costs recorded after implementation.

Finally, via Energy Services, the Group is part of the Exeltium consortium (composed of major electricity consuming industries in France, including Arkema, Solvay, Arcelor, Rio Tinto, Alcan, Air Liquide) that signed an agreement in January 2007 with Électricité de France (EDF) defining the principles of a long-term industrial and commercial partnership. This agreement was approved by the European Commission on July 31, 2008. The objective is to negotiate a definitive long-term electricity purchase contract at prices based on the costs of nuclear investment by EDF starting in 2009.

Rhodia also attempts to control this risk through its supplier relations management policy (see chapter 4.1.1.3, "Customer and supplier risk", above).

For further information, see Note 26.4 (*Management of risk related to fluctuations in the price of oil-based commodities*) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 4.1.1.5 RISK RELATED TO "*CERTIFIED EMISSION REDUCTIONS*" (CER)

The production and sale of CERs contribute significantly to Rhodia's results of operations and cash flows (see chapter 6.4, "Summary of Activities - Energy Services", below).

The results generated by the CERs depend, on the one hand, from Rhodia's ability to reduce its greenhouse gas emissions in order to obtain emissions credits and, on the other, Rhodia's ability to commercialize CERs on the market in a satisfactory manner.

The market and value of CERs are affected by uncertainties, particularly regarding levels of supply and demand for emissions credits. Changes in the value of CERs could have a material impact on the Group. After having reached a peak of €26 in July 2008, the price of CERs declined progressively following the global macroeconomic decline, to fall below €10 per ton in February 2009.

In 2008, the sale of CERs increased by more than 10% over 2007 and generated €158 million in recurring EBITDA, compared to €135 million in 2007.

The Group has partnered with Société Générale Énergie (a wholly-owned subsidiary of the Société Générale group) in order to maximize the value of its CERs. In July 2006, Rhodia created **orbeo**, a company that it owns jointly with Société Générale Énergie. **orbeo** was set up in part to market and sell CERs.

Each company granted **orbeo** exclusivity for its CER trading activities. It benefits from the experience and the emissions credits trading scale of Société Générale Énergie. **orbeo** is an *entreprise d'investissement* certified by the Committee of Credit Institutions and Investment Enterprises (*Comité des Établissements de Crédit et des Entreprises d'Investissement-CECEI*). The company is active in the CER market and also handled a portion of Rhodia's CER futures sales. In this context, Rhodia has granted to **orbeo** a guarantee of up to €200 million to cover the obligations of its subsidiaries resulting from their sales of CERs to **orbeo**.

Rhodia's risk exposure is limited by control systems established within **orbeo**. Global risk limits are reviewed regularly by the board of directors of **orbeo** and analyzed on a monthly basis by a risks committee. Finally, *risk managers* from both partners analyze **orbeo**'s daily positions and report these positions to both the management of **orbeo** and the management of each partner.

#### 4.1.1.6 COUNTRY RISK

Rhodia is an international group of companies exposed to economic conditions, political risks and specific regulations in the countries in which it operates. In addition to Europe and North America, Rhodia also operates in Latin America and in the Asia-Pacific region, areas in which the Group has focused its growth strategy and which represented 15% and 28%, respectively, of the Group's total sales in 2008. The Group's strategy is to take advantage of development opportunities in growing markets, particularly in China, South Korea and Brazil. The Group has had a presence in some of these areas for a considerable amount of time. This is particularly true for Brazil, where Rhodia has been present approximately 90 years, and in China, where Rhodia has been for some thirty years, having been among the first Western manufacturers to open plants there, ahead of its competitors.

The Group's presence in these markets exposes it to risks such as sudden material changes in regulations, political, financial and social instability, exchange rate fluctuations and exchange control restrictions, making it difficult for the Group to repatriate local currencies or, conversely, to invest or obtain local financing. The occurrence of such events could have a negative impact on Rhodia's operating results and financial condition.

In order to anticipate these risks, zone and country management are part of a specific management structure. The four zones in which Rhodia operates are managed by zone directors who are members of the executive committee and who rely on country representatives in the main countries in which the Group has a significant presence. These people are assigned to represent and defend the interests of Rhodia with regard to the public authorities. They are responsible, moreover, for assisting the Group's entities present in their zone to better anticipate and comply with the particular restrictions linked to the country, and the local situations, laws and regulations. Additionally, in the event of a crisis in a given country or zone, crisis management procedures exist. These procedures allow local managers to send information up the chain of command and manage the crisis quickly by involving the Group communications or the Management Committee if necessary. These procedures are designed so that necessary measures are taken to protect Rhodia's interests and the interests of its employees. Crisis management is more fully described in chapter 4.2.1.4 below.

### 4.1.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

This section presents the industrial and environmental risks related to Rhodia's activities. Management of these risks is described in chapter 4.2 of this reference document.

#### 4.1.2.1 RISKS RESULTING FROM CURRENT OR FUTURE REGULATIONS

Rhodia's activities must comply with a set of continually developing environmental, health and safety laws and regulations. These regulations impose increasingly stringent restrictions concerning air and water emissions, the use and handling of hazardous materials, the storage and disposal of hazardous materials and waste and clean-up of environmental contamination.In particular, industrial activities are subject to the prior obtaining of permits or licenses in most jurisdictions in which Rhodia operates. Moreover, the markets in which Rhodia operates are, for the most part, regulated: biocides, food contacts, cosmetics, pharmaceuticals, etc. Each geographic zone or country, particularly in Europe, the United States, Japan and China has its own regulations regarding chemical products.

Complying with these regulations involves significant and recurring costs for Rhodia. Furthermore, the area of activity in which Rhodia operates exposes it to significant potential liability, particularly for environmental matters.

Rhodia works both locally to identify restrictions in each country and globally with its team of scientific experts to satisfy the requirements of these regulations.

Rhodia could also incur significant expenses in the event that new regulations or governmental policies are enacted or when competent local authorities make new requests. Considerable expenditures could, in particular, be required if certain materials, particularly low-grade radioactive materials, which have up to now been considered in part recyclable by the Group and which are currently stored at the La Rochelle site, were to be considered by the government as waste that must be transferred to specialized and regulated off-site storage locations.

These regulations could restrict Rhodia's ability to modify or expand its facilities or to continue production and could require it to install costly control equipment or incur significant new expenses including remediating polluted sites. Failure to comply with these regulations could result in financial, criminal or other penalties for Rhodia.

Furthermore, pursuant to certain laws, such as the US *Comprehensive Environmental Response, Compensation and Liability Act* (known as "*Superfund*"), Rhodia could be forced to contribute to the clean-up costs of third-party sites or facilities where Rhodia has stored or disposed of its waste. According to these laws, the owner or operator of contaminated properties and the generator of waste sent to these sites could be held jointly and severally liable for the remediation of such properties, regardless of fault (see Note 28.4 (Environment) to the consolidated financial statements in chapter 20.3.1.3 of this reference document).

### 4.1.2.2 INDUSTRIAL RISKS

Rhodia's business activities create certain inherent significant risks which expose it to health, safety and environmental liability. In particular, Rhodia operates a certain number of "Seveso" installations as defined by Council directive 96/82/CE, or similar facilities outside Europe where hazardous substances such as chlorine, ammonia or phosgene, which can generate significant risks for the health and safety of neighbouring populations and for the environment, are used, stored or produced. Indeed Rhodia has been and could be held liable for personal injury (resulting from exposure to hazardous substances used, produced or disposed of by Rhodia or situated at its sites) and damage to property or for damage to natural resources.

### 4.1.2.3 RISKS RELATED TO THE DISCOVERY OF PAST POLLUTION

Environmental, health and safety regulations concern not only activities at sites currently in operation but may also concern Rhodia's past activities or the sites it has shut down or sold. A large number of Rhodia's current, past or discontinued production sites have a long history of industrial use. As a result, soil and groundwater contamination has occurred at certain sites in the past, and it is possible that other contamination could be discovered at these sites or other sites in the future. Rhodia could be held liable and required to incur considerable remediation costs for these sites and for any new obligations in addition to those existing at December 31, 2008.

### 4.1.2.4 ENVIRONMENTAL RISKS AND POTENTIAL LIABILITIES

The discovery of new facts, events, circumstances or conditions as well as other events such as changes in the law or the interpretation or enforcement thereof, could result in increased costs and liabilities which could significantly affect Rhodia's activities, financial condition or operating profit. For example, current revisions to European directives concerning waste and ground pollution could increase Rhodia's liabilities in these areas. For example, concerning France, the adoption in 2005 of certain provisions contained in the Environmental Code could result in new costs for the Group. The provisions of Article R.515-39 and following of the Environmental Code regarding risk prevention plans created measures for monitoring urbanization around the most hazardous sites. A technological risk prevention plan should be implemented for approximately eight sites that Rhodia or one of its Enterprises operates in France. In addition, the provisions of Articles R. 512-1 and following of the Environmental Code provide for new security and remediation procedures for a site at the time it ceases operations. These provisions could, in certain cases, generate additional costs, depending on the outcome of discussions with relevant authorities.

Compliance with laws and regulations related to environmental protection may limit Rhodia's ability to modify or develop its facilities, prevent the production of certain products, require it to install antipollution equipment or incur significant remediation costs, including fines and penalties. Potential liabilities, estimated at approximately €158 million on December 31, 2007, were re-estimated at approximately €183 million on December 31, 2008 (gross amount without adjustment to present value), an increase essentially linked to the site in La Rochelle (France). The other potential liabilities relate principally to the sites of Point de Claix (France), Silver Bow and Freeport (USA) and Cubatao (Brazil), with respect to possible obligations to store or remediate waste or materials off-site, as well as possible containment of an internal landfill in France. No provisions for these items were recorded as of December 31, 2008, in the absence of an actual obligation as of that date (See Note 28.4 (Environment) to the consolidated financial statements in chapter 20.3.1.3 of this reference document).

### 4.1.2.5 PRODUCT RISKS AND RISKS RELATED TO THE IMPLEMENTATION OF THE EUROPEAN REGULATION CONCERNING THE REGISTRATION, EVALUATION AND AUTHORIZATION OF CHEMICALS ("REACH")

In Europe, the REACH regulation ((EC) Regulation 1907/2006) came into force on June 1, 2007. It aims to establish a European regulatory framework for the registration, evaluation and authorization of chemical products. Its implementation will have a financial impact for Rhodia and could affect its ability to market certain chemical products in Europe.

Rhodia had been actively preparing for the REACH regulation for the past five years. As of December 1, 2008, the Group had preregistered 736 substances included in products it imported, manufactured or marketed on the European market, in conformity with the regulation. In addition, Rhodia preregistered about 100 substances included in the raw materials, as a precaution. Identification of these substances could represent approximately €80 million in expenditures on tests over the period corresponding to the implementation of the regulation, i.e., between 2008 and 2018.

The Purchasing Division of Rhodia, in conjunction with the operating units, evaluates the risks that this regulation could create for its supplies of raw materials: unforeseen use by a supplier (equivalent to a ban on use or a need for Rhodia to proceed with registration), production shut down of an item in the upstream chain and non-registration of the substance by a non-European supplier, etc. About 2,300 pairs of materials/suppliers were therefore evaluated.

Convinced early on of the need for regulation in this area and strongly adhering to its long-established culture of Responsible Care®, Rhodia has anticipated the implementation of REACH since 2005, particularly its "Authorization" section, notably through its *red line*, which concerns CMR substances (Carcinogens, Mutagen and substances toxic to Reproduction) and controlling risks related to the use and marketing of these products.

The Group set up a structure to guide the implementation of this regulation. In addition to all of the business units, it includes the functions involved (Purchasing, Information Systems, Legal, etc.). Furthermore, a project director was appointed at the end of 2007.

The Group also works alongside the European Commission and the European Chemical Products Agency to make available to the industry as a whole the tools, guides and procedures allowing the objectives of REACH to be achieved, particularly in 2008, in the working group for the development of the *European Chemical Industry Council (*CEFIC)/Conservation of Clean Air and Water in Europe (CONCAWE) guide on "Strictly Controlled Intermediate Products."

Rhodia also contributes by providing them with the necessary documents to register substances (chemical safety and risk evaluation report).

Rhodia's support for the European REACH regulation program is consistent with the Group's commitment toward sustainable development and its reputation as a responsible chemical producer.

#### 4.1.2.6 RISKS RELATED TO OCCUPATIONAL DISEASES

Rhodia now owns and operates sites that have successively belonged to Stauffer Chemical Inc. and Rhône-Poulenc, where asbestos was sometimes used as insulation in pipes, boilers and furnaces. However, asbestos was not used directly in the production process. As a consequence, Rhodia has been involved in a limited number of lawsuits connected with asbestos exposure.

Two Rhodia sites in France, one of which was sold in 2008, were registered on the official list of establishments that manufactured materials containing asbestos, which potentially entitles asbestos workers to claim early retirement. Rhodia cannot exclude the possibility that other sites may also be included on this list in the future.

Considering the asbestos-related diseases brought to its attention, and although it is not possible to estimate the liabilities that may result from all the complaints that could be filed against Rhodia, Rhodia believes, based on available information and on its experience in this area, that its future risk with respect to asbestos-related claims is limited.

### 4.1.3 FINANCIAL RISKS

For more detailed information on risks related to financial markets, see Note 26 (Financial risk management and derivatives) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

#### 4.1.3.1 RHODIA'S FINANCIAL RESOURCES

At December 31, 2008, Rhodia had net financial indebtedness of €1,311 million, compared to €1.484 million at December 31, 2007. This reduction of €173 million is due principally to: positive Free Cash Flow (1) of €37 million and €230 million of proceeds from the sale of assets, reduced by dividends paid and other items that affected the level of debt without affecting ash flow (conversions, split accounting for the debt portion of the OCEANE convertible notes).

As of December 31, 2008, Rhodia had available liquidity of €1,036 million (compared to €959 million as of December 31, 2007), consisting of €502 million of cash, cash equivalents and other liquid current financial assets and an unused syndicated credit facility of €534 million.

In light of the refinancing transactions carried out in 2006 and finalized in 2007, in particular the issuance of €1,100 million of Floating Rate Notes due 2013 and €595 million convertible notes (OCEANE) due 2014, Rhodia believes that its liquidity requirements

*(1) Free Cash Flow is defined as cash from operating activities, before margin calls and excluding non-recurrent refinancing expenses, less the acquisition of tangible fixed assets and other non-current assets.*

will be met through the maturity of its syndicated credit facility in June 2012.

As a result, the Group believes that it has sufficient financial flexibility to meet its obligations and current needs.

### 4.1.3.2 RESTRICTIONS IMPOSED BY LINES OF CREDIT AND OTHER LOANS

Rhodia is subject to restrictions and to compliance with certain financial ratios for its lines of credit and other loans. However, the refinancing operations carried out in 2006 and 2007, particularly the renegotiation of the "RCF" (Revolving Credit Facility) significantly reduced such restrictions.

The RCF and other outstanding loans, particularly the Floating Rate Note ("FRN") bond loan, which are described in chapter 10.3 "Liquidity and capital resources", contained various covenants at December 31, 2008, limiting the ability of Rhodia and certain of its subsidiaries to:

- borrow money;
- repay in advance certain portions of its debt;
- pay dividends on, repurchase or cancel its shares;
- make investments;
- create or modify certain securities;
- conduct sale or lease transactions;
- substantially modify its area of activity; and/or
- consolidate, merge or sell all or a significant part of its assets.

Furthermore, most of Rhodia's existing financing agreements contain cross-default provisions and/or cross-acceleration clauses, pursuant to which a payment default, payment acceleration or failure to respect a financial covenant under one agreement could in some cases cause a default or acceleration of all or a significant portion of Rhodia's debt.

### 4.1.3.3 DEBT RATING

Some outstanding debt instruments are rated by the independent rating agencies Moody's Investors, Service and Standard & Poor's.

In 2008 Moody's Investors Service maintained its Corporate Family Rating of Ba3 for Rhodia and in December adjusted its outlook from positive to stable. It maintained its rating of B1 for Rhodia's senior unsecured notes and the OCEANE issue.

Standard & Poor's assigned a rating of BB (stable outlook) to Rhodia (Corporate credit rating), and a rating of BB to Rhodia's long-term debt in April 2008. These two ratings were previously BB-. In February 2009, Standard & Poor's adjusted its outlook from stable to negative.

These ratings limit Rhodia's access to the commercial paper market.

### 4.1.3.4 RETIREMENT OBLIGATIONS

Rhodia's commitments with respect to retirement and other similar obligations are not fully financed.

Rhodia has obligations toward its employees and retirees related to severance pay and other end-of-contract benefits in most of the countries in which it operates. In the United States and in the United Kingdom, these obligations result from employment contracts, retirement plans and other employee benefit plans some of which are accompanied by an obligation to allocate assets in order to finance these benefits. In France, retirement compensation and supplemental retirement benefits are defined by collective bargaining agreements, internal agreements and French legal provisions. Expenses for the year are financed from current cash flows. In France there is no legal obligation to make provisions for these obligations. At December 31, 2008, Rhodia's contractual liability with respect to its retirement plans in France amounted to €856 million.

Rhodia's projected benefit obligations are based on end-of-career wages using certain actuarial assumptions that vary from country to country, particularly with respect to discount rates, expected long-term rates of return on invested plan assets and also rates of increase in compensation levels. If actual results, especially discount rates and/or rates of return on invested plan assets, differ from Rhodia's assumptions, its retirement benefits and other similar obligations could be higher or lower and its cash flows could be favorably or unfavorably affected by financing these obligations.

Rhodia cannot guarantee that it will not be required to make additional contributions in the future. Such contributions could have a negative impact on Rhodia's financial condition and liquidity. Concerning foreign retirement plans, on December 31, 2008, Rhodia estimated that the current value of the payment obligations pursuant to its retirement obligations amounted to €1,241 million (including €149 million related to countries that, like France, do not require companies to allocate separate assets to finance these obligations) and the value of its assets allocated to these plans was estimated at €946 million. See Note 27 (Retirement benefits and similar obligations) to the consolidated financial statements in chapter 20.3.1.3 below.

## 4.1.4 RISKS RELATED TO FINANCIAL MARKETS

For a description of the risks related to financial markets, see Note 26 (Financial risk management and derivatives) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

As of the date of this reference document, not holding any of its own shares or significant equity interests in other listed companies (a legal proceeding with SEBI is described in Note 32 (Litigation) to the consolidated financial statements in chapter 20.3.1.3 of this reference document), Rhodia is not exposed to any equity-related risks of this nature. As part of its ongoing cash flow management policy, it only subscribes to monetary instruments that are not subject to equity-related risks.

The assets of retirement plans are in large part invested in shares of publicly-traded companies. The allocation is set forth in Note 27 (Retirement benefits and similar obligations) to the consolidated financial statements in chapter 20.3.1.3 below. As noted in chapter 4.1.3.4, the valuation of these assets affects the financing of these obligations by the Group.

Moreover, pursuant to its share repurchase plan (resolution 12 approved by the general shareholders' meeting of May 16, 2008, which was implemented by a decision of the board of directors at its July 29, 2008 meeting), Rhodia acquired its own shares to cover existing plans for the free distribution of shares to employees and corporate officers of the company and its subsidiaries. As of December 31, 2008, Rhodia held 1,788,803 of its own shares.

## 4.1.5 LEGAL AND CONTRACTUAL RISKS

### 4.1.5.1 LEGAL PROCEEDINGS

Rhodia is involved in lawsuits arising in the normal course of its business involving primarily buyers of businesses previously sold by Rhodia or related to environmental claims or civil liability compensation claims related to chemical products sold in the marketplace. Rhodia is also involved in a certain number of claims that arise outside of the scope of its normal business operations, the most significant of which are summarized in Note 32 (Litigation) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 4.1.5.2 COMPETITION LAW COMPLIANCE

Given high concentration in certain of its markets, the Group cannot rule out the risk that it may be investigated for unfair competition practices by relevant authorities. However, Rhodia is not presently aware of any such practices or complaints against it.

In this context, the Group carries out its commercial and industrial strategy with the utmost caution in order to ensure that its employees do not make use of unfair competition practices (abuse of a dominant position, agreements with other players in the market, etc.). Various tools and resources have been put in place to raise Group employee awareness of these risks:

- the Group's Conduct Policy, subject to regular updates, gives the general rules of conduct and principles to be followed and complied with in the matter by all Group employees;
- information, training and awareness sessions are offered regularly on these rules of conduct.

### 4.1.5.3 PATENT RISKS

In 2008, Rhodia filed 98 patent applications for a range of products and procedures that have been added to its already considerable global trademark and patent portfolio. Depending on its operating needs, the Group may also acquire patent licenses or grant such licenses. All of the Group's patents and trademarks are essential assets for its business activity.

However, the individual loss of a patent or trademark for a product or procedure would not have material adverse effect on Rhodia's earnings, financial condition or cash flow.

### 4.1.5.4 JOINT VENTURE RISKS

A number of Rhodia Enterprises are subject to risks related to the operations they carry out through joint ventures in which Rhodia holds a stake but does not have an exclusive controlling interest. Certain joint venture partners are also significant Rhodia customers and/or suppliers. A list of joint ventures consolidated by Rhodia is provided in Note 37 (List of companies included in the consolidated financial statement for the year ended December 31, 2008) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

In accordance with the contracts and agreements regulating the control and financing of these entities, certain key matters such as new financing, capital expenditures, approval of business plans and decisions as to the timing and amount of dividend distributions require agreement by the partners. There is a risk of disagreement or deadlock among the partners of these joint ventures. It is also possible that decisions will be made that are contrary to Rhodia's interests. Furthermore, Rhodia's investments in these joint ventures, both in general and as a result of arrangements with their joint venture partners, may require new capital expenditures or sales or purchases of holding companies. Rhodia considers that these agreements contain standard clauses and conform to standard practice in international contract, commercial and corporate law. As of the present, Rhodia does not have a minority shareholder or management position in its material joint ventures. In the event of any deadlock in the decision-making process in these joint ventures, in most cases the shareholders' agreements binding Rhodia contain deadlock clauses aimed at ending the deadlock.

#### 4.1.5.5 RISKS RELATED TO FAILURES IN THE INTERNAL CONTROL SYSTEM

If the internal control system related to gathering financial information were to fail, Rhodia could be unable to provide accurate financial earnings or prevent fraud.

Rhodia has developed and continues to develop its internal control systems with the aim of providing reasonable assurance that (1) its transactions are properly authorized; (2) its assets are protected against improper or unauthorized use; and (3) its transactions are properly recorded and reported in the appropriate written documents so as to assure that financial statements conform to applicable accounting standards. These internal control systems are designed using internal resources, outside consultants and, if necessary, certain of Rhodia's joint venture partners.

Any system of control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based at least in part on certain assumptions about the likelihood of future events. Because of these and other limitations inherent to control systems, no absolute guarantee can be given that any of the control systems will succeed in achieving their stated goals in the future.

The internal control system is described in the Chairman's report pursuant to Article L. 225-37 of the Commercial Code, included in chapter 16.5.1 of this reference document.

## 4.2 Risk management

### 4.2.1 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Rhodia has a matrix organization that operates transversally, strengthening managerial performance while incorporating the Group's commitment to sustainable development, as well as the demands expected from a listed company with respect to corporate governance. The organizational structure has four main components:

- worldwide Enterprises that are responsible for their operating results. They operate globally with extensive autonomy in managing their operating activities and are responsible for strategy, marketing & sales, industrial, innovation and the Supply Chain;

- support Functions (finance, legal, purchasing & procurement, information technology, human resources, communications, research & development and manufacturing) organized into shared services that define the processes and offer their support to the Enterprises;
- geographic zones (North America, Latin America and Asia-Pacific), each supervised by a Zone Director, whose role is to facilitate the implementation of Group policies and practices, ensure compliance with all local laws and regulations and ensure directly or indirectly the representation of Rhodia on the board of directors of local subsidiaries and joint ventures;
- the Management Committee, which supervises the Enterprises and support functions and defines and implements the Group's strategy and policies.

The material internal control procedures implemented in the Rhodia Group are described in the Chairman's Report pursuant to Article L. 225-37 of the Commercial Code, in chapter 16.5.1 of this reference document.

Rhodia's principal risk management tools are described below.

## 4.2.1.1 MANAGEMENT BOOK

Rhodia's risk management system corresponds to its organizational structure, thus, within Rhodia there is no single individual responsible for risk management. The president of each Enterprise, functional director or manager of a geographic zone is responsible for managing the risks falling within their responsibility.

Ten processes are presented in the Rhodia Management Book, and, for each of these ten processes, a description of functional risks they may have to confront is presented. These include:

- the Spring system, a dynamic management projections process;
- Marketing & Sales;
- Industrial;
- Finance;
- Legal;
- Information Systems;
- Purchasing & Procurement;
- Human Resources;
- Communication & Public Affairs; and
- Research & Development.

Adjustments taking the changes in the Group into account have been made to the document. This new version of the *Management Book*, approved by the General Management, was distributed in 2008.

The design, development, distribution and control of each process are the responsibility of the *Corporate Process Owner* (CPO), an expert at the highest level in the group and who is a member of either the Management Committee or the Executive Committee. CPOs have full authority to make decisions concerning their area of expertise. They ensure that sub-processes and internal controls for a given process are applied. CPOs are supported by a network of internal experts, the *Corporate Process Experts* (CPE), who are responsible for key sub-processes.

The objectives to be achieved, the risks associated with the process, the red lines and the rules to be obeyed, the audit standards and/or the bodies responsible for internal control are described for each process.

Red lines are mandatory rules that must be applied regardless of the circumstances in order to limit the Group's exposure to major risks. They define the limits of the managers' autonomy. Failure to adhere to these rules results in penalties, administered by the Management Committee.

Furthermore, a set of additional rules corresponding to good practices is defined by each support function. Their application seeks to improve discipline or align practices at each level of the organization. The support functions are responsible for disseminating these rules and for ensuring compliance. Failure to apply these rules may result in penalties administered by the concerned CPO in cooperation with superiors.

## 4.2.1.2 COMPLIANCE POLICY

This risk management system includes a code of conduct that defines the principles of individual behavior in the various situations of daily professional life. This policy aims to prevent certain legal risks that Rhodia employees may encounter and, therefore, evolves with the Group's industrial and regulatory environment. The challenges, recommendations and prohibitions related to the following areas are presented in a document available in French and in English on the Group's Intranet site: insider trading/buying and selling shares (and other financial instruments), protection of confidential information, protection of the legal entity, conflicts of interest, using information systems, respect for free competition, good commercial practices, prevention of bribery (offers of gifts-invitations-financing) and responsible influence. It is regularly updated.

Failure by an employee to comply with the Rhodia compliance policy may result in penalties.

### 4.2.1.3 WHISTLEBLOWING PROCEDURE

The whistleblowing procedure, established by Rhodia in July 2005, is an additional mechanism that allows each employee throughout the world, whether anonymously or not, to exercise his right to inform an Ethics committee by mail or e-mail of any failure to comply with accounting and finance rules or of any fact that could threaten Rhodia's vital interests or the personal or moral integrity of its employees. Respecting confidentiality, the Ethics committee, made up of five Group employees, investigates the allegations received before sending the files to the Management Committee, which must decide on measures to be taken. The National Commission for Data Protection and Liberties (*Commission Nationale de l'Informatique et des Libertés* or CNIL) guidelines were analyzed and taken into consideration when setting up this procedure.

### 4.2.1.4 CRISIS MANAGEMENT

A crisis is defined as any established or suspected event that may, through its potential effects or its media coverage, adversely affect Rhodia's image and its strategic interests vis-à-vis customers, personnel, shareholders or the general public. This event may be industrial, commercial, logistical, legal, financial, political or social in nature.

Rhodia's crisis management procedure aims to disseminate and share information concerning a potential crisis situation, identify the individuals responsible for managing the situation, and ensure effective decision-making and communication throughout the various entities of the Rhodia Group vis-à-vis the public.

The crisis is managed by the crisis units closest to the events and players involved, by the site managers, commercial entities, corporate departments, countries or areas concerned.

### 4.2.1.5 FRAUD MANAGEMENT

Rhodia has developed a fraud prevention plan that allows fraud prevention and detection. For the most part, this plan structures actions already set up or initiated within the Group and is based on the main tools conveying the Group's internal control culture. In the area of fraud prevention it is particularly important to mention:

- the Management Book;
- the compliance policy;
- the code of ethics for financial managers;
- the whistleblowing procedure;
- the fraud information and tracking procedure;
- more generally, all of the rules, procedures and controls; and
- the role of the internal control and internal audit departments.

The main references mentioned above are presented in this chapter 4.2.1 and in the Chairman's report pursuant to Article L. 225-37 of the Commercial Code included in chapter 16.5.1 of this reference document.

In 2006 a fraud mapping exercise was conducted which allowed the formalization of an Anti-Fraud Plan. This plan, presented to the Audit Committee in 2007 and communication to the Group's managing bodies (Executive Committee and the management of Enterprises, corporate functions and geographical zones), was reviewed and improved in 2008.

Action plans to increase the awareness of various actors of good practices are regularly carried out with the Internal Audit department, either in dedicated sessions or through an internal newsletter "Rhodia News" distributed to all group employees.

In addition, a procedure is in place requiring senior Finance department members to ensure that all cases of fraud are reported up the corporate ladder, via an appropriate form, to the Group Financial Controller and the Director of Internal Audit. The Audit Committee is regularly informed of reported cases of fraud and subsequent actions taken.

## 4.2.2 MANAGEMENT OF INDUSTRIAL AND ENVIRONMENTAL RISKS

Controlling its industrial risks and taking into account the environmental consequences of its activities are among Rhodia's commitments concerning sustainable development. Rhodia's sustainable development approach, presented in chapter 5.3 of this reference document, provides additional information, particularly the main actions undertaken in 2008 to continuously improve control of its industrial and environmental risks.

### 4.2.2.1 MANAGEMENT SYSTEM

Managing industrial and environmental risks entails identifying and prioritizing these risks in order to implement the necessary preventive and protective measures based on systematic reviews of processes, installations and workstations.

Rhodia has developed its own safety and environmental management system, SIMSER +, which integrates the requirements of the ISO 14000 or OSHA 18000 standards and the principal international regulations. This system, or its simplified version for smaller sites (Rhodia Rules and Recommendations/3RHSE), is implemented at all of Rhodia's sites worldwide.

According to this system, each site is audited every three years. Furthermore, all installations and processes are subject to a security review adapted to their risks. These reviews are updated every five years to reflect changes in the laws, developments in scientific and technological knowledge, analysis methods and impact modelling tools.

If a significant event occurs at an installation, these reviews are carried out or updated immediately. Rhodia has recognized methods and a network of trained experts to perform these reviews. Particular care is devoted to the "upper tier" Seveso sites (as defined by European Directive 96/80/CE of December 9, 1996, known as the "Seveso" directive, which include installations likely to present very large risks to the health or safety of neighbouring populations and the environment, due to the danger of explosion or release of harmful products) or equivalent for sites outside Europe, i.e., 25 sites within the historical scope of consolidation[(2)] (a site being defined as the geographic location that could belong to or be operated by several subsidiaries of the Rhodia Group) on a worldwide level (12 in Europe, including 8 in France). These safety studies allow us to identify the hazards, whether physical or chemical, and to evaluate the risks, taking into account the factors in the occurrence of accidents and potential targets. They make it possible to classify risk into three categories. Rhodia's objective is to eliminate the highest category risks in the year following their identification.

Rhodia also encourages exchanges of experience between its sites, which for the most part have systems for compiling incidents. A monthly letter called "Safety Procedures" helps develop these exchanges.

### 4.2.2.2 COOPERATION WITH THE AUTHORITIES AND THE COMMUNITY

Rhodia cooperates with public authorities through the Union of Chemical Industries (*Union des Industries Chimiques*) and the French Business Confederation (*Le Mouvement des Entreprises de France*) for enforcement of the decrees implementing Law 2003-699 of July 30, 2003, on industrial risks, and in particular addressing urban areas surrounding sites that pose risks and the remediation of polluted sites. Rhodia helps communicate this information through the Local Information and Consultation Committees (*Comités Locaux d'Information et de Consultation*). With procedure DRC 40, Rhodia uses a methodology recognized by INERIS.

At the European level, Rhodia participates in the Strategy Implementation Groups (Stakeholders Dialogue, Responsible Care® and Climate Change) of the European Chemical Industry Council (CEFIC), which work to implement the principles aimed at promoting transparency and the dialogue between the European chemical industries and their stakeholders, as well as safety, health, respect for the environment and reduction of the effects of greenhouse gas emissions on the planet.

### 4.2.2.3 INTERNAL POLICY FOR CONTROLLING PROFESSIONAL RISKS

Additionally, the Group's policy incorporates the prevention of professional risks in its safety approach.

The signing of the Responsible Care® Global Charter in November 2006 reinforces the Responsible Care® commitment (Progress Commitment) in place for more than thirty years. This risk control policy is one of the three pillars of the Group's sustainable development policy and is reflected in continuous performance improvement. As demonstrated by the work accident frequency rate, 2008 was marked by the continued improvement in results as indicated in chapter 17.1.2, below.

### 4.2.2.4 CAPITAL EXPENDITURES AND PROVISIONS BASED ON AVAILABLE DATA

As in the past, Rhodia intends to continue to invest each year in order to comply with the regulations, norms and standards in force. Given presently available information, capital expenditures are planned to carry out improvement projects related to the environment. Similarly, Rhodia regularly evaluates all of its environmental liabilities and the means for dealing with them. Rhodia sets up provisions for environmental risks when it is legally, contractually or implicitly obligated to do so, when it is probable that this obligation will translate into an expenditure of resources and when this obligation can be assessed reliably. Rhodia evaluates these provisions in light of its knowledge of the applicable regulations, the nature and extent of pollution, rehabilitation techniques, expenditures schedule and other available information.

As of December 31, 2008, the provisions created by Rhodia for environmental liability expenditures (studies, soil and underground water monitoring, projects to create and operate remediation devices) amounted to €196 million, compared to €203 million in 2007 and €207 million in 2006 (see Note 28 (Provisions) of the notes to the consolidated financial statements in chapter 20.3.1.3 of this reference document).

Given the information currently available and the provisions set up by Rhodia for environmental problems, the Group's current obligations to comply with the environmental regulations and to undertake remediation work should not have a significant negative impact on its operations and future revenue.

*(2) The historical scope of consolidation being defined as the scope of consolidation as of December 31 of each year*

# 4.3 Risk coverage and insurance

## 4.3.1 EXPOSURE TO OPERATING RISKS FOR WHICH PRESENT INSURANCE COVERAGE MAY BE INSUFFICIENT

Rhodia uses large quantities of potentially hazardous substances that need to be handled with care. Rhodia is aware of the risks related to its activity and seeks to control them. However, if a major accident occurs, Rhodia's results could be significantly impacted. Accordingly, Rhodia has transferred a portion of these risks to insurers by taking out standard industry policies.

However, Rhodia cannot guarantee that this coverage:

- is exhaustive: certain insurance policies for the chemicals industry may not be offered or may be offered under prohibitive conditions;
- is sufficient: claims may exceed coverage limits;
- can be maintained at the same levels in the future: unfavorable developments in liabilities and the insurance market could lead to increased costs.

## 4.3.2 INDUSTRIAL RISK COVERAGE

After analyzing its industrial risks, Rhodia manages them by relying first on a comprehensive prevention policy. With its insurers, Rhodia has set up an important comprehensive industrial risk prevention/protection program. This program includes the organization of inspections that are conducted each year by the insurer's experts and that seek (i) to evaluate the changes that have occurred at a site and the corrective actions carried out since the previous inspection and (ii) to make new recommendations as part of a continuous improvement process. Furthermore, all findings related to these inspections are recorded in an annual assessment performed by Rhodia and its insurers.

Worldwide insurance programs supplement this risk control policy. In order both to minimize the premiums paid to insurers and to provide strong incentives for prevention, all these insurance programs include relatively high deductibles.

The Rhodia Group only transfers catastrophic losses to the insurance market.

Over and above the deductible amounts borne by each of the operational companies, the Group has set up a retention system:

- for the direct retention of liability claims; and
- for the retention assumed at the central level through consolidated captive insurance companies that assume responsibility for casualty claims.

## 4.3.3 MAIN WORLDWIDE INSURANCE PROGRAMS

The following description of the principal insurance policies to which Rhodia subscribes is necessarily partial and incomplete in order to comply with confidentiality requirements and to protect Rhodia's competitiveness.

- the Property and Casualty policy absorbs most of the costs (insurance premiums and prevention program). It is supplemented by business interruption coverage not only for standard fire and explosion risks but also for equipment breakdowns and natural disasters. Coverage amounts are consistent with estimated risks. Most of the industrial sites are currently covered by an umbrella policy with a limit of €300 million per claim. The largest sites benefit from additional coverage of up to €800 million, in line with assessments of maximum possible loss;
- liability insurance includes:
  - a civil liability program covering both operating and product liability,
  - the Directors and Officers liability program, and,
  - special environmental coverage,

  Rhodia believes that the amount of its insurance coverage is consistent with market practice;
- the Transport program, with a coverage threshold of €15 million underwritten on the insurance market (without participation by the captive insurance company) covers goods that Rhodia stores as well as goods in transit or stored by third parties.

The Group has set up worldwide programs with a panel of insurers that satisfy the strictest solvency criteria. The cost of more than 85% of Rhodia's premiums corresponds to these programs. However, for legal or economic reasons, some countries do not belong to the worldwide programs. In these cases, coverage is provided where necessary by local policies issued by representatives of the leading insurers or, for some countries with special status, by first class local insurers.

The total cost of insurance premiums related to these worldwide programs amounted to approximately €21 million in 2007. Benefiting from a decline in the market, Rhodia reduced this amount to €18 million in 2008, while improving certain terms. These savings offset a significant decrease in activities between 2006 and 2007. These premiums are paid to insurers and reinsurers that are independent from the Group.

On January 1, 2009, Rhodia's property, casualty, general civil and products liability polices were renewed under good conditions, with an improvement in the quality of the coverage.

# 5 Information about the Company

contents



## 5.1 History and development of the Company

### 5.1.1 COMPANY NAME

The Company's name is Rhodia.

### 5.1.2 COMPANY'S PLACE OF REGISTRATION AND REGISTRATION NUMBER

The Company is registered with the Company and Commercial Registry of Nanterre under number 352 170 161. Its APE code is 6420Z.

### 5.1.3 DATE OF INCORPORATION AND TERM

The Company was incorporated on September 22, 1989, for a term of 99 years as of its date of registration or until September 21, 2088, barring early dissolution or extension.

The Company's origins date back to the 19th century and more precisely to two chemical companies, Société Chimique des Usines du Rhône and Entreprise de Produits Chimiques Étienne Poulenc, which merged in 1928 to create Rhône-Poulenc. Over the years, Rhône-Poulenc developed its activities in the polyamide, polyester and life sciences sectors and carried out important acquisitions in the chemical industry. During the 1990s, Rhône-Poulenc refocused its strategy on life sciences and specialty chemicals.

Rhodia's current name and organization date from January 1, 1998, and result from a series of restructuring operations carried out by Rhône-Poulenc and its subsidiaries.

Rhodia became a listed company on June 25, 1998, when 32.7% of Rhône-Poulenc's stake in its capital was sold to the public. In October 1999, Rhône-Poulenc sold its remaining 67.3% stake in Rhodia's capital through the sale of 39.1% of the Company's capital and through the issue of convertible bonds representing 25.9% of the company's capital. In December 2002, Rhône-Poulenc, now Aventis, redeemed these bonds early and cancelled them (as a consequence, Aventis' stake in Rhodia's capital on December 31, 2002 was 25.2%). On May 2, 2003, Aventis decreased its holdings in the capital of the Company from 25.2% to 15.3% through a purchase and sale contract executed with Crédit Lyonnais (now Crédit Agricole), involving 17.8 million shares of the Company or 40% of Aventis' stake in it. Sanofi-Aventis declared that, on October 17, 2006, it sold all of its holdings in Rhodia.

## 5.1.4 REGISTERED OFFICE – REGULATIONS – LEGAL FORM

The Company's registered office is located at Immeuble Cœur Défense-Tour A, 110, esplanade Charles de Gaulle – 92400 Courbevoie.

The Company's telephone number is + 33 (0)1 53 56 64 64.

Rhodia is a French business corporation (*société anonyme*) organized under the laws of France subject to all of the laws and regulations governing commercial companies, particularly the provisions of the Commercial Code.

## 5.1.5 SIGNIFICANT EVENTS IN THE DEVELOPMENT OF THE COMPANY'S ACTIVITIES

In addition to the information contained in chapter 9, below, the significant events that have occurred with respect to the development of Rhodia's activities since December 31, 2008 are:

- on January 12, 2009, Rhodia signed an agreement to acquire from McIntyre Group Ltd. a chemicals company producing specialty surfactants for the cosmetic industry, employing 200 people and realizing sales estimated at $146 million in 2008. Rhodia's acquisition of McIntyre was realized on February 27, 2009.

# 5.2 Investments

## 5.2.1 THE COMPANY'S PRINCIPAL CAPITAL EXPENDITURES DURING THE PERIODS COVERED BY THE HISTORICAL FINANCIAL INFORMATION

See Note 3.1 (Information by business segment) to the consolidated financial statements in chapter 20.3.1.3 of this reference document for segment reporting information on Rhodia's capital expenditures for the year ended December 31, 2008, Note 3.1 to the consolidated financial statements on pages 147 and following of the reference document filed with the *Autorité des Marchés Financiers* (the French Financial Markets Authority) under number D.08-0182 for segment reporting information on Rhodia's capital expenditures for the year ended December 31, 2007, and Note 3.1 to the consolidated financial statements on page 144 and following of the reference document filed with the *Autorité des Marchés Financiers* (the French Financial Markets Authority) under number D.07-0257 for segment reporting information on Rhodia's capital expenditures for the year ended December 31, 2006.

## 5.2.2 CURRENT CAPITAL EXPENDITURES

Capital expenditures, which include purchases of property, plant and equipment and other non-current assets, amounted to €282 million in 2008.

These capital expenditures primarily involved acquisitions of tangible assets in the amount of €241 million. Acquisitions of other intangible assets amounted to €41 million and related to computer software and development costs.

Fifty one percent of capital expenditures relate to assets located in Europe. This figure includes capital expenditures for information systems acquired in Europe but used worldwide and capital expenditures for R&D (for more detailed information, see Note 3.2 (Information by geographical zone) to the consolidated financial statements in chapter 20.3.1.3 of this reference document).

Capital expenditures in 2008 included the following:

- approximately half of the Group's capital expenditures is devoted to the development of the Group's activities;

  Projects in Asia and Latin America represented 57% of development expenses, the principal projects being:

  - the construction of a new unit for the production of high performance silica in Qingdao (China);
  - the construction of a new unit for the production of surfactants in Roha (India);
  - the increase of capacity of a phenol production unit (Brazil).

  The principal North American project concerned putting into compliance and increasing the sulfuric acid regeneration capacity at the site in Houston (United States).

  The principal project in Europe was:

  - production capacity increases of ADN at the site in Chalampé (France).

- the other half of the Group's capital expenditures concerns investments realized in order to maintain the Group's production assets;

On February 27, 2009, Rhodia completed the acquisition of McIntyre. The acquisition resulted in a capital expenditure of approximately €100 million.

The other capital expenditures made, since December 31, 2008, were to maintain the Group's production assets.

## 5.2.3 FUTURE CAPITAL EXPENDITURES

In 2009, Rhodia expects to maintain a very selective capital expenditure program, with a target of €180 million to €200 million.

# 5.3 External commitments and sustainable development policy

The Rhodia Group considers its long-term approach to sustainable development and awareness of the environmental consequences of its activities as fundamental. This aspect of Rhodia's approach is presented below. See chapter 17.1 of this reference document for a discussion of Rhodia's assessment of the social consequences of its activities.

The listed company Rhodia S.A. is the financial holding company that directly or indirectly holds all of the equity interests forming the Rhodia Group. Unlike its subsidiaries, its own activity is therefore not likely to result in any notable social or environmental consequences. It does not have any direct operational or industrial activities.

## 5.3.1 SUSTAINABLE DEVELOPMENT

The overall performance of a company is the combined result of its technical, organizational and commercial successes and its ability to assume social and environmental responsibility. This understanding guides the Group's approach to sustainable development.

Undertaken in 2000, as part of the health, safety and environmental policy initiated more than 20 years ago and endowed with dedicated personnel since 2003, this approach to sustainable development is now one of the pillars of the Group's identity.

This approach is based on Rhodia Way, the framework of reference for Rhodia's responsibility. This framework of reference is stakeholder-oriented (customers, employees, suppliers, investors, environment and communities). Its implementation, which began in 2007, marks a major step in the Group's commitment to sustainable development.

This framework allows the managers of the different support functions and Enterprises to perform their own evaluation of their entity's performance with respect to social and environmental responsibility, to identify limitations and define the corresponding improvements to be made in a spirit of continuous progress.

Incorporated into the managerial processes, the Rhodia Way framework seeks to raise the general level of responsibility for the Group's practices through a dialogue involving all personnel to the greatest extent possible and associating the external stakeholders concerned whenever necessary.

The second self-evaluation cycle conducted in 2008 involved 100% of the Group's target entities (industrial sites, business units and research centers and the departments of Purchasing, Finance, Legal and Public Affairs), representing 92% of the Group's manpower. Each entity determined its responsibility profile and defined a progress plan. The progress made with respect to these plans will be analyzed during the next evaluation scheduled for December 2009.

For 2008, the Group decided to have PricewaterhouseCoopers verify its Responsible Care® (RC) reporting together with its verification of the sustainable development framework Rhodia Way. The Responsible Care® information reporting system being well-developed within the Group and the internal control system being well-structured (DRC 06 procedure), it was decided to limit the extent of PricewaterhouseCoopers' controls. This explains the issuance of a report with moderate assurance for 2008, while a report with reasonable assurance had been issued previously (see chapter 5.4 of this reference document).

### 5.3.1.1 EXTERNAL AGREEMENTS EXPRESSING RHODIA'S COMMITMENT

The commitments made by Rhodia with external partners are intended to strengthen and focus the Group's progress objectives. These voluntary commitments go beyond simple statements of intention and are accompanied by measurements of the progress made.

### 5.3.1.2 PRINCIPAL AGREEMENTS

| | |
|---|---|
| 1997 | Signing of the "chemistry industry's commitment to progress," a sector specific initiative internationally known under the name "Responsible Care®" that seeks to promote respect for the environment and personal safety and health. |
| 2002 | The Group's commitment in connection with the Association of Companies for the Reduction of the Greenhouse Effect, Association des Entreprises pour la Réduction de l'Effet de Serre (AERES), to reduce its greenhouse gas emissions in France by 30% for the 1990-2010 period. |
| 2003 | Adherence to the UN Global Compact. |
| 2004 | Signing of the Diversity Charter in France. |
| 2005 | Signing of the Global Social and Environmental Responsibility agreement with the ICEM (International Federation of Chemical, Energy, Mine and General Workers Unions). |
| 2006 | Signing of the Responsible Care® Global Charter. Global initiative of the chemical industry (International Council of Chemical Associations), the objective of the Global Commitment Charter for Progress is to go beyond the principles of "Responsible Care®" concerning health, safety and environmental performance. Improved management of product cycles (Product Stewardship), greater transparency vis-à-vis stakeholders, as well as the evaluation and publication of environmental performance are among the key criteria of this charter, which identifies the conditions for responsible chemistry. |
| 2007 | First evaluation mission in China validating the correct application in the field for the ICEM global agreement. |
| 2008 | Renewal of the ICEM agreement for a 3-year period after updating and integration of the text as part of the Rhodia Way.<br>Second evaluation mission of the application of the ICEM agreement in Brazil. |

### 5.3.1.3 A GLOBAL COMMITMENT TO CORPORATE AND ENVIRONMENTAL RESPONSIBILITY

On February 1, 2005, the Rhodia Group signed a global agreement on Social and Environmental Responsibility with the largest international union federation (ICEM). This agreement is applicable to all employees of the Group worldwide.

The first of its kind in the chemistry industry, this agreement establishes the framework for an ongoing dialogue for compliance with international employment standards and a set of commitments specific to Rhodia covering the following areas:

- health and safety;
- mobility and employability;
- social welfare;
- supplier and subcontractor relations;
- risk control and respect for the environment;
- dialogue between labor and management;
- civil dialogue; and
- whistle-blowing.

In 2006, the first assessment performed with the ICEM focused on fulfilling commitments made to provide information concerning the agreement including:

- translation of the text into the Group's five main languages;
- availability of the text on the Group's intranet site;
- providing information to the Group's committee; and
- providing information to the European works council.

In 2007, the first evaluation mission was conducted in China by a delegation made up of members of the ICEM and the Group's Management Committee. Visits to two sites and a meeting with their management and employee representatives demonstrated that the agreement was being complied with properly.

The successive annual assessments, as well as the findings of the evaluation conducted in China, were presented to the Group's employees' representative bodies (European works council).

In early 2008, Rhodia and the ICEM renewed the agreement for a new three-year term. The updated, improved text is now an integral part of the Rhodia Way.

In late 2008, a combined ICEM/Rhodia Management Committee delegation conducted the second evaluation in Brazil, which included a visit to installations and meetings with management, employees and their representatives. This field visit gave ICEM representatives the opportunity to conduct a survey of the frequency rate of accidents, levels of pay, training policies, the percentage of women in management, the monitoring of suppliers and subcontractors, and the dialogue between labor and management, among other things.

### 5.3.1.4 HEALTH, SAFETY AND ENVIRONMENTAL POLICY

Pursuant to its initial 1997 Responsible Care® commitment, which was renewed in 2006 with the Responsible Care® Global Charter, Rhodia has implemented a policy of continuous improvement as regards health, safety of individuals and property, the environment, transport, product safety and security, which is built on the management system of these areas.

Rhodia has developed its own system for managing the safety of its employees and its sites, and for reducing its impacts on the environment (SIMSER +: System Integrating Management for Safety and Environment, industrial hygiene and transport specific to Rhodia for sites with more than 100 people and 3 RHSE-Rhodia rules and recommendations concerning health, safety and environment-for sites with fewer than 100 people). This system was certified as conforming to the OHSAS 18001 standards in 2005 by the firm DP2i and, with respect to the Environment, is identical to the ISO 14001 standard.

A reporting rate of 100% compliance with the Responsible Care® Global Charter has been confirmed for all of Rhodia's entities throughout the world.

With 100% of its sites audited according to its standards (3 RHSE and/or SIMSER +) in less than 3 years [(3)], Rhodia's performance has been excellent.

As for safety and health risks evaluated within the past five years, the rate remained at a good level in 2008 at 91%.

The Group's worldwide investments related to health, safety and the environment amounted to €52.8 million in 2008 including €16.1 million for health and safety and €36.7 million for the environment.

## 5.3.2 RHODIA'S COMMITMENTS WITH RESPECT TO THE ENVIRONMENT

Rhodia's environmental policy and related objectives are based on three principles:

- promoting environmental management;
- preserving natural resources; and
- limiting environmental impacts and preserving biodiversity.

### 5.3.2.1 PROMOTING ENVIRONMENTAL MANAGEMENT

Rhodia uses its own health, safety and environment management system (SIMSER +), which is ISO 14001 compliant with respect to the environment.

Analyses are based on a rigorous identification of the dangers and a precise evaluation of the risks and potential impacts of the Group's activities on the environment. In 2008, 86% of its installations were the subject of an environmental study that was adapted, performed or reviewed within the past five years compared to a rate of 80% in 2006 and 90% in 2007.

Regular compliance studies of Group sites are performed which result in corrective upgrades. Our regulatory monitoring allows the Company to perform necessary studies so as to comply with new requirements.

In 2007, reporting of accidents/incidents having an impact on the environment (loss of containment, water, air and ground discharges) was implemented worldwide and an environmental control indicator illustrating these accidents was constructed. This indicator and the associated action plans allow the sites to improve control of their discharges and emissions.

Incidents and accidents having environmental impact declined 21% in 2008 compared to 2007. The most significant accidents have been followed up with corrective actions.

### 5.3.2.2 PRESERVING NATURAL RESOURCES

The data below are presented on the basis of the group's current scope of consolidation [(4)] as of the end of December 2008 and the developments discussed refer to data from prior years that have been restated to reflect the scope of consolidation as of December 31, 2008.

#### Water use

Use of surface and ground water, primarily for cooling installations, decreased in 2008 (-3.4% compared to 2007). This decline was mainly in surface water, and, to a lesser extent, in ground water aquifers.

Use of drinking water was also better controlled in 2008 with a 1.7% decrease compared to 2007.

An inventory of our sites in water stress zones, as well as a mapping of their water use and consumption, was carried out.

#### Energy consumption

Energy Services is the Enterprise of the Group in charge of managing energy supply, production and greenhouse gas emissions.

Energy Services manages energy purchases for the Group and for third parties. Fifty-five percent of these purchases are for natural gas, and 30% for electricity. In France, the Enterprise is the second largest industrial purchaser of natural gas, and is ranked among the 10 largest purchasers of electricity.

Energy Services' mission is also to optimize Group energy production assets. Within this framework, the Enterprise deployed energy

*(3) Among the sites required to perform audits according to the Group's applicable internal procedures.*

*(4) The current scope of consolidation as of December 31, 2008 corresponds to all sites totally or partially belonging (in accordance with the Internal procedure of Rhodia DRC 06) to the Group at December 31, 2008.*

efficiency measures focusing on optimizing co-generation (an industrial tool permitting the simultaneous production of thermal energy and electricity using gas turbines), as well as on reducing energy consumption and $CO_2$ emissions through optimizing production, distribution and consumption of utilities in industrial processes such as steam, electricity, gas, heat transfer medium or compressed air. Significant savings were achieved from this in 2008.

In addition Energy Services is a founding member of Exeltium, the French consortium of electro-intensive industries for purchase of electricity in France, the objective of which is to negotiate a final long-term electricity purchase contract at prices based on the costs of nuclear investment by EDF starting in 2009. See chapter 6.4 of this reference document.

## Waste

Recycling, reuse and thermo-conversion are the technologies used at the Group's sites.

All of the Rhodia sites use selective sorting, which makes it possible to recycle and reuse a portion of the raw materials and packaging used.

Sixty-seven percent of the waste incinerated in 2008 was incinerated using thermo-conversion.

### 5.3.2.3 REDUCING THE IMPACTS OF RHODIA'S ACTIVITIES ON AIR AND WATER

Developments discussed in this section refer to data from prior years that have been restated to reflect the scope of consolidation as of December 31, 2008.

## Air emissions

Air emissions are subject to regulatory changes, which are becoming increasingly stringent and more carefully monitored. These emissions affect climate change because they include greenhouse gas as well as have an impact on environment and health due to discharges of volatile organic compounds (VOCs), nitrogen oxides (NOx) and sulfur oxides (SOx).

Since 2007, indirect $CO_2$ emissions connected with electricity purchases have been reprocessed by applying the national emissions coefficients instead of the global coefficient adopted by Rhodia. The total greenhouse gas emissions of the Group in 2008, after reprocessing, amounted to approximately 6.3 million tons of $CO_2$ equivalent, compared to 7.9 million tons in 2008.

In 2008, Rhodia again significantly reduced greenhouse gas emissions. Not counting electricity reprocessing, the Group's total emissions amounted to approximately 6.9 million tons of $CO_2$ equivalent in 2008 as compared to 8.4 million tons in 2007, a decline of 17.6% from 2007. Rhodia monetized a part of its reductions by selling carbon credits (CERs [(5)]) in connection with Clean Development Mechanism (CDM) projects realized at the Onsan (South Korea) site and the Paulinia (Brazil) site.

As regards **VOCs** (Volatile Organic Compounds), Rhodia's discharges held steady in 2008 after an overall decline of 17% since 2005. The declines recorded at several sites (Santo André (Brazil), Freiburg (Germany), Saint Fons and Salindres (France) were offset by data resulting from more exhaustive assessments, specifically at some French sites as regards undertaking regulatory operations assessments.

In 2008, ***sulfur oxide (SOx)*** *emissions* decreased 7.1%, as expenditures allocated in 2007 bore fruit (especially in Houston and Baton-Rouge in the United States).

Finally, with respect to ***nitrogen oxides (NOx),*** which together with VOCs are precursors of smog (ozone), in 2008, Rhodia achieved a significant reduction (-10.8%), largely due to lower activity in the last quarter of 2008 (Livourne) improved control of operations at the Chalampé and Roussillon sites (France) and to several investments made in major combustion plants in France (Pont de Claix, Saint Fons…).

## Water discharges

The laws in certain countries where Rhodia operates require the establishment of files that include "impacts on fauna and flora" based on the materials used or the products manufactured when an operating permit is requested. In France, potential impacts are examined with regard to the national inventory of natural areas of ecological, faunistic and floristic interest (*inventaire national des zones naturelles d'intérêt écologique, faunistique et floristique*) and significant bird conservation areas (*zones importantes pour la conservation des oiseaux*).

Chemical oxygen demand (COD), nitrogen (N) and phosphorous (P) discharges that contribute to the eutrophication of waters, hazardous substances (halogenated organic compounds and heavy metals), suspended matter, pH and temperatures are the main physicochemical parameters monitored.

The ecotoxicity of aqueous effluents and biotic indicators concerning the receiving environment concerned have been measured at a number of sites, particularly in France.

Reductions in the ***chemical oxygen demand (COD)*** of Rhodia's discharges, already significant in 2007, continued in 2008 (-12.1%). Specifically, this decline is explained by better control of our operations at the Chalampé (France) and Baotou (China) sites, but also less activity in the last quarter of 2008 at the Chalampé and Saint Fons (France) sites.

The appreciable decline (-19%) in ***nitrogen discharges (N)*** is attributable to better control of operations at our various sites, in particular at Chalampé, La Rochelle and Roussillon (France).

*(5) Certified Emission Reduction unit.*

The decline of more than 21% (as in the previous year) in our ***phosphorus discharges (P),*** which is even more significant than our decline in nitrogen discharges, is explained by optimizing discharges at the site in Chalampé (France), as well as better control at the site in Charleston (USA), and by reduced activity at the Oldbury site (England).

Significant reduction in discharges of hazardous substances expressed as emissions of absorbable halogenated organic compounds (AOx) continued in 2008 (-59% as compared to 2007) due to improved management of operations at the Salindres (France) site. In 2008 AOx discharges amounted to approximately 14 tons.

Finally, discharges of heavy metals, of around 3.4 equivalent tons of copper, decreased by 27%.

### 5.3.2.4 ACTIONS TO REDUCE THE IMPACT OF GROUND POLLUTION

The Group's policy seeks to improve knowledge about the impacts of its activities on the soil of its contaminated sites in order to provide the most appropriate treatments (particularly with respect to "past pollution" or sites where activities have been discontinued) and to keep use of the "land" for industrial purposes to a minimum. These actions primarily consist of containment, treatment, incineration or regulated disposal at regulated landfills, pumping and groundwater treatment or simple monitoring.

At the end of 2008, Rhodia's environmental provisions amounted to €196 million, making it possible to cover the present value of all expenses that can be reasonably estimated through 2020 and even 2050 for certain sites, as the case may be. Expenditures, which amounted to €26.5 million in 2008, cover the costs of impact control studies and remediation operations as well as the operating costs of treatment plants both at closed sites and at sites operating in Europe, North America and Latin America.

In 2008 the following projects were completed: demolition of the industrial installations at the sites in Mulhouse (France) and Lille (France) completed in December 2007; elimination of hard-burnt bricks at Silver Bow (United States); continued demolition of the former unit in Cubatao (Brazil); and completion of land remediation in Wattrelos (France) under the supervision of the Nord-Pas de Calais Public Land Institution (*Établissement Public Foncier*).

### 5.3.2.5 ENVIRONMENTAL RESULTS

The following environmental results are calculated based on historical scope of consolidation (6) and show the Group's annual impact.

| **Water** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|
| Eutrophication – Total phosphorus and nitrogen (in tons) | 5,082 | 5,043 | 3,717 | 3,080 |
| Deterioration of the aquatic environment – chemical oxygen demand (COD)(in tons of oxygen) | 15,893 | 13,389 | 10,289 | 8,868 |
| Water withdrawal (in thousands of $m^3$) | 464,301 | 469,482 | 425,690 | 395,948 |

| **Air (in tons)** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|
| Greenhouse Effect – Total $CO_2$ (after elimination of intra-Group transfers) | 23,940,618 | 22,559,640 | 8,402,665 (1) | 6,564,086 (1) |
| Acidification – Total SOx + NOx | 31,096 | 29,093 | 25,271 | 23,044 |
| Tropospheric ozone – Volatile Organic Compounds (VOC) | 6,973 | 5,939 | 5,494 | 5,275 |

*(1) By reprocessing the indirect emissions in 2008 connected with electricity purchases, by applying national emissions coefficients instead of the global coefficient adopted by Rhodia. Without this reprocessing, 2008 emissions would have been 7,300,216 and 9,051,572 tons in 2007.*

All indicators representative of air and water emissions pollutants improved in 2008 compared to 2007, even excluding the effect of disposals (as set forth in chapters 5.3.2.2 and 5.3.2.3).

The year 2008 confirmed the Group's steady and significant progress as regards reducing both its air and water emissions. The objectives set in 2005 for 2010 were exceeded, except for the acidification of the air for which the 2010 objective has been met by 75%.

The emission of gaseous VOCs, SOx/NOx and $CO_2$ declined respectively by 17%, 15% and 72% in 2008 compared to 2005, whereas the reduction objectives for 2010 were 10%, 20% and 33% respectively.

Water discharges, specifically Chemical Oxygen Demand, reflecting water degradation and the presence of nitrogen, phosphorus, which causes eutrophication, were lowered by 34% and 45% respectively

*(6) The historical scope of consolidation for year N corresponds to sites belonging, or having belonged, totally or in part to (in accordance with the internal procedure of Rhodia DRC 06) to Group during year N.*

in 2008 compared to 2005, whereas the reduction objective set for 2010 was 20%.

***Greenhouse gas*** emissions significantly decreased in 2008 due to two investments realized in 2006 on the Onsan site in South Korea, on the Paulinia site in Brazil and on the Salindres site in France (2005 data restated to reflect the Group's scope of consolidation as of December 31, 2008).

| **Waste** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|
| Hazardous waste sent to Technical Landfill Center (Centre d'Enfouissement Technique) *(in tons)* | 26,082 | 31,650 | 7,543 | 20,490 |
| Non-hazardous waste sent to landfills *(in tons)* | 39,743 | 29,270 | 35,554 | 39,323 |
| Incineration rate with thermo-conversion (as a %) | 67 | 65 | 70 | 68 |
| **Energy (in equivalent tons of oil)** | **2005** | **2006** | **2007** | **2008** |
| **Total equivalent tons (after elimination of internal transfers)** | **2,298,482** | **2,154,735** | **1,913,821** | **1,824,282** |

The increase of hazardous waste sent to landfills is the result of dismantling the site in Lille (France).

## 5.3.2.6 ENVIRONMENTAL INVESTMENTS AND REMEDIATION EXPENSES IN 2008

Environmental investments totaled €36.7 million in 2008 (compared to €30.6 million in 2007 and €34.5 million in 2006), which can be broken down as follows:

- air: €25.7 million (or 70%);
- water: €8.1 million (or 22%);
- waste: €1.4 million (or 4%);
- dismantling of workshops, soil, noise pollution and landscaping: €1.5 million (or 4%).

Site remediation expenses amounted to €26.5 million in 2008.

## 5.3.2.7 RHODIA'S COMMITMENTS TOWARDS RESPONSIBLE PRODUCT MANAGEMENT

### The Product Stewardship Approach

The Product Stewardship approach consists of managing health, safety and environmental issues throughout a product's life cycle, that is, from design to end-of-life.

Each product is assigned a safety data sheet (SDS in Europe – or MSDS, Material safety data sheet, in North America) that provides the necessary information regarding health, safety, environmental or transport information, which must be updated at least every three years according to the Group's rules. This sheet is then sent to customers and to research and production teams who are informed of the various dangers based on the stage at which they are handling it.

At the end of 2008, all four zones–Europe, North America, Latin America and Asia–met or exceeded their three-year revision objective for safety data sheets.

In 2008, the operational deployment of the Compo EHS integrated database for tracking all manufactured compositions (raw materials and products) put on the market, represented a significant step forward for the Product Stewardship Program. This new traceability tool, which complies with regulatory requirements, allows Rhodia continuous qualitative updating of the information that the Group provides to its customers.

### Research and recording of CMR substances (*CMR: carcinogens, mutagens and substances toxic to reproduction*)

Rhodia satisfied the requirement of the European REACH Regulation to register different substances that it produces or imports. Furthermore, so as to make continued progress, since 2006, the Group has also developed its own additional standards (CMR "red line"). These standards apply globally and, therefore, surpass the REACH requirements.

### The CMR "*red line*": Rhodia's worldwide voluntary commitment

Within the framework of its Management Book (an internal control mechanism described in chapter 4.2.1.1, "Management Book", of this reference document), the Group put into place in 2006 a special procedure concerning CMR substances (all products put on the market, CMR levels 1, 2 in the European Union and groups 1 and 2A according to the CIRC classification) globally. This "red line" used at all Rhodia sites requires an inventory of Rhodia's CMR products, the systematic research of substitutes, and the management of risks inherent to these products.

In 2006, such inventory resulted in identifying five Rhodia CMR substances that were put on the market alone or as part of another product contributing to the classification of that product as CMR. Over the same period, pursuant to its Responsible Care® commitment, the Group decided to classify three additional substances, raising to eight the number of CMR substances listed by the Group worldwide within the framework of its internal policy.

In 2007, in accordance with the red line, six of the eight listed substances were subject to a study of substitution and risk management involving Rhodia clients. The Group also stopped the production and marketing of one substance, lowering the number of Rhodia's CMR substances to seven that are on the market worldwide alone or as components.

In 2008, there were still seven CMR substances marketed by Rhodia, and studies of substitution were carried out or updated on all of them.

One of the studies of substitution is particularly exemplary. Thanks to the analysis of manufacturing process actions and the analytic monitoring of formaldehyde contents with respect to a product line intended for the industrial market, the CMR profile related to the presence of this substance was withdrawn for more than half the products in this line marketed by Rhodia.

### Inventory of CMR substances subject to the REACH regulation in the European zone:

Rhodia completed pre-registration (the first stage in implementing REACH) for 736 substances. Out of these 736 substances, three of seven CMR substances listed on the Rhodia "red line" might be subject to authorization under REACH as CMR 1 and 2.

In general terms, in 2006, the European Commission estimated that a total of 30,000 substances must be registered within the framework of REACH by all European industrial producers and importers. Out of these 30,000 substances, the EU Commission also estimates that 700 to 800 CMR substances must undergo authorization.

### Internal organization to comply with REACH

2008 was an extremely busy year due to the launch of REACH, as regards:

- the continuation of the inventory of substances subject to registration and installation of tracking tools for substances produced and imported by Rhodia into Europe;
- the continuation of the REACH action plan with Rhodia's raw materials suppliers to ensure pre-registration of these substances;
- the installation of IT tools (IUCLID5, REACH IT etc.) developed by the Helsinki-based European Chemicals Agency (ECHA);
- the evaluation of the "strictly controlled conditions" status of isolated intermediates for the first tonnage band (subject to registration by December 1, 2010). The evaluations show whether the production and use of these intermediates is being monitored by HSE management system and that Rhodia is controlling exposure vis-à-vis health and the environment;
- the participation in pre-consortia or consortia (jointly with other producers and importers of identical substances), in order to prepare for registering substances in the first tonnage band (subject to registration by December 1, 2010); and
- the pre-registration of all substances manufactured or imported by Rhodia and contained in Rhodia products put on the market in the European Economic Area (i.e. 736 substances in all that must be registered).

## 5.3.3 RHODIA'S RESPONSIBILITY TOWARD LOCAL COMMUNITIES

### 5.3.3.1 CONTROLLING INDUSTRIAL RISKS

#### Evaluating risks tied to installations and processes

Control of Rhodia's industrial risks is based on a precise evaluation of existing risks. To this end, a safety audit is performed at all of the Group's industrial sites. These extremely detailed "process safety" audits evaluate the potential risks connected with both products and processes and are reviewed every five years. This program relies on a network of process safety experts, supported by process managers who are responsible for validating the transition from one phase to another of a project both with respect to production and safety. The purpose of these procedures is to analyze the prevention and protection measures required for all the sites and installations and analyze all the processes in action in order to evaluate the risks by detecting the key parameters. Rhodia's principle is to maintain a high level of vigilance.

The goal is to have performed or reviewed a safety audit for each installation suited to these risks within the past five years.

An analysis of risks in the area of procedural safety was performed at 89% of the installations within the past five years. The effort focused particularly on Seveso or similar installations (for countries outside the European Union) for which a coverage rate of 99% (7) was achieved.

Furthermore, at the end of December 2008, Rhodia identified in its reporting 25 "upper or lower tier" Seveso or similar sites

*(7) Indicator based on the aggregate coverage percentages for each production plant.*

worldwide (of which 12 are in Europe) with the potential to present risks for the health or safety of neighbouring populations and for the environment due to dangers from explosion or emissions of hazardous products.

All accidents originating from a malfunction related to processes are recorded and analyzed. Rhodia tracks on a worldwide scale the number of these "accidents," based on their severity: C (catastrophic), H (high), M (medium), and L (low).

| | 2005 | 2006 | 2007* | 2008* |
|---|---|---|---|---|
| Number of category C "process" accidents | 0 | 0 | 0 | 0 |
| Number of category H "process" accidents | 1 | 3 | 2 | 3 |
| Number of category M "process" accidents | 45 | 19 | 37 | 48 |
| Number of category L "process" accidents | N/A | N/A | 112 | 324 |

* *In 2007, the scope of process accidents reporting changed. The Group has implemented two reporting methods that will allow it to gain more visibility concerning the origins of the accidents (accidental or chronic).*

Improvements in safety procedures resulted from an approach of permanent progress and are subject to the constant efforts on the part of the sites of the Group.

In 2008, for the ninth consecutive year, no category C (catastrophic) accidents occurred.

In addition, the number of category H (high) accidents is low and has remained stable from year to year for the past four years.

Always conscious of improving process safety procedures, in 2007, Rhodia began level L (low) accident reporting. The increased awareness of the principal participants of this new reporting led to improvement in the extensiveness of reporting in 2008, which explains the increase in the number of accidents in this category compared to 2007. The analysis of their principal cause is targeted at the implementation of preventive actions, which should contribute generally to better control of accident risk.

Lastly, the risk analysis efforts were carried on in France with the continued development of documentation for Technological Risk Prevention Plans (TRPP) pursuant to the law of the same name of July 30, 2003.

## Defining emergency plans for managing any type of accidental situation

Rhodia's objective is to produce emergency plans for each entity and activity which are suited to the risks identified. Rhodia has focused on achieving a zero-accident objective. Since zero risk does not exist, the Group is preparing for different types of accidents connected with the industry, transport or products. Given the variety of risks, the Group has established emergency plans at different organizational levels: Group, country, Enterprises and industrial sites. The emergency plans define the roles of each entity depending on the type of crisis encountered and specify how the different entities must coordinate with one another to handle a situation effectively. The objective is for each Enterprise to establish (or revise) an emergency plan suited to its activities.

Since preparing employees to respond to emergency situations is indispensable to ensuring that they will respond appropriately and proactively, training has been undertaken in the main countries in which the Group has an industrial presence. These worldwide crisis management training programs emphasize the importance of coordination, cohesion and the mobilization of expertise (inside and outside the Group) throughout the different stages of crisis situations.

The following efforts, building on efforts from 2007, were carried out in 2008:

- 98% of the entities had tested their emergency plan within the past three years (95% reviewed their emergency plan within the past three years). This accomplishment confirms the progress made last year, demonstrating that this is now an ongoing practice at virtually all of the Group's operational entities.

Transport accidents were as follows:

| **Historical scope of consolidation** | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Number of accidents | 23 | 22 | 25 | 22 |

Close to 55% of accidents are still attributable to events occurring during transport: efforts to raise carrier awareness will continue in 2009. Almost 45% of accidents occur during loading or unloading operations: procedure reminders are present at the sites to help eliminate these problems.

Rhodia pays particular attention to the carriers it chooses by using CEFIC data. In addition a Sustainable Development and Corporate Social Responsibility (DD/RSE) evaluation questionnaire has been implemented and will be used generally in 2009 to evaluate suppliers as soon as they are selected. In addition, implementation of an annual performance review process has begun in the Europe zone.

The following actions, initiated in 2006, were continued in the transport field:

- pursuant to international transport regulations, Rhodia sites established transport security plans for ***high consequence dangerous goods***. "Security" means the measures or precautions to be taken to minimize theft or improper use of hazardous goods that may be a danger to people, property or the environment;
- following the commitment that Rhodia made in 2003 to fight terrorism as part of the voluntary US C-TPAT (***Customs Trade Partnership against Terrorism***), U.S. customs conducted an audit of three of Rhodia's French sites in 2006. The inspectors felt that certain good practices used at these sites could be considered examples that should be publicized. In 2007, they awarded Rhodia Inc. the highest possible status (tier III). Triennial re-certification by U.S. customs will take place in 2009;
- a clause related to transport safety vis-à-vis terrorist threats was added to the new transport contracts. It states, inasmuch as the transport volumes entrusted to service providers involve shipments of goods destined for the United States in shipment containers, these shipment containers should satisfy the requirements of the voluntary U.S. C-TPAT initiative.

## 5.3.3.2 STRENGTHENING EXCHANGES AND DIALOGUE WITH LOCAL STAKEHOLDERS

### Proactive information and communication

Since it has agreed to implement a policy to control its industrial risks, the Group has endeavored to apply it to its entire network and to explain it to its external stakeholders. It is imperative for Rhodia to meet the expectations of its stakeholders so that its activities can be incorporated into its local communities in a sustainable way. Living near Rhodia sites gives residents, local elected officials and associations the right to be heard and informed concerning Rhodia's activities through open, honest dialogue. Open house days like the ones held in France or involvement in local information and consultation committees (CLIC in France, community advisory panels in the United States, etc.) contribute positively to this goal.

In 2008, Rhodia continued the "emergency communication" initiative launched by the Union of Chemical Industries (UIC) and the Ministry responsible for Ecology, Energy and Sustainable and Territorial Development (MEEDDAT- *Ministère de l'Écologie, de l'Energie, du Développement Durable et de l'Aménagement du Territoire*). This initiative provides emergency information about incidents, even minor incidents, occurring at the Group's production sites or during transport of its products. Applicable to all Rhodia production plants in France, this proactive communication approach strengthens the Group's dialogue with residents, the local press, elected officials and other stakeholders.

### Involvement in local life

Created by the Group in 2007 in Brazil, the Rhodia Foundation (*Instituto Rhodia*) functions as an independent organization. Its purpose is to develop social and environmental projects in the country. The Foundation has funding of $1 million (€735,000) over six years (2007-2013), which will come in part from the value created by the greenhouse gas emissions reduction project at the Paulinia site in Brazil.

This foundation's first project called *Alquimia Jovem* (Young Alchemy), is focused on educating disadvantaged or socially marginalized youths. It involves the communities near the Rhodia research center located in this region. Beginning in 2009, the board of directors of the foundation, composed of Rhodia managers and employees as well as local community members, will look into developing new projects.

Rhodia Brazil's support for the *Museu de Arte Jovem* (program bringing together art and youth) continued in 2007. Since March 2008, the Group has been developing a new project called *Memoria Local Na Escola*. This project is intended for children age nine to 12 who are enrolled in 15 public schools in Santo André, the city where Rhodia built its first Brazilian manufacturing plant. The objective is to get children and teachers to think about the history of their community and to bring young and old together. At the end of the year, exhibits organized in public places presented the results of this work and a dedicated website was also created www.institutorhodia.com.br.

# 5.4 Review report from one of the statutory auditors on the calculation of environmental and safety indicators published in the Rhodia Group reference document for 2008

At the request of Rhodia's Senior Management, and in our capacity as the Group's statutory auditor, we have carried out certain verification work to obtain limited assurance concerning the following 2008 data, based on historical Group structure for 2008 (all sites that belonged to Rhodia during the year 2008) and presented in sections 5.3.2.5 and 17.1.2 of the reference document:

- Air: greenhouse gases expressed in CO2 equivalent, acidification (nitrogen and sulphur oxides) and tropospheric ozone (volatile organic compounds)
- Water: water withdrawals, eutrophication (nitrogen and phosphorus) and damage to the aquatic environment (chemical oxygen demand and suspended solids)
- Safety: Rhodia personnel (TF1, TF2, TG and deaths), contractors (TF1, TF2 and deaths) and temporary staff (TF1, TF2 and deaths), all personnel (Rhodia, contractors and temporary: TF1 and TF2)

This data, which is the responsibility of Rhodia's Senior Management, has been prepared in accordance with Responsible Care data reporting procedures (DRC 06 and the related glossary, DRC 06-01), which represent the standards generally accepted by the global chemical industry and are available for consultation at corporate headquarters.

Our responsibility is to express a conclusion about this data, based on our verification work.

## NATURE AND SCOPE OF OUR VERIFICATION WORK

Our work was conducted at corporate headquarters and at 5 major sites worldwide, representing 5 operating units, selected on the basis of 2007 data (main contributors to environmental indicators):

- Onsan PI (South Korea),
- Chalampé (France)
- Freiburg Acetow (Germany)
- Santo Andre Acetow (Brazil)
- Houston Regen Acid (United States)

Our work was conducted between December 2008 and the end of January 2009.

**Environmental data for the units visited covers, for each indicator, the following percentages of the total figures published by the Rhodia Group:**

| | |
|---|---|
| Greenhouse gases (CO2 equivalent, after elimination of intra-Group transfers) 2008 | 45% |
| Acidification (nitrogen and sulphur oxide emissions) 2008 | 43% |
| Tropospheric ozone (VOC emissions) 2008 | 40% |
| Water withdrawals 2008 | 52% |
| Eutrophication (nitrogen and phosphorus emissions) 2008 | 36% |
| Damage to the aquatic environment (COD emissions) 2008 | 32% |
| Damage to the aquatic environment (suspended solids) 2008 | 25% |

**For each safety indicator, data for the units visited covers the following percentages of total hours worked used to calculate frequency and severity rates:**

| | |
|---|---|
| Rhodia personnel | 12% |
| Contract employees | 10% |
| Temporary staff | 6% |
| All personnel (Rhodia, contract, temporary) | 11% |

We carried out the work described below in order to obtain limited assurance that the selected data is free of material misstatement. A higher level of assurance would have required more extensive procedures.

## At corporate headquarters and prior to the site visits:

- Assessment of the reporting procedures in terms of their relevance, reliability, objectivity and ease of comprehension.

## During site visits:

- We checked that the Group reporting rules were properly applied, particularly the definitions of the Responsible Care indicators within our scope of work.
- Concerning environmental and safety indicators:

– We reviewed the calculation methods used to determine Responsible Care reporting data, particularly their consistency and reliability.

– We compared, on a test basis, the data entered in the reporting system by the operating units with information obtained from a wide range of sources (including self-assessments, reports prepared for government agencies, reports by outside organizations drawn up in the context of local regulations, internal monitoring documents, invoices and management reporting data).

– We performed an analytic review of the raw data used to calculate the 2008 indicators, compared with data for the previous year.

– Where discrepancies were identified, we determined the correct value based on discussions with the operating unit and Corporate Responsible Care team, and checked that the necessary adjustments had been made in the operating unit's reporting datasheet.

## After the site visits, at corporate headquarters:

- For the sites visited:

– We checked that the data reviewed for the operating units visited had been properly included in the consolidated data produced by the reporting managers in the Corporate Responsible Care Department.

- For the sites that were not visited:

– We reviewed, on a test basis, the work carried out by the reporting managers to follow-up and explain the discrepancies between 2007 and 2008 data.

– We reviewed, on a test basis, the consistency checks made by the reporting managers.

– We reviewed, on a test basis, the significant corrections made by non-visited sites after discussions with the reporting managers.

We requested the assistance of our experts from the Sustainable Development Department to conduct this verification work.

## Conclusion

Based on our work, no material misstatement came to our attention that would cause us to believe that environmental and safety data described in the first paragraph has not been prepared in accordance with the Group's reporting procedures in 2008.

Neuilly-sur-Seine, February 12, 2009

PricewaterhouseCoopers Audit

| | |
|---|---|
| Christian Perrier | Sylvain Lambert |
| Statutory Auditor Partner | Sustainable Development Department Partner |

# 6 Summary of activities – General information on products and markets

contents



This chapter presents a description of the activities, technologies, strategies, growth levers and market conditions for each of Rhodia's Enterprises. Rhodia has a strategy of profitable growth across four platforms: Polyamide, Novecare, Silcea, and Energy Services. These Enterprises have leading positions in their markets. Through innovative solutions, they respond to demand created though new environmental factors. Acetow and Eco Services are two Enterprises that contribute very significantly to the Group 's profits.

The market positions of the various Enterprises described below are based on management estimates.

## 6.1 Polyamide

**The Enterprise had sales of € 1,789 million in 2008, representing 38% of Rhodia's consolidated net sales.**

With 14 industrial sites and seven research and development centers, Polyamide serves its clients throughout the world.

As a rare player with production lines integrating diverse manufacturing processes of different polyamide types and grades, the Enterprise believes that it benefits from a major competitive advantage. Upstream of this production line, it produces two large polymer families-the PA6 and PA6.6 polymers. The PA6 and PA6.6 polymers are obtained from specific manufacturing processes, which differ depending on the raw materials used. Both of them generate a series of intermediate products such as phenol, adipic acid, ADN, HMD, olone, and nylon salts, mainly. Downstream, the Enterprise develops from the PA 6 and PA 6.6 polymers high-performance product lines with strong added-value, such as engineering plastics, industrial fibers and yarns, as well as textiles.

The 6.6 polyamide-based products (intermediates, polymers and engineering plastics) represent 90% of the Enterprise's sales. The polyamide 6 segment, which is highly competitive due to the large number of players in the market, represents 10% of Rhodia's sales. While serving its own needs, this segment offers full service to its customers, mainly on the Asian textile and fiber market.

The Enterprise is seeking profitable growth through:

- the development of its intermediate and polyamide 6.6 polymer markets, which, according to company estimates, ranks Rhodia as world's second largest producer among four leading market players.
- the development of its high added-value engineering plastics offer, an extremely concentrated sector, in which it holds the number three position behind DuPont and BASF. Rhodia believes

that technological and financial barriers to entry have reinforced the concentration of the sector.

- the implentation of a worldwide program to reduce production cost in order to increase its competitiveness.

The following are products from the Enterprise's polyamide chain and related markets:

- intermediates are manufactured from petrochemical derivatives (natural gas, butadiene, coumene, ammonia, nitric acid and cyclohexane, mainly). They are essential elements to obtain the PA 6.6 polymers required for manufacturing technical plastics, industrial fibers and textile yarns. With the STABAMID™ brand, the Enterprise offers a full line of PA 6.6 polymers, which contributes new features such as UV protection and antistatic functions. Intermediate products from HMD also have application in paints;
- solvents and derivatives, which are exclusively manufactured in Brazil, have a strong competitive position and make the Enterprise a recognized leader in Latin America for phenol, bisphenol A, adipic acid and oxygenated solvents:
  - phenol is the principal raw material needed to produce the resin used for plywood production (construction), foundries (automotive industry) and abrasives,
  - oxygenate solvents (acetone, acetic acid and its derivatives) are used in the automotive industry (paints, metal cleaning) and industrial products (flexible packaging, coatings, adhesives, agrochemistry, textiles and leather) or consumer goods (home and personal care). Such products have a high solvent power, low toxicity and have a low impact on the ozone layer. They are biodegradable and as such, are the primary alternative to chlorinated solvents.
- engineering plastics are used for their mechanical and thermal properties in high-tech sectors, such as the automotive, electrical, and electronics industries, and in a number of consumer and industrial goods such as sports and recreational equipment. A business with a high rate of innovation, Rhodia's engineering plastics provide high value-added functional qualities, such as high mechanical, chemical and thermal performance, and excellent surface appearance, which are adapted to meet the specific requirements of applications. Engineering plastics are increasingly used as alternatives to steel and aluminum, which leads to significant weight savings and gives designers greater freedom. The keys to the success of Rhodia's engineering plastics activity lies in the worldwide application of its offer, its capacity to innovate and the competitiveness of its goods and services. The Enterprise has launched more than 20 new product lines in five years. Its flagship brand, Technyl® is regularly enhanced by innovations;
- technical yarns and fibers are mainly manufactured in Valence (France), and in Brazil. The flagship line of polyamide fibers, Passoréa™, intended for the automobile market, is exceptionally durable as regards wear and light-fastness resistance;
- industrial yarn, produced exclusively in Brazil, is used in lingerie, clothing and sportswear.

The new product lines launched by the Enterprise in 2008 are presented in "chapter 11 – Research and Development" of this reference document.

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| Intermediates and polymers | Industrial paints, textiles, tires, airbag, automotive, electronics | Stabamid™ | Invista, BASF, Solutia, DuPont, Asahi, Radici |
| Oxygenated solvents | Industrial paints, leather, automotive, packaging, inks, industrial products, consumer goods | Rhodialsolv®, RhodiaEco® | BP, Celanese, Exxon, Dow, Oxiteno, Shell, |
| Engineering plastics | Automotive, electrical, electronics, industrial goods, consumer goods | Technyl®, Technyl® Force, Technyl® Alloy, Technyl® Xcell, Technyl® SI, Technyl® XT, Technyl® HP, Technyl Star™, Oromid, Technyl Star™, AFX | DuPont, BASF, Lanxess, DSM, Solutia |
| Engineering yarns and fibers | Automotive, tires, filtration, printing, ropes, carpets, furniture, textiles | Sylkharesse®, Noval®, Passoréa™ | Invista, Acordis, Asahi, Dusa, Honeywell, Solutia, Toray |
| Textile yarns | Lingerie, clothing and sportswear | Amni®, Emana™ | Invista, Radici Nilit, TWD, Hyosung |

Since late 2007, the general conditions of the worldwide Polyamide 6.6 market have changed, mainly due to a decline in consumption in North America and in the rug fiber market. This slowdown created a polymer overcapacity that local North American producers put back into European and Asian markets. At the same time, in Europe, a slowdown in demand started taking effect in the second half of 2008, especially in the automotive, textile, construction and building markets.

Lastly, a weak American dollar against the euro, as well as a record increase in raw materials and energy costs proved to be unfavorable for the Enterprise, especially during the first nine months of 2008. In this context, the Enterprise carried out an extremely determined policy of sale price increases, which, at first, allowed it to almost neutralize the rise in supply costs. Furthermore, the Enterprise began to refocus its industrial activities in order to be more competitive. Against this backdrop, an action aimed at optimizing production and research & development facilities in Europe was launched in the fourth quarter of 2008, an outcome of which will be the closing of the Ceriano (Italy) site in the beginning of 2009. This plan constitutes the first phase of a broader worldwide program to cut approximately €60 million in costs by 2011.

During the fourth quarter of 2008, a sharp acceleration of the deterioration in the worldwide macroeconomic environment resulted in a steep fall off in demand in all geographic zones where the Enterprise operates, especially in the automobile market. However, despite this apparent slowdown, Asia, where the Enterprise has a solid industrial base, continues to experience significant annual average growth and represents, in this respect, a future growth driver for Polyamide.

## 6.2 Novecare

**The Enterprise had sales of €971 million in 2008, representing 20% of Rhodia's consolidated net sales.**

Novecare provides high performance chemicals to a wide array of industries serving key segments of the cosmetics, detergent, oil, agrochemical, automotive, construction and building markets.

The strategy of the Enterprise is to generate growth that is both profitable and durable by serving niche markets in which it holds solid leadership positions as well as recognized technological expertise. Furthermore, Novecare develops its activities through ambitious research projects that it carries out in partnership with its strategic customers. By relying on its strong innovation capacity, the Enterprise undertakes short-term innovation programs for the design of rapidly marketable tailor-made formulations. Simultaneously, it carries out breakthrough innovation programs involving innovative products and processes designed for high-growth target markets. In addition, Novecare is developing research partnerships with recognized organizations in order to enhance and increase its innovation potential both at research and technical expertise and market know-how levels.

With 22 industrial sites and four regional corporate headquarters located in Cranbury (United States), Aubervilliers (France) and Sao Paulo (Brazil), as well as its European sales service platform, the Enterprise benefits from a worldwide R&D presence that it strives to reinforce in strong-growth and high-potential markets, particularly in Asia and Latin America. It is positioned as a key partner by ensuring local follow-up with its worldwide customers, as well as the same level of service and product quality in every region where it operates.

The Enterprise's products and related markets are the following:

- **surfactants** are molecules made up of two distinct parts, one with a strong affinity for oils the other for water. They are used as performance additives in formulations serving the personal care and household markets;
- **phosphorus derivatives** used in numerous applications, from water treatment to agrochemical products and fire protection;
- **natural polymers** and their derivatives are vegetable-based and water soluble. They have properties used to modify texture or rheology, emulsify oils, stabilize complex formulations and prolong the efficacy of active agents or even modify surfaces. They have applications in several markets, such as cosmetics, agrochemical formulations and oil drilling;
- **specialty polymers** are obtained by radicular polymerization or by condensation. The broad range of these products responds to both diverse and specific needs. Specialty monomers, used in small quantities, improve the performance of coatings and adhesives on emulsion, solution or polymerization;
- **formulations** are systems with multiple components which bring complementary and synergetic characteristics to application products having multifunctional properties such as detergents, personal care products, metal treatment and agrochemicals;
- **dibasic ester-based solvents** are molecules produced by diacid esterification with a number of alcohols, thus producing a biodegradable, nontoxic and environmentally responsible solvent which is used in several areas, notably, in the treatment of metals and surface coatings and dressings as well as in industrial cleaning.

To respond to the strong demand generated by economic, environmental and social factors, sustainable development has become the main focus of the Enterprise's portfolio of innovations. In 2008, Novecare launched 55 new products and realized more than 20% of its sales through products that were less than five years old. The percentage of its net sales that are allotted to research and development is greater than the average amount invested by other Enterprises of the Group. Emphasis was placed on targeted innovation programs requiring basic competence in biodegradable solvents, biological herbicide activators, rheology and surface modification.

On the personal care and household markets, Novecare's new products address three strategic segments: hair and skin care, specialty cleaners and specialty polymers for hard-to-clean surfaces. Innovations patented by Novecare provide consumers with multiple benefits, while offering manufacturers competitive solutions (easy formulation and adaptation).

In the field of high-performance solutions:

- in the petroleum extraction sector, Novecare offers a broad range of efficient chemical products for the drilling, yield and reinforcement of wells by means of a wide range of technologies including guar-based biopolymers (Jaguar®), synthetic polymers, surfactants, phosphorus derivatives (Aquarite®) and biocides (Tolcide®);
- on the agrochemistry market, Novecare's strategy is aimed at developing new "bioactivators" for liquid glyphosphate-based formulations generally used as herbicides and expanding its supply of ecological solvents for pesticides.

In the field of industrial formulations:

- in the industrial solvents sector, Novecare continues to strengthen its leadership position in ecological solvents by launching several projects designed to respond to the strong growth of that market, as well as to the growing demand for products to meet ever-stricter environmental and use standards;
- other products or product lines with a sustainable development dimension were launched in 2008 in the specialty phosphorus derivatives sector as well as in the paint and industrial coating market.

The new products and product lines launched by the Novecare Enterprise in 2008 are presented in "chapter 11 – Research and Development" of this reference document.

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| Surfactants | Cosmetics, detergents, agrochemical formulations, lubricants, emulsions, polymerization, petroleum | Miranol, Dermalcare, Miracare, Soprophor, Lubrhophos, Supersol, Abex, Rhodafac, Geropon, Antarox, Supragil, Alkamuls, Igepal, Rhodacal | Akzo Nobel, BASF, Clariant, Cognis, Croda, Dow, Evonik, Huntsman, ICI, Sasol (Condea), Shell, Stepan |
| Phosphorus derivatives | Fine chemistry, agrochemicals, water treatment, fire protection, oil | Proban, Amgard, Tolcide, Briquest, Bricorr, Albrite, Aquarite | Bayer, Solutia, Cytec, Thermphos, Clariant, Ciba Hercules, Lamberti |
| Natural polymers | Cosmetics, detergents, agrochemical formulations, industrial formulations, oil | Jaguar, Rheozan, Rhodopol, Rhodicare | Hercules, Lamberti |
| Polymers and specialty monomers | Cosmetics, detergents, agrochemical formulations, industrial formulations, polymerization, emulsions | Geropon, Mirapol, Polycare, Carbomer, Glokill, Albritect, Repel-O-Tex, Sipomer | BASF, Arkema, ISP, Dow-Amerchol, Evonik, Clariant, Rohm & Haas |
| Formulations | Cosmetics, detergents, agrochemical formulations, industrial formulations | Mirasheen, Supersol, Miracare SLB | Cognis, Clariant, Zeller |
| Solvents | Foundries, steel sheet casing and lithographic varnish, cleaners, paint additives | Rhodiasolv | Invista, Cytec |

Throughout the year, Novecare experienced satisfactory growth in the personal care, household and agrochemical markets, as well as in the oil industry. The industrial formulations sector, which serves mainly the automobile, construction and building industries, was affected by the rapid deterioration in the macroeconomic environment in the fourth quarter of the year.

In addition, Novecare successfully offset the significant rise in raw material and energy costs in the first nine months of 2008 thanks to a reinforced price increase policy, which included its polymer, monomer, detergent, guar-based and phosphorus derivative activities. Over the course of the year, and despite a sharp drop in demand in the industrial formulations sector in the fourth quarter, the Enterprise's profitability grew compared to 2007.

The operational excellence programs (*Six Sigma, World Class Manufacturing*, etc.) to improve competitiveness and productivity continued in 2008, and made it possible to generate significant savings through approximately 130 projects around the world, involving the optimization of industrial assets, variable and fixed production costs and the supply chain.

In addition the Enterprise expanded its ISO 9001 certification to all its industrial sites - 22 of them, four regional corporate headquarters located respectively in Cranbury (United States), Aubervilliers (France), Singapore and Sao Paulo (Brazil), as well as its European sales service platform, thus demonstrating its capacity to provide the same level of service and product quality in all geographic zones where it operates.

Moreover, Novecare made several investments to shore up its presence in high growth geographic zones and markets:

- in India, the Enterprise began construction of a new surfactants production unit, which will meet growing demand for personal care and household products;
- the Enterprise signed an exclusive partnership agreement with KCI, a South Korean specialty chemicals company, for the provision of polymers enabling shampoo and shower gel formulation. With Novecare formulating ten products from KCI's Polyquatermium product under the Polycare® brand name, Novecare has become the first company that can offer a full line of polymer conditioners for hair care;
- in early 2009, the Group acquired McIntyre Group Ltd, a chemicals company producing specialty surfactants. This targeted acquisition will facilitate both consolidating the Novecare product line on the health and beauty segment, and enhance its offer on the hair care and industrial and domestic detergents segment. In addition, this consolidation will encourage developing applications in oil excavation and agrochemistry, as well as the emergence of new opportunities in strong growth regions such as Asia-Pacific and Latin America.

Lastly, on the Asian detergents, cosmetics and industrial applications market, the Enterprise should benefit from the expertise of the new international Research and Development center based in Shanghai (China), inaugurated by the Group in November 2008, one of the main missions of which is to develop formulations combining competitiveness, high-performance and respect for the environment.

## 6.3 Silcea

**The Enterprise had sales of €746 million in 2008, representing 16% of Rhodia's consolidated net sales.**

The Silcea Enterprise combines three main businesses: high-performance silicas (Silica Systems), and rare earths (Electronics & Catalysis) and the diphenol product line, derived from the phenol chemistry product branch. Emanating from the restructuring of the former Organics Enterprise, [8] the diphenols activity was integrated into Silcea in the first quarter of 2008.

Silcea is the world leader in each of these domains. The Enterprise has 18 production units, located in Europe, North America, Latin America and Asia.

Based on its technological leadership and presence in expanding markets, Silcea's strategy is to pursue profitable and durable growth:

- by differentiating itself through a complete and innovative product portfolio, responding to increasingly strict environmental and regulatory constraints;
- by creating unique partnerships with certain major customers; and
- by reinforcing its worldwide presence through geographic growth.

The Enterprise's products and related markets are the following:

Silcea's **silicas** are amorphous silicas generated by chemical reactions and precipitation. The process consists of mixing sand and sodium carbonate and baking the mixture at 1,400 degrees Celsius to obtain a silicate of sodium. After dissolution and dilution, the resulting sodium silicate is neutralized through precipitation with sulfuric acid. This stage is decisive in the production of high performance silicas. A filtration process eliminates by-products. The high performance silicas are thereafter washed, dried, crushed and stored.

As the inventor of high-performance silicas in the 1990s and the world leader of such technology, the Enterprise primarily services the tire industry. Silcea has developed products that are essential to numerous innovations, such as high-performance, low energy consuming "green" tires, which are used by most of the world's tire manufacturers. It is also used in the animal nutrition and toothpaste markets.

*(8) The Isocyanates business was sold to Perstorp and the Salicylics business was integrated into a Business Unit included in "Corporate and Other".*

**Rare earths** are natural elements, like iron or oxygen, present in large quantities in the earth's crust. Rhodia Silcea is involved in the processes of separating and finishing these elements to a high degree of purity. Rhodia Silcea then uses them to produce high value-added compositions adapted to clients needs. The Enterprise serves the electrical and electronics markets (luminescence for low energy light bulbs, for LCD and plasma flat screen televisions, high precision optics, polishing, electronic components and semiconductors) and the automobile catalysis sector (reducing pollution from gas-and diesel-driven vehicles). Rhodia recently acquired an alumina washcoat business, the production of which is based in Cincinnati (United States), and which supplements its materials offer for pollution control solutions for cars.

Silcea is the world's largest producer of **diphenols**, a product branch which includes: hydroquinone, catechol, vanillin and ethylvanillin. Hydroquinone is found on the polymerization inhibitors and anti-oxidizer market. Catechol is an intermediate mainly used in the manufacture of vanillin and ethylvanillin, as well as in agrochemistry applications. Vanillin and ethylvanillin are ingredients indispensible to the aroma and perfume market. Its world leadership is founded on competitive processes, significant technological progress and strong customer relations. Silcea is the only player in the sector to have three production sites on three continents: St Fons (France), Baton Rouge (United States) and Zhenjiang (China), which began production in 2007.

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| High-performance silicas | Tire industry, rubber technical pieces, elastomers and silicones, sports shoes, animal food and nutrition, dental hygiene, etc. | Zeosil®, Zeosil® Premium, Tixosil®, Tixolex® | Evonik, Huber, PPG, OSC |
| Rare earth-base compositions, alumina for washcoats | Luminescent materials for flat screens and low-energy light bulbs. Polishing powders for precision optics, flat screens, luxury accessories and electronic components. Formulations for automotive pollution abatement for gasoline and diesel powered vehicles | Luminostar™, Cerox™, Opaline™, Superamic™, Neolor™, Eolys™, Actalys™, Optalys™ | NeoMaterial, DKK, MEL, Chinese producers, Innospec, Infineum, Sasol, Mitsui, SDK |
| Diphenol product branch | Synthesis of aromas and olfactory notes for the food industry, fine perfumes, cosmetics and detergents. Performance products for industry: polymerization inhibitors, agrochemistry, conventional photography | Rhovanil®, Rhovanil® Natural, Rhodiarome®, Rhodiantal™ Rhodiascent™ | Borregaard, Jiaxing, Mitsui, Ube, Eastman |

Before feeling the effects of the deterioration in the macroeconomic environment in the late fourth quarter of 2008, Silcea benefited from positive conditions in its four main markets until the third quarter, including:

- The low-energy consumption tire market

  On this market, Zeosil® high-performance silicas experienced strong growth, due to increased penetration of this technology in Europe. In addition, the Enterprise launched a new generation of high-performance silicas with the Zeosil® Premium product line in the beginning of the year.

  Moreover, driven by increased environmental awareness, growth in North America and Asia proved to be dynamic. To serve the Asian market, construction of a new factory for high-performance silicas in Qingdao (China) started in 2008.

- The automobile catalysis market

  Sustained by changes in laws and increased environmental awareness, this market benefited from the deployment on the European level of particle filters for private diesel vehicles for which its Eolys™ additive technology is a market reference with more than 3.5 million vehicles equipped to date.

  In addition, materials for Actalys™ and Optalys™ catalytic converters for gas motors and alumina for washcoats supplement the existing offer for treatment of emissions. In this sector, where innovative solutions are proposed thanks to the synergies between alumina and rare earth oxides, sales rose until and throughout the third quarter.

- The electricity and electronics market

On the electricity market, growing requirements for energy savings generated increased demand for rare earths-based luminescent materials (Luminostar™ line) to produce energy-efficient light bulbs, which are progressively replacing incandescent ones.

On the electronics market, the demand for luminescent materials (Luminostar™ line) and polishing powders (Cerox™ and Opaline™ lines) rose, driven by growth in the flat screens market. Lastly, growth in portable electronic devices (mini-computers, etc.) resulted in an increase in demand for performance materials (Superamic™ line).

- The aromas and perfumes market

Following the recent food crises, particularly in Asia, emerging countries reinforced their requirements in terms of product traceability and food safety. Thanks to its products which meet the most stringent regulations and which implemented the most environmentally responsible technologies, Rhodia's position on the aroma market has been continuously strengthened.

In Europe and the United States, the growing demand for high-intensity aroma formulations, which enhance product taste of sugar free, low fat and low calorie products, generated a rise in demand for vanillin and ethylvanillin (Rhovanil® and Rhodiarome® brands).

In addition, natural vanillin (Rhovanil® Natural), produced by Rhodia, shored up its share of the market due to growing pressure for a "natural aroma" labeling, particularly in the ice cream and drinks segment.

- The performance products for industry market

Very well positioned on the Asian market, the Enterprise benefited from strong growth in the need for polymerization inhibitors related to the installation of new monomer capacity (styrene, butadiene, acrylics and esters) in Asia. Furthermore, the demand for agrochemistry intermediates experienced strong growth, particularly in Latin America, driven by the desire to use energy sources that provide alternatives to oil, especially biofuels.

Additional information on new products and product lines launched by the Silcea Enterprise in 2008 are presented in Chapter 11 Research and Development of this reference document.

Throughout the year, the Enterprise was confronted by a sharp rise in raw materials and energy prices, which it almost fully offset thanks to its well managed product mix and its increased sales prices.

Like the rest of the industry, the rapid deterioration in the macroeconomic environment affected Silcea in the fourth quarter, which resulted in, as from this quarter, a steep drop in demand in all its markets.

Nevertheless, the Enterprise's complete and competitive high-performance product portfolio, responding to increasingly strict environmental and regulatory constraints, as regards human health and the environment, represents a genuine asset to reduce its exposure to market cycles.

Therefore, despite the marked slowdown in the automobile sector, the change in the law as regards emission reductions should continue to benefit the Enterprise's rare earths business. The applications of this business in the electronics and electricity sector should benefit from favorable growth prospects, particularly in the flat screen TV and energy-efficient light bulb segment. Furthermore, with its silicas technology, the Enterprise intends to strengthen its position on the replacement tires segment, which represents 70% of total worldwide sales and which is less exposed to an additional drop in demand than the new vehicles tire segment. Closely related to consumer goods, the diphenols business (food aromas, olfactory notes for detergents) remains exposed to a lesser extent to market cycles overall.

Lastly, on the Asian market, where Silcea has a solid industrial and commercial base, the Enterprise continues to benefit from favorable growth prospects.

## 6.4 Energy Services

**The Enterprise had sales of €233 million in 2008, representing 5% of Rhodia's consolidated net sales.**

Energy Services is in charge of supplying the Group with energy and managing Rhodia's projects in the field of greenhouse gas reduction, pursuant to Rhodia's commitment to fighting climate change.

*In the field of greenhouse gas emissions*, the Enterprise's mission is to ensure the development of emissions reductions projects of Group sites, and produce Certified Emission Reductions (CERs) in accordance with the Kyoto Protocol or pursuant to a framework of voluntary projects. In 2008, the volumes of CER received by Rhodia represented approximately 14% of all CER emitted worldwide.

The manufacture of adipic acid, of which Rhodia is the world's second largest producer, and its use as a raw material for Polyamide 6.6, generates nitrogen protoxide. Nitrogen protoxide or $N_2O$ is one of the greenhouse gases identified by the Kyoto Protocol. Within the framework of the Clean Development Mechanisms (CDM) of the Kyoto Protocol, Rhodia developed two plans to reduce its greenhouse gas ($N_2O$) emissions on its sites at Onsan (South Korea) and Paulinia (Brazil). Operational since late 2006, the facilities deployed to reduce the emissions of these sites have proved reliable and efficient. Since 2007, they have enabled the Group to receive approximately 13.5 million tons of CER per year. The Group expects to generate approximately 13 million tons of CER in 2009, of which 55% has been hedged at €15.50 per ton.

Furthermore, within the framework of the Chicago Climate Exchange, Rhodia reduced its emissions from its sitesin Brazil, in particular through a project to substitute fossil fuels (project to change from fuel to natural gas).

In 2008, Energy Services developed the first greenhouse emissions reduction program on the French national territory that falls within the framework of the Kyoto Protocol. This program concerns the Salindres (France) facility, which produces trifluoroacetic acid. The production of acid does not impact stratospheric ozone and is therefore not cited in the Montreal Protocol. Nevertheless the production process does coproduce greenhouse gases recognized by the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. The program will facilitate destroying these coproducts as well as other greenhouse gases not included in the Kyoto Protocol. These emissions reductions will give rights to Emission Reduction Units (ERU) at a volume estimated at approximately 200,000 $CO_2$ equivalent tons per year over the 2009-2012 period. The first deliveries should be made during 2009. After being validated by an accredited independent auditor, the French Ministry of Ecology, Energy, Sustainable Development and Territorial Development *(Ministère de l'Ecologie, de l'Energie, du Développement Durable et de l'Aménagement du Territoire)* approved the program in 2008.

The Group has partnered with Société Générale Énergie (a 100% owned subsidiary of the Société Générale group) to reduce the risks associated with the volatility and fluctuation of the emission credit market and to maximize the value of its CERs. In 2006, Rhodia created **orbeo**, a company it owns in equal partnership with Société Générale Énergie.

Based on an integrated upstream and downstream business model, which combines industrial and financial expertise, **orbeo** operates across the carbon chain, from projects to markets, and is one of the leading buyers and sellers of $CO_2$ products. **orbeo** offers origination (identification and development plans of reduction of greenhouse gas for third parties), trading, optimization of carbon credit portfolios and structuring of personalized transactions for all types of customers such as industry, governments and investors. **orbeo** is an *entreprise d'investissement* certified by the Committee of Credit Institutions and Investment Enterprises (CECEI).

In 2008, **orbeo** continued to grow on the world carbon markets. The company was selected to be a market maker for carbon futures contracts in equivalent carbon dioxide ($CO_2$e) units on the Montreal Climate Exchange. **orbeo** is also a market maker on the BlueNext environmental exchange for derivative future contracts on European Union Allowances (EUA) transactions.

**orbeo** also benefited from the launch of the International Transaction Log (ITL), which contributed to increasing liquidity of the CER market. The company was also the first to process a CER options contract on the European Climate Exchange with the ICE electronic trading platform. Processing options on CERs provides greater liquidity to the market and enables **orbeo** to develop hedging strategies for itself and for its customers.

Through its trading business and the development of new products, **orbeo** supports the emergence of a global, fluid environmental market; **orbeo** thus contributes to providing a significant and reliable $CO_2$ market price, which allows manufacturers to assess the profitability of their future industrial investment plans.

In the origination field, many contracts were signed in 2008. For example, **orbeo** signed a purchase agreement with Hysacam, a Cameroonian company specialized in waste disposal. Based on the recycling of gas emitted from a landfill in the Cameroon, this unprecedented project should curb 400,000 tons of $CO_2$ emissions by 2012, and create 200 jobs; and it should be registered within the framework of the Clean Development Mechanisms (CDM) in July 2009.

Aside from increased activity in China, a country which is home to a very large portion of greenhouse gas emission reduction projects, **orbeo** has expanded its geographic coverage and signed emission reduction purchase agreements in Latin America, Vietnam and Africa.

As regards the sales of carbon credits, **orbeo** concluded, together with Rhodia Japan, a new deal in 2008 involving approximately 8 million tons of CER over the 2008-2013 period, with the New Energy and Industrial Technology Development Organization (NEDO), which is the administrative agency in charge of the CER purchase program to meet Japan's Kyoto commitment. Furthermore **orbeo** has developed the sales of primary carbon credits (CERs), and has for example sold CERs from a small hydroelectric station in China to the Nordic Environment Finance Corporation (NEFCO) - an international financial institution with five Nordic member countries.

In 2008, sales of CER increased by over 10% compared to 2007 and generated €158 million of recurring EBITDA, compared to €135 million in 2007. After reaching a peak of €26 per ton in the course of July 2008, CER prices gradually fell off subsequent to the deterioration of the worldwide macroeconomic environment, hitting around €14 per ton at the end of 2008.

**orbeo** received several awards in 2007 and 2008, and Energy Risk magazine named it "House of the Year – Emissions Europe" in June 2008.

**In the energy field**, Energy Services manages energy purchases around the world, 55% of which are natural gas and 30% electricity. In this capacity, it is the second largest industrial purchaser of gas in France, and ranks among the top ten purchasers of electricity.

In the second half of 2008, Energy Services signed a ten-year service contract with a multi-operator chemical platform with a view to optimizing the site's energy supply through the globalization of primary energy purchases.

Energy Services is also a member of Exeltium, a French consortium of electro-intensive industries for purchase of electricity in France, which signed an agreement in January 2007 with Électricité de France (EDF) defining the principles of a long-term industrial and commercial partnership. This agreement was approved by the European Commission on July 31, 2008. The objective is to negotiate a definitive long-term electricity purchase contract at prices based on the costs of nuclear investment by EDF starting in 2009.

The mission of Energy Services is also to optimize the Group's energy production assets. Within this framework, the Enterprise deployed energy efficiency measures to improve operations of co-generations (an industrial tool permitting the simultaneous production of thermal energy and electricity using gas turbines), as well as to reduce energy consumption and $CO_2$ emissions through optimizing production, distribution and consumption of utilities in industrial processes such as steam, electricity, gas, heat transfer medium or air. Major savings were thus reaped in 2008.

## 6.5 Acetow

**The Enterprise had sales of €467 million in 2008, representing 10% of Rhodia's consolidated net sales.**

With four production sites throughout the world, Acetow is the world's third largest producer of acetate tow, for cigarette filters, and one of the principal manufacturers of cellulose acetate flakes.

The Enterprise serves roughly 18% of the cigarette filter market worldwide, with its principle markets in Europe, the CIS, Asia and Latin America.

Cellulose acetate flakes are derived from the chemical reaction of acetic anhydride with wood pulp. To obtain acetate tow, cellulose acetate flakes are put into a solution in acetone and extruded into strands that make up the tow. The tow is then supplied to tobacco companies to make cigarette filters. As a result of its technical know-how, which enables it to provide high quality products, together with client service and the competitiveness of its manufacturing facilities, Acetow has become a favored partner of the cigarette industry.

Recognized for its innovation, in close collaboration with its principal customers Acetow has developed new manufacturing methods that help it produce an acetate tow suited to a new generation of cigarette filters, such as filters for "super slim" cigarettes.

| Product lines | Markets | Trademarks | Competitors |
|---|---|---|---|
| Acetate tow | Cigarette industry | RHODIA® Filter Tow | Celanese, Eastman, Daicel, Mitsubishi |
| Cellulose acetate flakes | Textile industry | RHODIA® Acetol | Celanese, Eastman, Daicel, Acetati |

The world cigarette filter market grew 4.5% in 2008, compared to 3.5% in 2007, driven by increasing demand mainly in the CIS, and in regions of Asia and the Middle East. This rise, as well as plant closings subsequent to consolidation of this sector since 2007, generated an overall global utilization rate close to 100% for all market participants. This market benefited from good resistance to current economic conditions and should continue to grow in the coming years.

In 2008, Acetow was confronted by a sharp rise in raw materials and energy costs that it successfully offset by raising its sales price and reducing production costs.

Doing business in markets denominated in U.S. dollars, the Enterprise was particularly affected by currency depreciation in relation to the euro during the first nine months of 2008. Its efforts to denominate a significant portion of its sales in euros enabled the Enterprise to practically neutralize the negative impacts of currency fluctuations in the fourth quarter of the year.

Lastly, the ambitious plan to improve competitiveness launched by the Enterprise in late 2007 began to bear fruit in the second half of 2008. This plan reduced costs and improved productivity, which should lead to increased production capacity of approximately 10,000 tons by 2010. Acetow should therefore be on track to reach its objective of generating €35 million in savings by 2011.

## 6.6 Eco Services

**The Enterprise had sales of €306 million in 2008, representing 6% of Rhodia's consolidated net sales.**

Eco Services produces and regenerates sulfuric acid mainly intended for oil refineries and the North American chemical industry. Operating in the United States, the Enterprise serves the American market through a network of eight production units in six different sites along the American Gulf Coast, in California and the Midwest, where one production unit also serves certain Canadian customers. On the Gulf Coast, two sites provide treatment services for special chemical residues.

Sulfuric acid, the most used chemical product in many industrial applications, is also a key component for North American energy infrastructures. In this respect, the reliability and expertise of Eco Services are vital, and have been recognized by its customers for many years.

Eco Services **is a leader in sulfuric acid regeneration services** for oil refineries. Sulfuric acid, which is a catalyst for producing alkylate, an essential component of high-octane gasoline, gathers impurities that reduce its catalytic properties during the production of alkylate. The used acid is then transported to the Enterprise's sites, where it is purified in high-temperature natural gas furnaces, before it is returned to the refineries that reuse it.

The Enterprise also **produces sulfuric acid** that it manufactures from sulfur in different concentrations, depending on customer needs. Beyond the quality of its tailor-made products, the Enterprise's customers also call upon it for its expertise in application, transport and product handling.

Eco Services works within the framework of multi-year contracts for implementing operational reliability, safety and the diversity of transport means, which are essential features of its service. Its products are transported by railroad, water and roadways or by pipeline.

In the summer of 2008, Hurricanes Gustav and Ike struck a portion of this transport network and three Eco Services sites located along the American Gulf Coast. These sites, like many of its Gulf Coast customers, were required to suspend their operations during and after the hurricane strikes. In the interim, other Eco Services sites quickly restored regeneration services. Such responsiveness strengthened the Enterprise's competitive advantage and contributed to its reputation for reliability.

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| Sulfuric acid, regeneration services and other sulfur derivatives | Oil refining, chemical and petrochemical production | - | Chemtrade, DuPont, General Chemical, Marsulex |

The Enterprise recorded a high productivity level as well as extremely good safety results in 2008. New investments continue to improve the environmental performance of its sites, pursuant to the Group's sustainable development approach. Thus, in accordance with the commitment signed with the US Environmental Protection Agency (USEPA) in 2007, the first stages of the construction of installations aimed at reducing its sulfur dioxide emissions 90% by 2014 were finalized. This commitment, the first of its kind for American producers of sulfuric acid, paved the way for the Enterprise to receive an authorization to increase capacity in several of its units.

In 2008, Eco Services had to address record inflation in the cost of sulfur (more 1,200% in total compared to 2007), a key raw material of sulfuric acid, and, to a lesser extent, of natural gas. Considerable sales price increases absorbed this sharp rise in costs, which, in the second half of 2008, drove down demand for sulfuric acid. In 2009, Rhodia expects sulfur prices to return to their historical levels.

# 7 Organizational chart

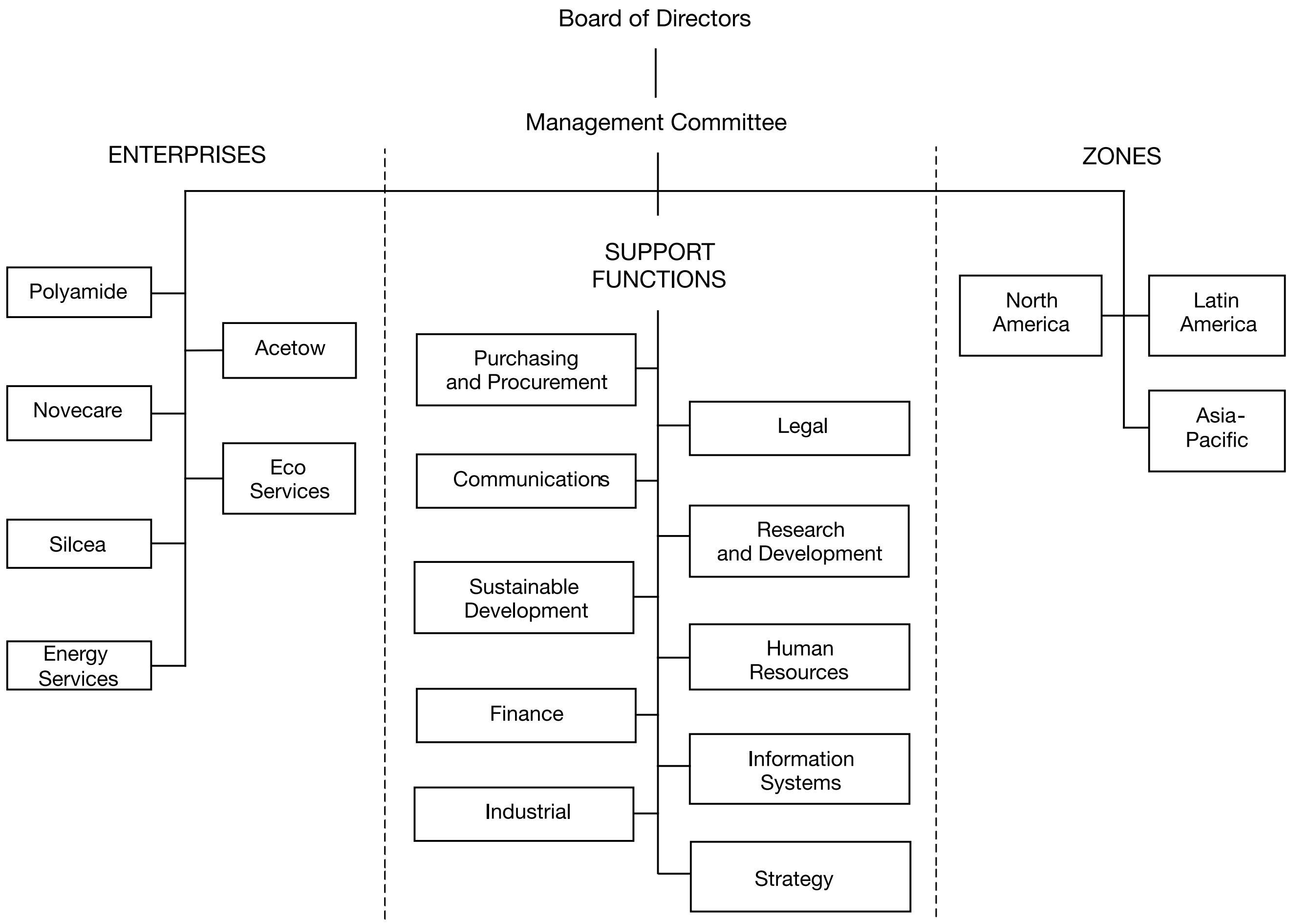
contents



## 7.1 The Group

### 7.1.1 ORGANIZATIONAL CHART IN PLACE IN 2008

Below is the simplified functional organizational chart of the Group in 2008.



## 7.1.2 OPERATION OF THE GROUP

### 7.1.2.1 THE MANAGEMENT COMMITTEE

The Management Committee, described in chapter 14.1.2.1 below, oversees the Enterprises, support functions and zones. It contributes to the defining of and implements the strategy of the Group decided by the Board of Directors and defines the policies at the Group level. It settles disputes and allocates resources. It relies on a small operating team in the fields of strategy, industry, marketing and sales, and on the skills and expertise of the support functions.

Beyond this first level of the Group's Management Committee is the Executive Committee (Comex), composed of members of the Management Committee, presidents of the Enterprises and directors of support functions and geographical zones, whose purpose is to establish trends with respect to the general policies of the Group (organization, methods for allocating investments, rules of variable compensation plans, etc.). It ensures the establishment of priorities among the various entities that make up Rhodia (Enterprises, support functions, geographical zones) and coordinates the action of the Group on transversal subjects (innovation, communication, development of Rhodia in high-growth countries, etc.). It also aims at being the "champion" and sets the company's culture, defining the values and identity of the Rhodia Group.

In addition, in 2008, the Management Committee sought to enhance its work by integrating the skills and experience of the operations management with varied profiles. This led to the creation of an extended Management Committee that meets every month and is responsible for determining the scope and ensuring the implementation of the Group's strategies, which are determined by the Board of Directors, the allocation of resources among various Enterprises and support functions and ensuring adequate functioning of the Group's operational processes.

### 7.1.2.2 RHODIA'S BUSINESSES

Since the first quarter of 2008, Rhodia's operational activities have been organized into six Enterprises:

| **Enterprises** |
|---|
| Polyamide |
| Acetow |
| Novecare |
| Silcea |
| Eco Services |
| Energy Services |

The Enterprises have a global presence. They benefit from broad autonomy in the management of their operational activities and full responsibility in the fields of marketing and sales, industrial manufacturing, innovation and production lines. They propose their strategy to the Management Committee. To this end, they have dedicated resources and are responsible for their operating profits. For further information on the activities of the Enterprises, see chapter 6 above.

As part of the simplification of its organization, on March 19, 2008, Rhodia announced that its Organics Enterprise would be discontinued starting from the first quarter of 2008, following a plan to sell its isocyanates operations. These operations have been classified as "discontinued operations" since the first quarter of 2008.

The Diphenols strategic activity was integrated into the Silcea Enterprise; the Isocyanates activities were sold on September 1, 2008 to Perstorp; the other fine organic chemistry activities, for which reorganization measures or closings have already been announced, were assigned to a specific Business Unit integrated into "Corporate and Other."

### 7.1.2.3 SUPPORT FUNCTIONS

The Enterprises rely on the following support Functions: procurement and supply, communication, sustainable development, finance, industrial, legal, research and development, human resources, information systems and strategy. These support Functions are to efficiently supply services to the Enterprises at an optimal cost. They are responsible for their costs and have their own resources (staff, organization, etc.) enabling them to render services and allocate according to an efficiency criterion, cost and service level. They are organized as shared services but can also decide to dedicate specific personnel to one of the Enterprises.

### 7.1.2.4 ZONES

The North America, Latin America and Asia/Pacific zones are each supervised by a regional director. Their role is to facilitate the implementation of the policies and practices of the Group, to monitor compliance with laws and local regulations and to directly or indirectly represent Rhodia before the board of directors of local entities and joint ventures.

## 7.1.3 PARENT COMPANY/AFFILIATE RELATIONS

Rhodia is the holding company of the Group and does not directly exercise any operational or industrial activities. In its role as parent company it provides support, advisory, coordination and training services to its subsidiaries.

Since its direct participation in activities is limited, it operates through other holding companies situated in different zones. Such organization, partly resulting from the Group's history, responds to geographical and organizational needs.

Rhodia maintains a "Parent - Affiliate" type relationship with its subsidiaries, the principal characteristics of which in 2008 are described in Rhodia's financial statements in chapter 20.3.2. These include:

- centralized management of the Group's treasury ensured by Rhodia and organized through a bank;
- re-invoicing of shared services and assistance to the Enterprises related to Rhodia S.A. for a total of €6 million in 2008;
- granting of guarantees by Rhodia S.A. in the framework of certain bank financings and/or operations contracts in favor of its subsidiaries;
- centralization of exchange and interest rate risks of the Group;
- centralized management of risks related to the commodities market; and
- management of French fiscal integration.

For additional information regarding the activities of its subsidiaries, see chapters 6 and 9.1 of this reference document.

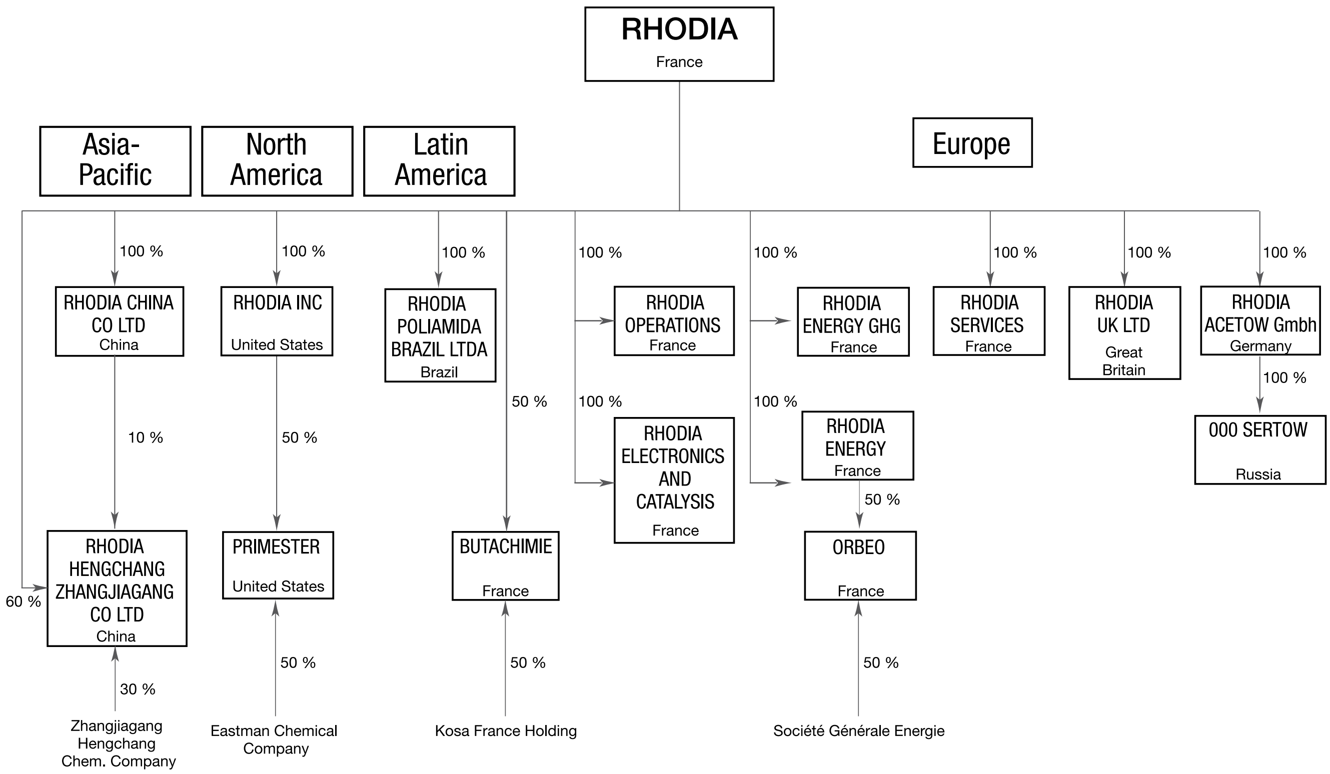
## 7.2 Subsidiaries and equity holdings of the Company

The table of the subsidiaries and equity holdings of the Company is shown in Note 24 to the parent company financial statements in chapter 20.3.2.3 of this reference document.

Rhodia's scope of consolidation as of December 31, 2008 is shown in Note 37 to the consolidated financial statements in chapter 20.3.1.3. of this reference document.

In 2008, Rhodia did not establish an equity position in a French company within the meaning of Article L.233-6 of the Commercial Code.

The organizational chart below shows the simplified corporate structure of the Group in 2008 (including the main companies of the Group).



# 8 Property, plant and equipment

contents



## 8.1 Significant or planned tangible assets

The total gross value of the Group's property, plant and equipment at December 31, 2008 amounted to €4,965 million including €121 million of property, plant and equipment under construction. This amount principally includes the value of machinery and equipment worth €3,949 million and buildings worth €762 million.

The total net value of the Group's tangible assets amounted to €1,501 million, or approximately 34.7% of the total consolidated balance sheet at December 31, 2008. It includes the value of machinery and equipment worth €1,050 million, buildings worth €228 million, land worth €102 million and property, plant and equipment under construction worth €121 million.

*Form of Holding Assets*

At December 31, 2008, Rhodia's principal property, plant and equipment in full ownership and acquired under finance leases were as follows:

| *(in millions of euros)* | Land and Buildings | Materials and Equipment | PPE under construction |
|---|---|---|---|
| **Property, plant and equipment:** | | | |
| Gross value | 895 | 3,949 | 121 |
| Depreciation | (565) | (2,899) | |
| **NET VALUE OF PROPERTY, PLANT AND EQUIPMENT** | **330** | **1,050** | **121** |
| **Including:** | | | |
| Fully owned: | | | |
| Gross value | 890 | 3,926 | |
| Depreciation | (561) | (2,885) | |
| **Total fully-owned property, plant and equipment** | **329** | **1,041** | |
| Finance-leased assets: | | | |
| Gross value | 5 | 23 | |
| Depreciation | (4) | (14) | |
| **Total finance-leased assets** | **1** | **9** | |

*Location of the Sites*

The table below shows the number of Rhodia sites, by Enterprise and geographical zone at December 31, 2008. The size of these sites can vary considerably in terms of number of employees and production capacity. Out of these 65 sites, 10 are shared by several Enterprises. Each site listed in the table below is classified as a function of the Enterprise that uses it the most. The table does not include the 2 sites not consolidated at the Group level, which are essentially held in joint ventures.

| | As of December 31, 2008 | | | | |
|---|---|---|---|---|---|
| **Enterprises** | **Europe** | **North America** | **Latin America** | **Asia/Pacific** | **TOTAL** |
| Novecare | 5 | 8 | 1 | 9 | **23** |
| Silcea | 4 | 2 | 1 | 7 | **14** |
| Polyamide | 6 | | 4 | 2 | **12** |
| Acetow | 2 | 1 | 1 | | **4** |
| Eco Services | | 7 | | | **7** |
| Energy Services | 1 | | | | **1** |
| Other | 2 | | | 2 | **4** |
| **TOTAL** | **20** | **18** | **7** | **20** | **65** |

## 8.2 Environmental restrictions that could influence use of these assets by Rhodia

Environmental information is included in chapters 4.1.2 and 5.3 of this reference document.

# 9 Operating and financial review

contents



## 9.1 Management analysis conventions

This section contains information comparing year to year the performance of Rhodia and its Enterprises, specifically unaudited accounting data derived from management reports on the impact of the following items on net sales and on the principal line items of Rhodia's income statement:

- changes in scope of consolidation (for example, as a result of acquisitions, divestitures, changes in consolidation and, with respect to comparisons of the results of operations at the Enterprise or business level, transfers of businesses or activities between Enterprises or businesses);
- fluctuations in exchange rates affecting the translation into euros of net sales, expenses and other income statement line items that are denominated in currencies other than the euro;
- changes in average selling prices;
- changes in volumes; and
- the transactional effect of exchange rate changes (defined as the difference arising from the exchange into local currency from sales and purchases made in another currency).

Rhodia has implemented this measure and tracks the development of its performance based on quarterly reports submitted by its various entities and uses it for its internal analysis requirements. The same management information is used for its financial communication. Within the framework of the comparison of profits from operations during two periods (the "prior" period, for example, 2007, and the "current" period, for example, 2008), Rhodia calculates the impact of these changes as follows:

- the impact of changes in the scope of consolidation is calculated (i) in the case of acquisitions, by including in the prior year's data the results of the current year generated by the acquired business, for at a minimum the number of months of the prior year that the business had not yet been acquired, and at a maximum for the number of months not exceeding the presence of the acquired business in the current year and (ii) in the case of divestitures, by excluding the results from the prior period of any activity included in the consolidated financial statement that were generated outside of the corresponding period when the asset was held in the current year;
- the impact of fluctuations in exchange rates is calculated by adjusting the prior period's results for fluctuations in exchange rates arising from the conversion into euros of items in the income statement denominated in currencies other than the euro at average exchange rates during the subsequent period;
- the impact of changes in average selling prices is calculated by comparing the current weighted average net unit selling prices for each product in the current period (for example, the euro cost per ton) against the weighted average net unit selling prices in the prior period, multiplied in both cases by volumes sold during the current period;
- the impact of changes in volumes is calculated by comparing quantities shipped in the current period against quantities shipped in the prior period, multiplied in both cases by the weighted average net unit selling price in the prior period.

Moreover, Rhodia uses for its analyses and financial communications pro forma indicators, the definitions of which are the following:

- recurring EBITDA is defined as operating profit or loss prior to depreciation and impairment, restructuring costs and other operating income and expenses;
- Free Cash Flow is defined as cash from operating activities, before margin calls excluding non-recurrent refinancing expenses, less the acquisition of tangible fixed assets and other non-current assets.

Rhodia believes these measurements are useful tools for analyzing and explaining changes and trends in its historical results of operations, as they allow performance to be compared on a regular basis. They are not, however, subject to audit and are not performance measurements with regard to regulations or IFRS. They should not be considered as replacing performance measurements within the framework of regulations or IFRS. The methods of calculating changes used by Rhodia may differ from those used by other companies.

## 9.2 Accounting aspects

The Group's consolidated financial statements for the year ended December 31, 2008 are prepared in accordance with IFRS (*International Financial Reporting Standards*), as adopted by the European Union and applicable as from December 31, 2008.

These consolidated financial statements are also consistent with IFRS adopted and published by the IASB (*International Accounting Standards Board*) and applicable to the year ended December 31, 2008.

Preparation of financial statements in accordance with the IFRS conceptual framework requires making estimates and assumptions that affect the amounts shown in the financial statements. The final amounts are likely to differ from the estimates used when preparing the financial statements that are ultimately presented. Management also exercises judgment in applying accounting methods. Areas involving a high level of judgment or complexity or for which the assumptions and estimates are significant with regard to the consolidated financial statements are described in Note 2.2 (Basis of preparation) to the consolidated financial statements in chapter 20.3.1.3.

## 9.3 Group operating profit / (loss) in 2007 and 2008

The following table sets forth Rhodia's operating profit for the years ended December 31, 2007 and 2008:

| *(in millions of euros)* | 2007 | 2008 | Change in % |
|---|---|---|---|
| **Net sales** | **4,781** | **4,763** | **(0.4)%** |
| Other revenue | 463 | 550 | 18.8% |
| Cost of sales | (4,168) | (4,382) | (5.1)% |
| Administrative and selling expenses | (506) | (482) | 4.7% |
| Research and development expenditure | (93) | (73) | 21.5% |
| Restructuring costs | (55) | (40) | 27.3% |
| Other operating income/(expenses) | 0 | (27) | |
| **Operating profit/(loss)** | **422** | **309** | **(26.8)%** |

### 9.3.1 NET SALES

Rhodia's 2008 net sales showed a slight decline of (0.4)%, and amounted to €4,763 million in 2008, compared to €4,781 million in 2007.

Thanks to the solid position in the majority of its markets, Rhodia was able to continue to raise its sales prices in a context of sharp increases in raw materials and energy costs. These price increases represent a favorable impact of €440 million, which was offset by:

- the unfavorable impact of fluctuations in exchange rates (conversion and transaction costs) of €(233) million, or (4.9)%;

- the negative impact of €(224) million, or (4.7)%, related to the decline in volumes, specifically late in the year due to a sharp deterioration in the macroeconomic context, which affected a certain number of the Group's end markets, and notably those of the Polyamide Enterprise, such as the automobile, electronics, construction and textile markets; and
- the negative impact of €(1) million arising from changes in scope of consolidation.

See chapter 9.3.4 below for a more detailed description of the Group's net sales.

## 9.3.2 OPERATING EXPENSES

### Cost of sales

The cost of sales increased from €(214) million, or (5.1)%, rising from €(4,168) million in 2007 to €(4,382) million in 2008. This appreciable change in costs reflects the rise in raw materials and energy costs, which was partially offset by the favorable conversion effect of €126 million (largely due to the depreciation of the US dollar, the Korean won and the British pound against the euro), as well as by a decline in volumes.

### Administrative and selling expenses

Administrative and selling costs declined to €(482) million in 2008, compared to €(506) in 2007, mainly thanks to a favorable conversion effect of €11 million, and to cost cutting efforts started at the end of the year to address the deteriorating economic situation.

### Research and development expenditure

Research and development expenditure amounted to €73 million, falling by 21.5% in 2008 compared to 2007, due principally to the reduction in operating costs as a result of productivity gains. These amounts are presented net of the impact of research tax credits.

### Restructuring costs

Restructuring costs amounted to €(40) million in 2008, compared to €(55) million in 2007.

In 2008, new measures represented a total cost estimated at €30 million and mainly concern the closing of the site in Ceriano, Italy (Polyamide), as well as new productivity measures for the support functions in France, the United Kingdom and the United States. In Italy they prompted a €4 million acceleration of impairment of tangible assets.

In 2007, the most significant measures in France concerned the plan to discontinue the activities of the Mulhouse Dornach site and the paracetamol activity at the Roussillon site; outside of France, the largest projects were the plan to discontinue operations at the Avonmouth site and the plan to improve productivity of Acetow's Freibourg, Germany site.

Note 6 (Restructuring costs) to the consolidated financial statements in chapter 20.3.1.3 of this reference document provides detailed information on this section.

### Other operating income and expenses

Other Operating Income and Expenses, which appeared as a zero balance in 2007, amounted to €(27) million in 2008.

Net gains/(losses) on disposals had a positive impact of €26 million in 2008, compared to €27 million in 2007. They primarily included the disposal of the Rhodia distribution network, which operated in Southeast Asia, India, Australia and Taiwan and had180 employees, to Brenntag, a major player in chemical products distribution. The disposal gains and losses recognized in 2007 mainly included the gains on the sale of the Sulfuric acid business in France to Adisséo, a subsidiary of China National Bluestar Corporation, and the gain on the sale of the Di-Calcium Phosphates business to Innophos.

Costs related to the environment totaled €(34) million in 2008 against €(14) million in 2007. This increase was due principally to an additional provision relating to the La Rochelle (France) site, corresponding mainly to a revision of study costs of the future Andra (National Agency for the Management of Radiferous Waste) center, based on the most recent data available from the agency, as well as the revision of storage costs for radiferous waste which should be stored at this future center. See Note 28.4 (Environment) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

Other operating income/(expenses) amounted to €(19) million in 2008 compared to €(13) million in 2007, and are made up principally of the "trading" component of **orbeo**'s business (buying/selling CER and EUAs), changes in fair value of derivatives not designated for hedging involving operational factors, as well as changes in value of the ineffective portion of derivatives hedging on operations.

See also Note 7 (Other charges and operating items) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

## 9.3.3 OPERATING PROFIT

Rhodia's operating profit amounted to €309 million in 2007, as compared to €422 million in 2007, or a decline of (26.8)%.

This change is explained in particular by the decline in volume, the negative impact of which totaled €(52) million, or (12.3)%, and by the unfavorable effect of exchange rate changes of €(78) million, or (18.5)%, which was mainly due to the weak dollar against other major currencies.

The massive rise of raw materials and energy costs, totaling €(417) million, was largely offset by increased selling prices amounting to €440 million.

Lastly, the Group continued its efforts to cut fixed expenses, which recorded a €23 million reduction.

See chapter 9.1.3.4 below for a more detailed description of operating results.

## 9.3.4 ANALYSIS OF SALES AND OPERATING PROFIT / (LOSS)

The following table sets forth an analysis of change in net sales in 2008 compared to 2007:

| **Evolution of the net sales** *(in millions of euros)* | **Net sales 2007** | **Structure** | **Exchange rate impact (conversion)** | **2007 net sales at constant structure and exchange rate** | **Volume & mix** | **Selling price** | **Exchange rate impact (transactions) (1)** | **Net sales 2008** | **Change in net sales from 2007 to 2008** | **Change in net sales from 2007 to 2008 at constant structure and exchange rate** |
|---|---|---|---|---|---|---|---|---|---|---|
| Rhodia | 4,781 | (1) | (149) | 4,631 | (224) | 440 | (84) | 4,763 | (0.4)% | 2.9% |
| Polyamide | 1,975 | (7) | (60) | 1,908 | (154) | 87 | (52) | 1,789 | (9.4)% | (6.2)% |
| Novecare | 931 | (5) | (50) | 876 | (18) | 113 | 0 | 971 | 4.3% | 10.8% |
| Silcea | 736 | 12 | (17) | 731 | (33) | 54 | (6) | 746 | 1.4% | 2.1% |
| Energy Services | 202 | 0 | 1 | 203 | 17 | 13 | 0 | 233 | 15.3% | 14.8% |
| Acetow | 441 | 0 | (7) | 434 | 21 | 34 | (22) | 467 | 5.9% | 7.6% |
| Eco Services | 218 | 0 | (15) | 203 | (11) | 114 | 0 | 306 | 40.4% | 50.7% |
| Corporate & Other (after elimination of inter-company sales) | 278 | (1) | (1) | 276 | (46) | 25 | (4) | 251 | (9.7)% | (9.1)% |

*(1) Sum of the transactional foreign exchange effect on selling prices and the transactional foreign exchange effect on the purchase of raw materials and energy.*

The following table sets forth net contribution by Enterprise to Rhodia's net sales in 2007 and 2008:

| *(in millions of euros)* | **2007** | **2008** |
|---|---|---|
| Rhodia net sales | 4,781 | 4,763 |
| Net contribution to Rhodia's revenue by Enterprise (as a %): | | |
| Polyamide | 41% | 38% |
| Novecare | 20% | 20% |
| Silcea | 15% | 16% |
| Energy Services | 4% | 5% |
| Acetow | 9% | 10% |
| Eco Services | 5% | 6% |
| Corporate & Other (after elimination of inter-company sales) | 6% | 5% |
| **TOTAL** | **100%** | **100%** |

The following table sets forth the contribution by geographic region to total net sales and other revenue in 2007 and 2008:

| *(in millions of euros)* | **2007** | **2008** |
|---|---|---|
| Rhodia net sales | 4,781 | 4,763 |
| Net contribution to Rhodia's revenue by Enterprise (as a%): | | |
| France | 9% | 9% |
| Rest of Europe | 30% | 28% |
| North America | 17% | 20% |
| Latin America | 17% | 15% |
| Asia and other countries | 27% | 28% |
| **TOTAL** | **100%** | **100%** |

The following table sets forth changes in operating profit in 2008 compared to 2007:

| **Change in operating profit** *(in millions of euros)* | **Operating profit Dec. 2007** | **Structure** | **Exchange rate impact (conversion)** | **Volume & mix-revenue** | **Price** | **Foreign exchan-ge/Price** | **Price Raw materials & energy** | **Foreign exchange/ Raw materials& energy** | **Fixed expen-ses** | **Other ope-rating reve-nue and expenses** | **Restructu-ring excluding Amortiza-tion** | **Amortiza-tion & Depreciation** | **Operating profit Dec. 2008** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rhodia | 422 | (27) | (12) | (52) | 440 | (84) | (417) | 18 | 23 | - | 16 | (18) | 309 |
| Polyamide | 156 | - | (6) | (46) | 87 | (52) | (134) | 13 | 1 | 17 | (21) | (5) | 10 |
| Novecare | 71 | - | (7) | 3 | 113 | - | (89) | - | 1 | - | 1 | (2) | 91 |
| Silcea | 93 | (1) | (3) | (18) | 54 | (6) | (61) | - | 3 | (17) | - | (3) | 41 |
| Energy Services | 165 | - | - | 26 | 13 | - | - | - | (7) | (2) | - | - | 195 |
| Acetow | 42 | 2 | (1) | 4 | 34 | (22) | (27) | 7 | 4 | 1 | 8 | 2 | 54 |
| Eco Services | 54 | - | (5) | (8) | 114 | - | (88) | - | (10) | - | - | 1 | 58 |
| Corporate & Other | (159) | (28) | 10 | (13) | 25 | (4) | (18) | (2) | 31 | 1 | 28 | (11) | (140) |

## Consolidated net sales

Rhodia's 2008 net sales amounted to €4,763 million, or a reduction of (0.4)%, compared to €4,781 million in 2007. Changes in scope of consolidation (activities that have modified the Group's scope of consolidation but that were not categorized as "discontinued operations" within the meaning of IFRS 5 or changes in accounting methods) had a negative impact of €(1) million. Fluctuations in exchange rates, resulting primarily from the depreciation of the US dollar and the Korean won against the euro and, to a lesser extent, the British pound against the euro, had a negative impact of (3.1)% in 2008 as compared to 2007.

At a constant scope and exchange rate, sales rose 2.9% due to a 9.5% increase in selling prices. The negative transactional foreign exchange impact of (1.8)% mainly stemmed from the depreciation of the US dollar against the euro and the Brazilian real. The negative impact of (4.8)% resulted from the reduction in volumes, especially late in the year subsequent to an extremely sharp deterioration in the macroeconomic context, which affected a certain number of the Group's end markets, and specifically those of the Polyamide Enterprise, such as the automobile, electronics, construction and textile markets.

## Operating Profit

Rhodia's operating profit amounted to €309 million in 2008, as compared to €422 million in 2007, or a decline of (26.8)%.

This change was principally due to a (12.4)% decline in recurring EBITDA, which fell from €758 million in 2007 to €664 million in 2008. Accordingly, the recurring EBITDA margin declined from 15.9% in 2007 to 13.9% in 2008. Fluctuations in exchange rates, primarily resulting from the depreciation of the US dollar and the Korean won against the euro and, to a lesser extent, the depreciation of the British pound against the euro, had a negative impact of €(22) million.

Capital gains recorded in 2007 resulting from the sale of the Sulfur business in France and the sale of the Di-Calcium Phosphates business explain the negative impact of changes in the scope of consolidation of €(27) million in 2008.

The accelerated deterioration of the macroeconomic environment in the fourth quarter of 2008 generated sharp declines in volumes, specifically in the automobile, electronics, construction and building markets and, to a lesser extent, in the industrial specialties markets. This drop in volume, which mainly concerned the Polyamide, Novecare and Silcea Enterprises, had a negative impact of €(52) million in 2008.

Rhodia continued its policy of price increases, resulting in a positive effect, in local currency, of €440 million. These price increases more than offset the increased cost of raw materials and energy, the negative impact of which, in local currency, totaled €(417) million. While price increases were affected by a negative transactional foreign exchange impact of €(84) million, purchases of raw materials and energy benefited from a positive transactional foreign exchange impact of €18 million. This negative impact of currency fluctuations is in addition to a negative conversion effect of €(12) million, which mainly stemmed from the depreciation of the US dollar and the Korean won against the euro.

The other factors explaining the change in the Group's 2008 operating profit/(loss) compared to that of 2007 are the following:

- a €23 million reduction in fixed expenses, mainly due to savings generated by productivity improvement programs across the Group and the significant rise in research tax credit;
- restructuring costs not including depreciation were reduced by €16 million. The new measures taken in 2008 mainly concerned Polyamide as well as new productivity support functions measures. In 2007, the most significant measures principally related to Organics and the plan to improve productivity at Acetow's Freibourg site in Germany;
- depreciation and amortization increased €(18) million, principally due to asset depreciation.

## Polyamide

### *Net sales*

Polyamide's net sales totaled €1,789 million in 2008, compared to €1,975 million in 2007, or a decline of (9.4)%.

Fluctuations in exchange rates gave rise to a negative exchange rate of (3)%, which mainly resulted from the depreciation of the Korean won and, to a lesser extent, of the US dollar and the Brazilian real against the euro.

At a constant structure and exchange rate, Polyamide's net sales fell (6.2)%. Down (8.1)%, volumes were greatly affected by the crisis in the automobile sector and by the slowdown in demand in the building and textile sectors. Price increases, which had a positive effect of 4.6%, did not totally offset the rise in raw materials and energy costs. The Enterprise's capacity to raise its prices was limited by American competitors that benefited from a weak dollar and implemented an aggressive sales strategy to offset the major slowdown in domestic American markets. The (2.7)% negative impact of exchange rates mainly stemmed from the weak dollar against the Brazilian real and the euro and, to a lesser extent that of the Korean won against the euro.

### *Operating profit*

Polyamide's operating profit amounted to €10 million in 2008, as compared to €156 million in 2007, or a decline of (93.6)%.

This change is explained by a (49.3)% decrease in recurring EBITDA, which amounted to €142 million in 2008 as compared to €280 million in 2007. Thus, recurring EBITDA margin totaled 7.9% in 2008, compared to 14.2% in 2007.

The negative impact of the drop in volumes on the operating profit/(loss) amounted to €(46) million. The positive effect of €87 million from price increases was unable to fully absorb the negative impact of €(134) million resulting from the sharp increase in raw materials and energy costs throughout 2008. Furthermore, Polyamide was adversely affected by the depreciation of the US dollar against the Brazilian real and the euro, which generated a negative transactional foreign exchange effect of €(39) million.

Other operating income and expenses showed a favorable change of €17 million, as exceptional provisions for doubtful debt related to Nylstar France were integrated into 2007. This change partially offsets the €(21) million increase in restructuring costs subsequent to implementing the competitiveness improvement program for European businesses in the fourth quarter.

The other factors explaining the change in Polyamide's operating profit/(loss) include the €1 million reduction in fixed costs, the €(6) million negative foreign exchange rate conversion effect resulting from the weak Korean won against the euro, as well as the €(5) million increase in depreciation and amortization due to the accelerated depreciation of assets affected by the competitiveness improvement programs, specifically the closing of the Ceriano site in Italy.

## Novecare

### *Net sales*

Novecare's net sales grew 4.3%, and totaled €971 million in 2008, compared to €931 million in 2007.

The Enterprise recorded a negative impact of (5.4)% related to exchange rate fluctuations mainly stemming from the depreciation of the US dollar and the British pound against the euro and corresponding principally to the Enterprise's businesses located in the US.

At a constant structure and exchange rate, Novecare's net sales increased 10.8%. The Enterprise continued its voluntary policy of sale price increases, which allowed it to recognize a positive effect of 12.9% as regards sales. Demand in the agrochemistry and oil markets rose throughout the year, and the personal care and household markets held their ground well, even late in the year. The (2.1)% drop in volumes mainly stemmed from the significant slowdown in demand of the industrial formulations, construction and building markets in the fourth quarter.

### *Operating profit*

Novecare's operating profit rose 28.2% and amounted to €91 million in 2008, as opposed to €71 million in 2007.

This improvement came from a 16.5% rise in recurring EBITDA, which reached €127 million in 2008, compared to €109 million in 2007. Recurring EBITDA margin thus rose from 11.7% in 2007 to 13.1% in 2008. Exchange rate fluctuations, mainly arising from the depreciation of the US dollar and the British pound against the euro, generated a negative impact of €(10) million.

Volume growth had a positive effect of €3 millions. The positive impact of significant price increases- €133 millions in total - more than allowed for offsetting the negative impact of €(89) million effect from the rise in raw materials and energy costs. These major price increases were obtained thanks to Novecare's leadership position in its markets, and the close relationships it developed with its customers within the framework of sustainable partnerships.

Lastly, the positive effect of €2 million, related to lower fixed and restructuring costs, totally absorbed the negative impact of €(2)million resulting from the increase in depreciation and amortization.

## Silcea

### *Net sales*

With €746 million in net sales, Silcea recorded slight growth in 2008. Integrating the alumina washcoat business in mid-2007 accounted for a positive structural effect of 1.6%. Fluctuations in exchange rates, primarily resulting from the depreciation of the US dollar and the Korean won against the euro, had a negative impact of (2.3)%.

At a constant structure and exchange rate, Silcea's net sales showed a 2.1% increase. The Enterprise benefited from sustained demand on all its markets until the end of the third quarter. However, in the fourth quarter volumes fell significantly in three segments (rare earths, silicas and diphenols) due to the crisis that struck the automotive and electronics industry and, to a lesser extent, due to the slowdown in demand in the construction and building sectors. Hence, in 2008, volumes had a negative impact of (4.5)%. The Enterprise almost fully passed on increased raw materials and energy costs to its sales prices, which were up by 7.4%.

### *Operating profit*

Silcea's operating profits fell (55.9)% to €41 million in 2008, as compared to €93 million in 2007.

This change resulted from a decline of (23.2)% in recurring EBITDA, which declined from €106 million in 2008 compared to €138 million in 2007. The recurring EBITDA margin declined from 18.8% in 2007 to 14.2% in 2008.

Volumes fell an €(18) million due to a sharp drop in demand for all markets served by the Enterprise at the end of the year.

Price increases in local currencies almost offset the very significant increase in raw materials and energy costs in 2008. Over the year, the positive effect of price increases amounted to €54 million, whereas inflated raw materials and energy costs had a negative impact of €(61) million. In addition, fixed costs fell by €3 million.

The depreciation of the US dollar against the euro and Brazilian real caused a negative transactional foreign exchange effect of €(6) million

Other operating income and expenses had a negative impact of €(17) million mainly corresponding to the revision of study costs for the future ANDRA (Agence Nationale pour la Gestion des Déchets Radifères – French National Agency for the Management of Radiferous Waste) storage center, as well as to the revision of storage costs of radiferous waste that may be stored at the future center, according to the agency's latest data.

Lastly, other factors generating a negative impact on the Enterprise's operational profits are the following:

- a negative conversion effect of €(3) million mainly due to the depreciation of the US dollar against the euro and, to a lesser extent, that of the Korean won against the euro;
- a €(3) million increase in depreciation and amortization;
- a negative structural effect of €(1) million.

## Energy services

### *Net sales*

In 2008, Energy Services' net sales amounted to €233 million, up by more than 15%. This increase mainly resulted from the sales of $CO_2$ emissions credits (CERs). More than 90% of the Enterprises net sales were related to emissions credits (CERs), which grew by more than 10% compared to 2007, thanks to the combined effect of price and volume increases. The activity related to optimizing the Group energy supply also progressed.

### *Operating profit*

Energy Services' operating profits rose 18.2%, increasing from €165 million in 2007 to €195 million in 2008. This improvement resulted from increased recurring EBITDA, which amounted to €213 million in 2008, compared to €181 million in 2007.

The sales of CERs contributed €158 million to recurring EBITDA in 2008, against €135 million in 2007, or 17% growth.

Higher volumes had a positive impact of €26 million. Higher prices - mainly the sales price of CERs on a dynamic carbon market - generated a positive effect of €13 million.

Furthermore, driven by the new CER production and marketing activity, fixed costs rose €(7) million.

Lastly, the Enterprise's operating profit had a negative impact of €(2) million resulting from other operating income and expenses.

## Acetow

### *Net sales*

Acetow's markets proved dynamic throughout 2008 and held up well against the deteriorating macroeconomic environment late in the year. Thus, the Enterprise's sales increased 5.9% to €467 million.

Fluctuations in exchange rates, resulting primarily from the depreciation of the US dollar against the euro, had a negative impact of (1.6)%.

At constant structure and exchange rates, Acetow's sales increased 7.6% thanks to rising volumes and increased prices, which had positive impacts of 4.8% and 7.8% respectively. Throughout the year, the transactional effect of exchange rates had a negative impact of (5.1)%. The efforts initiated in the first half of 2008 to denominate transactions in euros virtually neutralized the Enterprise's exposure to US dollar fluctuations at the end of the year.

### *Operating profit/(loss)*

Acetow's operating profit grew by 28.6% amounting to €54 million in 2008, compared to €42 million in 2007. The Enterprise recognized a positive structural effect of €2 million. Fluctuations in exchange rates, resulting primarily from the depreciation of the US dollar against the euro, had a negative impact of €(1) million.

Recurring EBITDA showed a slight increase of 1.2% and amounted to €84 million in 2008, compared to €83 million in 2007. Recurring EBITDA declined slightly under the mechanical effect of increased sales subsequent to rises in sales prices, edging down from 18.8% in 2007 to 18% in 2008.

Volume increases had a positive effect of €4 million. Increased selling prices, the positive impact of which, in local currencies, totaled €34 million, offset the negative impact of €(27) million caused by the increased cost of raw materials and energy. Although the enterprise succeeded in pratically neutralizing its exposure to currency fluctuations in the fourth quarter, the depreciation of the US dollar against the euro had a negative transactional exchange rate impact of €(15) million.

The competitiveness improvement program launched by the Enterprise in December 2007 permitted the realization of approximately €15 million in savings in 2008, which generated a €4 million reduction in fixed costs compared to 2007.

Lastly the other factors producing a positive effect on the Enterprise's operating profit are the following:

- an €8 million reduction in restructuring costs;
- a €2 million decline in depreciation and amortization;
- a positive effect of €1 million resulting from other operating income and expenses.

## Eco services

### *Net sales*

Eco Services' net sales had very strong growth of 40.4%, reaching €306 million in 2008 against €218 million in 2007.

Fluctuations in exchange rates, resulting from the depreciation of the US dollar against the euro, had a negative impact of (6.9)%.

At a constant structure and exchange rate, Eco Services' sales rose 50.7%. Very significant price increases, occurring in the context of sharp increases in raw materials and energy costs, generated a favorable effect of 56.2%. Reduced volumes in the second half year gave rise to a negative impact of (5.4)%.

### *Operating profit*

Eco Services' operating profit rose 7.4% to €58 million in 2008, compared to €54 million in 2007.

This increase resulted from a 2.9% improvement in recurring EBITDA, which climbed from €70 million in 2007 to €72 million in 2008. Although recurring EBITDA rose, the recurring EBITDA margin declined from 32.1% in 2007 to 23.5% 2008 under the mechanical effect of very large rises in net sales subsequent to significant sales price increases.

Amounting to €114 million, these price rises largely enabled absorbing the price increases in raw materials (sulfur) and energy (natural gas) of €(88) million, as well as increases in fixed costs of €(10) million, which is mainly explained by the uninsured portion of damages caused by the hurricanes in the United States, rising maintenance costs and inflation.

Volumes showed a decline of €(8) million mainly due to the slowdown in demand for sulfuric acid in the fourth quarter of 2008.

Eco Services operates exclusively in the United States, and its operating profit was affected by a negative conversion effect of €(5) million resulting from the depreciation of the US dollar against the euro.

Lastly, depreciation and amortization fell by €1 million.

## Corporate & other

### *Net sales*

Net sales of Corporate & Other (before elimination of inter-company sales) amounted to €303 million. Corporate & other is mainly made up of the Salicylic activities and of the Group's trading activity that it does in its own behalf or on behalf of third parties.

### *Operating profit*

Corporate & Other operating profit consisted of an expense of €(140) million in 2007, compared to €(159) million in 2007.

Recurring EBITDA improved slightly, to €(80) million in 2008, compared to €(103) million in 2007.

Corporate & Other operating profit is made up of the margins made on Salicylic and trading activities, as well as expenses related to the Group's corporate services and functions, restructuring costs related to the Group's reorganization, expenses related to the additional item of environmental provisions relative to suspended sites and activities, and capital gains or losses from divestments.

Gains recorded in 2007 resulting from the disposal of the Sulfuric acid business in France and the sale of the Di-Calcium Phosphates business mainly explain the negative structural effect of €(28) million in 2008.

The €(11) million increase in depreciation stems from accounting reclassifications and impairment losses mainly related to asset depreciation. These impairment losses were offset by a lower level of depreciation following the closing of sites.

Moreover, the conclusion of the reorganization and restructuring measures, specifically in France (closing of the Mulhouse Dornach site and the paracetamol activities at the Roussillon site), provided for in 2007, caused a reduction in restructuring costs of €28 million as compared to 2007.

Lastly, other operating income and expenses had a positive impact of €1 million, which mainly resulted from the difference between the gains from the disposal at the Rhodia distribution network that operated in Southeast Asia, Australia and Taiwan to Brenntag in 2008, and the favorable adjustment in 2007 for provisions pending litigation, specifically tax audits and certain other litigation.

## 9.3.5 OTHER INCOME STATEMENT ITEMS

| *(in millions of euros)* | **2007** | **2008** | **Change in %** |
|---|---|---|---|
| **Operating profit/(loss)** | **422** | **309** | **(26.8)%** |
| Profit/(loss) from financial items | (294) | (178) | |
| Share of profit/(loss) of associates | 2 | (1) | |
| Income tax benefit /(expense) | (83) | (55) | |
| Profit/(loss) from continuing operations | 47 | 75 | |
| Profit/(loss) from discontinued operations | 84 | 32 | |
| Net Profit/(loss) for the period | 131 | 107 | |
| **Attributable to equity holders of Rhodia S.A.** | **129** | **105** | **(18.6)%** |
| Attributable to minority interests | 2 | 2 | |

### Profit / (loss) from financial items

Net financial income amounted to €(178) million compared to €(294) million for the financial year ended December 31, 2007. This change mainly corresponds to the absence of non-recurring refinancing-related transaction expenses.

In 2007, refinancing-related expenses included expenses recorded for the repurchase of high yield notes, amounted to €(96) million.

Recurring interest expenses totaled €(135) million in 2008 as compared to €(154) million in 2007, or a decrease of €19 million. This decline was mainly due to the impact of the full year cost reduction of the debt from refinancing operations finalized during the first half of 2007.

### Profit / (loss) of associates.

Profit/(loss) of associates totaled €(1) million in 2008.

### Income tax benefit / (expense)

For the year ended December 31, 2008, the Group recognized an income tax expense of €(55) million. This tax expense largely corresponded to the tax recognized for US, German, Brazilian, and Asian entities. For the French and British tax businesses, the Company has not changed its estimate of the likelihood of recovery of deferred tax assets. Hence, their deferred tax assets were recognized up to the amount of deferred tax liabilities so that the deferred tax position of the French and British tax groups show a zero value.

### Assets held for sale and discontinued operations

See Note 10 (Assets held for sale and discontinued operations) to the consolidated financial statements in chapter 20.1.3.3 of this reference document.

### Minority interests

The share of income corresponding to minority interests at the end of 2008 amounted to €2 million.

### Income attributable to Rhodia 's equity holders

Earnings attributable to Rhodia's equity holders totaled €105 million as of December 31, 2008, compared to €129 million as of December 31, 2007.

# 10 Cash and capital resources

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## 10.1 Information on the Group's capital resources

This section provides an analysis of the consolidated balance sheet at December 31, 2008, compared to that of December 31, 2007.

### 10.1.1 WORKING CAPITAL

Operating working capital amounted to €562 million at December 31, 2008 as compared to €587 million at December 31, 2007. The ratio of operating working capital to net sales and other revenue of the activity amounted to the same level at December 31, 2008 as it did at December 31, 2007— 10.8%.

### 10.1.2 CONSOLIDATED NET DEBT

Total borrowings, defined as the sum of current and non-current borrowings and financial debt, totaled €1,831 as of December 31, 2008 compared to €1,918 million as of December 31, 2007. This decline is mainly related to fewer sales of trade receivables due principally to the Group's surplus cash position.

Cash and cash equivalents and other current financial assets increased from €434 million at December 31, 2007, to €520 million at December 31, 2008.

Consolidated net debt (defined as non-current and current borrowings less cash and cash equivalents and other current financial assets) was reduced to €1,311 million at December 31, 2008, compared to €1,484 million at December 31, 2007.

### 10.1.3 RETIREMENT BENEFITS AND SIMILAR OBLIGATIONS

Rhodia's obligations were measured and accounted for at December 31, 2008 in accordance with amended IAS 19 – Employee Benefits.

Retirement obligations include retirement and other post-employment benefits, including termination benefits.

Other benefits granted to employees primarily consist of bonuses related to length of service of employees serving in France, the United States of America and the United Kingdom.

Total obligations corresponding to liabilities on the balance sheet amounted to €1,248 million at December 31, 2008, compared to €1,246 million at December 31, 2007.

A detailed description of the analysis of retirement benefits and similar obligations is provided in Note 27 (Retirement benefits and similar obligations) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 10.1.4 PROVISIONS

Provisions classified under current and non-current liabilities totaled €416 million at December 31, 2008, compared to €456 million at December 31, 2007.

These provisions are analyzed by type as follows:

- restructuring provisions, covering employee expenses and site closure costs;
- environmental provisions. Rhodia periodically assesses its environmental liabilities and future possible remediation measures. The provision is calculated based on future discounted cash flows; and
- other provisions.

A detailed description of the analysis of provisions by type is provided in Note 28.3 (Restructuring) and note 28.4 (Environment) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 10.1.5 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities totaled €33 million at December 31, 2008, compared to €29 million at December 31, 2007.

### 10.1.6 SHAREHOLDERS' EQUITY

Shareholders' equity amounted to € (356) million at December 31, 2008, compared to the € (368) million at December 31, 2007.

On January 15, 2008, Rhodia increased its capital by €8,617,512 in accordance with its 2006 plan for the allotment of free shares, or by 718,126 shares;

In 2008, the exercise of share subscription options resulted in the issuance of 1,111 shares.

At December 31, 2008, the share capital consisted of 101,087,068 shares with a nominal value of €12 per share.

# 10.2 Group's consolidated cash flows

The following table sets forth consolidated cash flows at December 31, 2008, compared to December 31, 2007.

| *(in millions of euros)* | At December 31, 2007 | At December 31, 2008 |
|---|---|---|
| Cash Flow | | |
| Net profit for the year | 129 | 105 |
| Net cash flow from operating activities before changes in working capital | 413 | 375 |
| Net cash from operating activities | 413 | 319 |
| Net cash from/(used by) investment activities | (52) | (82) |
| Net cash from/(used by) financing activities | (412) | (129) |
| Effect of foreign exchange rate changes | (1) | (31) |
| Net increase/(decrease) in cash and cash equivalents | (52) | 77 |

## 10.2.1 NET CASH FROM OPERATING ACTIVITIES

Net cash from operating activities amounted to €319 million in 2008, compared to €413 million in 2007.

This change results from the decline in net cash flow from operating activity before changes in working capital, which decreased from €413 million in 2007 to €375 million in 2008, and the change in working capital (defined as trade and other receivables, plus changes in inventory less trade and other payables plus changes in other current assets and liabilities). In 2007 changes in working capital requirements had no impact on cash, while in 2008 these requirements increased by €56 million. This rise in working capital mainly comes from the change in inventory due to increases in purchase price of raw materials and energy.

## 10.2.2 NET CASH FROM/(USED BY) INVESTMENT ACTIVITIES

Net cash flow from investing activities accounted for an outflow of €82 million in 2008, compared to an outflow of €52 million in 2007.

The factors explaining this €30 million increased use of cash flow were:

- a €17 million reduction in purchases of property, plant and equipment, and a €25 million decline in the acquisition of tangible fixed assets and other non-current assets (in particular a €15 million reduction in total software acquisitions as compared to 2007);
- a €64 million decline in income realized from the disposal of assets, which amounted to €209 million in 2008, compared to €273 million in 2007. In particular, Rhodia finalized the sale of its distribution network, which operated in Southeast Asia, India, Australia and Taiwan, to Brenntag, as well as the sale of its Isocyanates business to Perstorp in 2008, whereas in 2007 it finalized the sale of its Silicones business to China National Bluestar Corporation, as well as the sale of its phosphates production business in Spain to Misa Inc.;
- the absence of acquisitions of entities in 2008 generated a €17 million improvement, specifically due to the acquisition of the alumina washcoat business from the US group Grace & Co in 2007;
- a €25 million decrease in the repayment of non-current loans, which generated a €9 million negative cash flow in 2008 as compared to a €16 million positive cash flow in 2007.

## 10.2.3 NET CASH FROM/(USED BY) FINANCING ACTIVITIES

Cash flow from refinancing activities represented an outflow of €(129) million in 2008, compared to €(412) in 2007. This reduction in net outflow is related to the absence of significant refinancing activities subsequent to finalizing the restructuring of Rhodia's debt in 2007, specifically with the early repurchase of most "High Yield" notes remaining in February and May 2007, partially offset by the OCEANE issuance in April.

# 10.3 Liquidity and capital resources

## 10.3.1 RHODIA'S FINANCING

Given the refinancing undertaken in 2006 and completed in 2007, essentially the €1,100 million of Floating Rate Notes due in 2013 and a convertible bond (OCEANE) totaling €595 million maturing in 2014, Rhodia expects its liquidity requirements to be assured until maturity of the syndicated credit line in June 2012.

The Group's capacity to repay and/or refinance its debts at maturity will depend on its ability to generate positive operating cash flows and on market conditions.

For further information, see Note 24 (Borrowings and financial debt), Note 24.2 (Analysis of borrowings by maturity and Note 26.7 (Liquidity risk) to the consolidated financial statements in chapter 20.3.1.3 of this reference document, as well as chapter 4.1.3 of this reference document regarding financial risks.

### 10.3.1.1 SYNDICATED CREDIT LINE

In March 2007, Rhodia entered into a multi-currency syndicated credit facility with a limited number of lending banks for €600 million ("*Multicurrency Revolving Credit and Guaranty Facility*" or "RCF") maturing on June 30, 2012. The interest rate applied to the borrowed sums corresponds to the bank discount rate applicable to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio. The syndicated credit facility can be used in the form of bank loans and/or guarantees. In 2008, it was used exclusively for bank guarantees.

For further information, see Note 24.4 (Commentary on financings) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 10.3.1.2 HIGH YIELD NOTES AND OCEANE BONDS

As of December 31, 2008, following refinancing operations carried out in 2006 and 2007, Rhodia's bond debt is mainly comprised of:

- €1,100 million in high-yield notes (Floating Rate Notes) due October 15, 2013, bearing interest at three-month Euribor plus 2.75%. In December 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of €33 million, thus reducing the principal amount of the notes to €1,067 million. The redemption price was €17 million.
- bonds with the option of conversion and/or exchange into new or existing shares (OCEANEs) for a nominal amount of €595 million, with maturity on January 1, 2014, and bearing interest at an annual rate of 0.5%, OCEANE bonds carry a 13.22% redemption premium. A repurchase option may be exercised by Rhodia under certain conditions.

### 10.3.1.3 TRADE RECEIVABLE SECURITIZATION AGREEMENTS

Rhodia has another financing source by which it sells certain of its uncollected trade receivables.

In the framework of multi-year asset securitization agreements entered into with various banks or securitization of trade receivables agreements, certain Group companies sell their uncollected receivables. These sales are performed, either with recourse, or directly to special purpose entities effectively controlled by Rhodia which retain the risks and rewards incident to the ownership of the disposed assets. As a result, these receivables are still recognized on the balance sheet.

Two asset securitization programs, one in Europe and one in North America, were set up in 2005.

For further information, see Note 24.4 (Commentary on financings) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

### 10.3.1.4 UNCOMMITTED CREDIT FACILITIES OF RHODIA AND ITS SUBSIDIARIES

Rhodia and certain of its subsidiaries, including unconsolidated subsidiaries, have entered into a number of uncommitted facilities, overdraft authorizations and letters of credit with various financial institutions. The majority of these facilities exist to finance working capital requirements and for general corporate purposes. These facilities do not typically have a specified maturity and the lenders may generally cancel these facilities with relatively short notice.

The uncommitted credit facilities and overdraft authorizations of consolidated subsidiaries amounted to €79 million at December 31, 2008.

## 10.3.2 OFF-BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Note 31 (Off-balance sheet commitments and contractual obligations) to the consolidated financial statements in chapter 20.3.1.3 of this reference document, presents the off-balance sheet commitments and contractual obligations mentioned above.

During the March 2007 implementation of the "RCF" Multicurrency Revolving Credit and Guaranty Facility, Rhodia S.A. provided collateral security made up of a pledge of the securities of one of its subsidiaries and a pledge of a secured loan of another of its subsidiaries. At December 31, 2008, this surety largely covered the amount drawn under the RCF, which amounted to €66 million at such date.

### 10.3.3 LIQUIDITY

Rhodia had €492 million in cash and cash equivalents at December 31, 2008, compared to €415 million at December 31, 2007.

Rhodia also had €10 million in other liquid, current financial assets at December 31, 2008.

The Rhodia Group also had €534 million available under its syndicated credit facility.

The Group's liquidity was €1,036 million at December 31, 2008, compared to €959 million at December 31, 2007.

## 10.4 Information on any restrictions on the use of capital resources

See chapters 4 and 10.3 above.

## 10.5 Information on anticipated sources of funds needed to fulfill commitments

Information concerning financing sources expected or needed to meet commitments, as described in chapters 5.3 and 8.1, appear in chapter 10.3, above.

# 11 Research and development

contents



The following information is incorporated by reference into this reference document:

- the section "Key Figures 2007" of chapter 11 (Research and Development), set forth on page 69 of the Company's reference document filed with the *Autorité des Marchés Financiers* on March 31, 2008, under number D. 08-0182;
- the section "Key Figures 2006" of chapter 11 (Research and Development), set forth on page 74 of the Company's reference document filed with the *Autorité des Marchés Financiers* on March 30, 2007, under number D.07-0257.

**KEY FIGURES 2008**

| | |
|---|---|
| R&D Personnel | 850 |
| Number and locations of research and technologies centers | 5 (Aubervilliers, Lyon, Shanghai, Paulinia, Bristol) |
| Expenses (1) dedicated to R&D (cash-flow total) | €102 million |
| Capitalization R&D | 15.1 million |
| Number of registered patents | 98 |

*(1) Gross research and development expenses before deduction for disposed assets, capitalization of development costs and subsidies (research tax credits).*

With more than 20% of its sales from new products (less than 5 years old), Rhodia's Research and Development (R&D) contributes to the development of existing activities of the Group and to strengthening its worldwide leadership positions. Its mission is to conceive custom-made solutions and products that are quickly marketable and value-creating. The mission is also to identify new opportunities to generate profitable internal growth. It is made up of a solid, dynamic, international network of skills and experts. This network provides technical support for commercial actions and conceives of incremental improvement projects and break-through projects intended to improve the performance of industrial processes or result in the launch of new products.

# 11.1 An ambitious, growth-producing strategic vision

The collective awareness of the stakes of sustainable development and the establishment of new regulations will create new needs that led Rhodia to structure its R&D around three axes. Its lifecycle analysis process, measuring the impact of its products and processes on the environment from their conception (choice of raw materials) to the end of the lifecycle fits into this strategy perfectly.

## ENVIRONMENT AND CLIMATE CHANGE

A committed player in sustainable development, Rhodia is a leader in the development of greenhouse gas emission reduction technologies and pollution control solutions for cars. It is constantly intensifying its research on new products capable of combining performance and respect for the environment and health. Thus, its line of Rhodiasolv Iris solvents launched successfully in 2007 represents a true alternative to traditional, high-performance but toxic solvents.

## NATURAL RESOURCES AND ENERGY

A responsible industrial company, the Group wants to promote the use of renewable raw materials and to optimize the use of natural raw materials. In this context, the *"Green Carbon"* project was launched in 2008 with the goal of developing a chemistry based on renewable resources derived from land and sea agro-resources.

## COMPETITIVENESS OF PROCESSES

Having the highest-performance technologies and the best expert knowledge available requires constant monitoring and analysis of the competitiveness of existing processes by the Rhodia R&D teams. Moreover, special efforts have been dedicated to the improvement of the productivity of processes. In 2008. this led to the development and filing of an innovative process intended to produce hydroquinone and catechol independently. Currently in the industrial trial phase, the new process will allow the production of these products to be adjusted to market demands.

# 11.2 Product and process innovations to develop Rhodia's growth platforms

## POLYAMIDE

Rhodia's technical teams possess internationally recognized know-how in the area of processes related to the polyamide chain. In line with the competitiveness challenges for these processes, the teams mobilized in 2008 to optimize the production capacities of the phenol units by changing the raw materials and improving the selectivity of reactions. A new generation of crystallizers also led to a significant improvement in the adipic acid unit utilization rate.

An activity area with high levels of innovation, the polyamide-based technical plastic lines developed by Rhodia contribute high added-value functions and particularly mechanical, chemical and thermal properties meeting the needs of the automobile, electronic components or electronics, industrial goods and consumer sectors. With more than twenty new product lines launched in five years, the Group's high capacity for innovation in the area is based on recognized expertise and know-how, but also on the in-depth knowledge of its customers' innovation processes obtained from the close collaboration between Rhodia's R&D teams and those of its customers.

The new product lines developed are Techynl Star™, a very high fluidity polyamide PA 6.6 which bridges the gap between standard polyamides and high-cost metal or technical plastic solutions and Technyl® HP, a unique plastic resistant to ever-higher temperatures under the hood (in particular, the air intake system).

In addition, a new "intelligent" fiber was launched in 2008. Named Emana™, this fiber contains a patented additive that, integrated into sportswear or undergarments, gives it thermoregularity functions and activates microcirculation of the blood. This exclusive technology was developed in the Paulinia (Brazil) research laboratory.

Additional information is provided in the overview of the Polyamide Enterprise's activities in chapter 6.1 of this reference document.

## NOVECARE

Innovation is a strategic component for Novecare. Its growth is structured around break-through projects targeting high-growth markets and shorter-term projects focused on the design of rapidly marketable customized formulations. The advances and successes of these programs are based particularly on the excellence of the R&D teams in the areas of skills in rheology, surface modification, active ingredient distribution and durable formulation.

On the personal care and detergents market, Rhodia's worldwide R&D team has launched two new revolutionary technologies: Miracare® Plaisant, a sulfate-free formulation for body care and shampoo, and Mirasheen® Star, an agent that contributes new sensations of brilliance and luxury to traditional formulations.

In the field of high-performance solutions, the unique skills of Rhodia's R&D led to the launch of two new herbicide activators, Geronol CF Power and AgRho KFKC 1500. These new additives to the ecological profile offer a better quality price ratio, better effectiveness and ease and safety of usage. In addition a new range of biodegradable biocides, Tolcide PSA, was launched in 2008.

In the area of industrial formulations, Rhodia has broadened its range of environmentally-friendly solvents. Launched in 2008, Rhodiasolv® Tex-10 is used for cleaning textiles.

In the area of phosphorous derivatives for the chemicals and pharmaceuticals industry, in 2008 Rhodia launched Rhodaphos® PTA, a new phosphorous ligand in line with Rhodia's strategy of sustainable development, which allows complex metallic molecules used as catalysts to dissolve in water.

Lastly in the sector of paints and coatings, Novecare has widened its Sipomer® product range with new monomers allowing performance improvements for formulations used for automobiles, wood paneling and water-based paints: Sipomer® PAM 5000 launched in 2008, improves the performance of water-based matte paints.

Additional information is provided in the overview of the Novecare Enterprise's activities in chapter 6.2 of this reference document.

## SILCEA

As the inventor of high-performance silicas for energy-efficient tires, Rhodia is the market leader and is working with leading tire manufacturers throughout the world. In 2008, the R&D teams contributed to the commercial development of the Zeosil® Premium line and the start-up of construction of a new production unit in Quingdao (China). Rhodia's researchers are mobilized to develop the next generation of materials that will provide green tires for heavy vehicles. The recent agreements signed with the Dow Corning company will allow Rhodia to respond to the challenges of break-through technology associated with this ambition.

On the automobile catalysis market, the success of integrating the teams from the alumina washcoat business led to the development of new catalysts for the treatment of NOx gases from Diesel, currently being evaluated by the Silcea customers. On this same market, the new Eolys™ (Diesel) and Optalys™ (gasoline) grades, based on innovative mixed oxide structures, were patented and marketed, enlarging the spectrum of vehicles that can be equipped with Rhodia technologies.

In 2008, process experts from the Group mobilized to ensure the successful start-up and ramp-up of the new diphenols production unit in Zhenjiang (China). Completely reconceived, especially with regard to the crystallization and treatment steps, this unit is positioned as the worldwide reference product due to its performances in terms of productivity and respect for the environment.

Additional information is provided in the overview of the Silcea Enterprise's activities in chapter 6.3 of this reference document.

## 11.3 Continuation of the globalization of Rhodia R&D

On November 19, 2008, Rhodia inaugurated its new international R&D center based in Shanghai (China). In the heart of the Group's research and development unit, it will contribute to the realization of ambitious growth and development goals by ensuring:

- support for Rhodia's industrial operations, based on its expertise in chemical engineering and its actions to improve processes;
- the specific development of technical plastics for the electric, electronic and automobile markets;
- the design of high-performance formulations to serve the detergents, cosmetics and industrial applications market;
- the design of products based on rare earths for the energy-efficient lights market and the market for high-precision polishing of electronic parts of the LCD screen, glass hard drive, etc. type.

Spread over more than 6,000 $m^2$, this center has ultramodern scientific equipment with a special "pilot bay" in a modular design. This allows scientists to extrapolate their laboratory studies more rapidly and efficiently, under conditions closer to industrial realities. It now has a team of 70 researchers who contributed to some fifteen inventions pending patenting.

## 11.4 In the heart of the international scientific community

In 2008, Rhodia created the Rhodia – Pierre Gilles de Gennes Prize for Science and Industry. This international prize rewards major scientific or technological work in the area of chemistry, physics or physical chemistry that has had a major impact on bringing together academic research and the industrial world. Through this prize, Rhodia reaffirms its commitment to innovation, its closeness to the scientific community and its intention of contributing to the development of applied science in the service of human progress and sustainable development.

On May 16, 2008, Jean-Pierre Clamadieu, Chairman and Chief Executive Officer of Rhodia, in the presence of Ms Valérie Pécresse, Minister of Higher Education and Research, and the members of Jury, three of whom are Nobel Prize winners, awarded this prize for the first time to Sir Richard Friend, Professor at the University of Cambridge (UK).

Sir Richard Friend was recognized for his scientific work that led to the discovery of semiconductor and luminescence effects in conjugated polymers. Aside from this academic research, he has been employed in developing concrete applications ranging up to their production and marketing.

# 12 Trend information

In early 2009, the climate of severe economic downturn and general business uncertainty and the erosion of demand have created a persistent lack of visibility for Rhodia.

Since December 2008, Rhodia's main end markets have not shown signs of recovery. Furthermore, even if raw materials and energy costs have eased, Rhodia does not expect to be able to take advantage of this decline in the first quarter of 2009, as it will continue to use inventory acquired previously at a high prices. This situation will continue to put pressure on EBITDA in the first quarter of 2009.

The Group has moved swiftly to address this difficult economic context with new structural plans to cut costs and through greater vigilance as regards financial discipline.

Adjusting to the challenging economic environment, the Group has established aggressive action plans to generate cash and enhance cost competitiveness in order to emerge stronger out of the crisis.

**In the short term, proven effective measures for cash preservation:**

Due to ongoing depressed volumes, the Group will continue to focus sharply on reducing spending and on adapting its cost structure to production levels. The key measures which have been, and will continue to be, implemented include flexible working arrangements and scheduling, an end to contracts for temporary workers (already reduced by 500 since October 2008), temporary in-sourcing of subcontracted work, hiring and salary freezes.

The Group will also concentrate on the optimization of its manufacturing levels with a day-to-day adjustment of sourcing to effective production as well as the tightest management of inventories.

Going forward, the Capital Expenditure policy will be even more selective until the first signs of economic recovery emerge, with a target level between €180 and €200 million in 2009.

**Reinforcement of the Group's cost competitiveness:**

Beyond the above immediate cost reduction measures, the Group will continue to carry out structural productivity enhancement plans across its Enterprises and support Functions, including a reinforcement of the Polyamide plan already under execution. By 2011, these actions are expected to allow structural savings of €150 million compared to 2008.

In 2009, the Group's priority will be to generate Free Cash Flow.

Concerning more specifically the six Enterprises, for the first quarter of 2009:

- **Polyamide** anticipates a low level of volumes, insofar as demand remains at a very low level. In addition, the de-stocking of still costly raw materials acquired by the Group will inevitably affect the Enterprise's profitability for the quarter;

- **Novecare** remains confident in the resilience of both Home & Personal Care and Agrochemical businesses. However, as the price of oil stands at very low levels and wells are consequently under-utilized, Novecare expects a decline in sales in its Oilfield Chemical segment. Its activity levels in the industrial sector remain weak;

- **Silcea** should continue to suffer from the global crisis in the automotive and electronic markets and from the generalized low level of industrial activity, which have not so far shown signs of recovery;

- **Energy Service**s expects to generate around 13 million tons of CERs in 2009, of which 55% are already hedged at €15.5 per ton. CER volumes for the first quarter of 2009 should be lower than those of the preceding quarter, due to seasonality;

- **Acetow** should continue to benefit from steady demand; and

- **Eco Services** should continue to show good resilience under still favorable pricing.

# 13 Forecasts or estimates of profits

Rhodia will not publish forecasts or estimates of profits for fiscal year 2009.

# 14 Administrative and Management bodies

contents



## 14.1 Information on administrative and Management bodies

### 14.1.1 BOARD OF DIRECTORS

#### 14.1.1.1 Composition and development of the Board of Directors since the beginning of 2008

There are currently ten members of Rhodia's Board of Directors. The Company bylaws state that the Board must have a minimum of three and a maximum of 18 members.

The composition of the Board of Directors has undergone the following changes since the beginning of 2008:

- The appointment of Mr. Hubertus Sulkowski as director ended at the close of the shareholders' general meeting of May 16, 2008;
- Ms. Laurence Danon was appointed as director of the Company during the shareholders' general meeting of May 16, 2008;
- At the meeting of the Board held on February 24, 2009 , Mr. Pierre Lévi indicated that he did not want his appointment as Director renewed. He resigned on February 25, 2009.

Mr. Jean-Pierre Clamadieu and Mr. Jacques Khéliff are the only two Directors who hold executive positions within the Group.

There is no non-voting Director on the Board of Directors.

## 14.1.1.2 INFORMATION ABOUT DIRECTORS

| Names | Status of Appointment Nomination / Renewal Term of appointment | Positions and other offices in French or foreign companies during the last five years | Number of Rhodia shares held [(1)] | Professional activity during the last five years |
|---|---|---|---|---|
| **Mr. Jean-Pierre Clamadieu** (born August 15, 1958) | Appointment by the Board of Directors meeting of October 3, 2003<br>Ratification of the appointment by the general shareholders' meeting of March 31, 2004<br>Renewal of the appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2008. | *Current positions:*<br>*In France:*<br>Delegate of the Manager of Rhodia Participations (Rhodia)<br>Director of Faurecia and SNCF<br>*Positions during the last five years, no longer exercised:*<br>Directors of various subsidiaries of Rhodia Group | 103,934<br>He also holds 18,388 shares in the mutual fund "Actions Rhodia" from the Employee Stock Ownership Program, corresponding to the same number of Rhodia shares | Chairman and Chief Executive Officer of Rhodia since March 17, 2008<br>Chief Executive Officer of Rhodia from October 3, 2003 to March 17, 2008<br>Chairman of Rhodia from October 3, 2003 to March 30, 2004 |
| **Mr. Aldo Cardoso** (born March 7, 1956) | Appointment by the Board of Directors meeting of July 28, 2004<br>Ratification of the appointment by the general shareholders' meeting of June 23, 2005<br>Renewal of the appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2008. | *Current positions:*<br>*In France:*<br>Director of GDF-Suez, Gecina and Imerys<br>Censor of Bureau Veritas and AXA Investment Managers<br>*Outside France:*<br>Director of Mobistar (Belgium)<br>*Positions during the last five years, no longer exercised:*<br>Director of Penauille Polyservices (from June 2004 to June 2005), AXA Investment Managers, Orange and Accor | 2,156 | |
| **Mr. Pascal Colombani** (born October 14, 1945) | Appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2008. | *Current positions:*<br>*Director of:*<br>*In France:*<br>Alstom S.A., Technip S.A. and Valeo S.A.<br>*Outside of France:*<br>British Energy Group plc (United Kingdom)<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Director of the Institut Français du Pétrole (2001-2006)<br>Chairman of Association Française pour l'Avancement des Sciences (2003-2006) | 1,157 | Senior Advisor of A. T. Kearney since 2003<br>Senior Advisor of Arjil Banque<br>Senior Advisor of Detroyat & Associés |
| **Mr. Jérôme Contamine** (born November 23, 1957) | Appointment by the general shareholders' meeting of March 31, 2004<br>Renewal of the appointment by the general shareholders' meeting of May 16, 2008<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2011. | *Current positions:*<br>*In France*<br>Director of Valeo S.A.<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Director of various subsidiaries of Groupe Veolia Environnement<br>*Outside of France:*<br>Director of various subsidiaries of Groupe Veolia Environnement | 1,250 | Executive Vice President;<br>Chief Financial Officer of Sanofi-Aventis (since March 16, 2009)<br>Executive General Manager of Veolia Environnement (from May 2003 to January 2009) |

*(1) Article 11 of the Company bylaws provides that a director must hold a minimum of 100 shares; the internal rules of the Board of Directors recommends that each director hold a significant number of shares in the Company, equivalent to approximately one year of attendance tokens.*

| Names | Status of Appointment Nomination / Renewal Term of appointment | Positions and other offices in French or foreign companies during the last five years | Number of Rhodia shares held (1) | Professional activity during the last five years |
|---|---|---|---|---|
| **Ms. Laurence Danon** (born January 6, 1956) | Appointment by the general shareholders' meeting of May 16, 2008<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2011. | *Current positions:*<br>*In France:*<br>Director of Plastic Omnium S.A.<br>*Outside of France:*<br>Director of Diageo Plc and Experian Plc<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Director of Lafuma | 1,000 | Member of the Supervisory Board of Edmond de Rothschild Corporate Finance<br>Chief Executive Officer of Printemps (2001 – February 2007) |
| **Mr. Michel de Fabiani** (born June 17, 1945) | Appointment by the Board of Directors meeting of April 29, 2003<br>Ratification and renewal of the appointment by the general shareholders' meeting of March 31, 2004<br>Renewal of the appointment by the general shareholders' meeting of May 16, 2008<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2011. | *Current positions:*<br>*In France:*<br>Vice-President of the Franco-British Chamber of Commerce and Industry;<br>Chairman of Hertford British Hospital Corporation<br>Director of BP France<br>Member of the supervisory board of Vallourec<br>*Outside of France:*<br>Director of Star Oil Mali SEMS Morocco and EB Trans Luxembourg<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Director of Institut Français du Pétrole | 3,125 | Chairman and Chief Executive Officer of BP France (from 1995 to 2004)<br>Vice-President of Europe Groupe BP (from 1999 to 2004) |
| **Mr. Jacques Khéliff** (born October 19, 1953) | Appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2008. | | 17,590<br>He also holds 363 shares in the mutual fund "Actions Rhodia" under the Employee Stock Ownership Program, corresponding to the same number of Rhodia shares | Manager of Sustainable Development of Rhodia since October 2003 |
| **Mr. Olivier Legrain** (born September 30, 1952) | Appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2008. | *Current positions:*<br>*In France:*<br>Chief Executive Officer of Materis since January 2001, Chairman of Materis SAS, Materis Corporate Services SAS, Materis Adjuvants SAS, Materis Aluminates SAS, Parex Group SAS, Materis Paints SAS, Chryso SAS, Materis Peintures SAS, Chairman and Chief Executive Officer of Kerneos S.A.<br>Director of ParexLanko S.A., Parrot, Terreal<br>Chairman of Solaire SAS, Trèfle SAS and Trèfle 2<br>Manager of Solaire Production SARL<br>*Outside of France:*<br>Chairman of Materis Holding Luxembourg, S.A., Manager of Materis Luxembourg SARL, Member of the Board of Management of Materis Parent SARL (Luxembourg) | 227 | Chairman and Chief Executive Officer of Materis since January 2001 |

*(1) Article 11 of the Company bylaws provides that a director must hold a minimum of 100 shares; the internal rules of the Board of Directors recommends that each director hold a significant number of shares in the Company, equivalent to approximately one year of attendance tokens.*

| Names | Status of Appointment Nomination / Renewal Term of appointment | Positions and other offices in French or foreign companies during the last five years | Number of Rhodia shares held (1) | Professional activity during the last five years |
|---|---|---|---|---|
| **Mr. Pierre Lévi** * (born February 19, 1955) | Appointment by the Board of Directors meeting of October 25, 1999<br>Ratification of the appointment by the general shareholders' meeting of April 18, 2000<br>Renewal of the appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general meeting called to approve the financial statements for 2008<br>Resigned February 25, 2009 | *Current positions:*<br>*Outside of France:*<br>Director of Compagnie Deutsch (United States) CIS (Italy), Cotusal (Tunisia) and USE (Spain)<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Chairman and Chief Executive Officer of Faurecia S.A.<br>Chairman of Faurecia Automotive Holdings<br>Chairman of the executive board Faurecia Investissements<br>*Outside of France:*<br>Director Faurecia Exhaust Systems, Inc. and Faurecia Exhaust Systems, LLC (United States) | 4,279<br>He also holds 1,551 shares in the mutual funds "Actions Rhodia" and "Rhodia 2000" under the Employee Stock Ownership Program, corresponding to 738 Rhodia shares | Chairman of the executive board of the Société d'Investissement Saliniers (Groupe Salins) and Chairman and Chief Executive Officer of Compagnie des Salins du Midi and des Salines de l'Est since July 2008<br>Chairman and Chief Executive Officer of Faurecia from May 22, 2000, to August 2, 2006 |
| **Mr. Francis Mer** (born May 25, 1939) | Appointment by the Board of Directors meeting of May 13, 2004<br>Ratification of the appointment by the general shareholders' meeting of June 23, 2005<br>Renewal of the appointment by the general shareholders' meeting of June 23, 2005<br>Appointment terminates after the general meeting called to approve the financial statements for 2008 | *Current positions:*<br>*In France:*<br>Chairman of the supervisory board of SAFRAN<br>*Outside of France:*<br>Director of Adecco (Switzerland)<br>*Positions during the last five years, no longer exercised:*<br>*In France:*<br>Chairman of the supervisory board of the Foundation for Innovation Policy (Fondation pour l'Innovation Politique), Director of Alstom<br>*Outside of France:*<br>Director of Inco (Canada) | 116 | Minister of the Economy, Finance and Industry (from May 7, 2002, to March 30, 2004) |
| **Mr. Yves René Nanot** (born March 27, 1937) | Appointment by the Board of Directors meeting of October 25, 2002<br>Ratification of the appointment by the general shareholders' meeting of April 29, 2003<br>Renewal of the appointment by the general shareholders' meeting of March 31, 2004<br>Renewal of the appointment by the general shareholders' meeting of May 16, 2008<br>Appointment terminates after the general shareholders' meeting called to approve the financial statements for 2011. | *Current positions:*<br>*In France:*<br>Chairman and Chief Executive Officer of Ciments Français<br>Director of Provimi<br>*Outside of France:*<br>Director of: Italcementi (Italy), and of the subsidiaries of Ciments Français: Essroc (USA), Cimar (Morocco), Zuari Cement Ltd (India), Set Group Holding (Turkey), Asia Cement Public Co Ltd (Thailand), Suez Cement Co (Egypt)<br>*Positions during the last five years, no longer exercised:*<br>Director of Centre Technique Group S.p.A and Imerys | 11,000 | Chairman and Chief Executive Officer of Ciments Français (since July 1993)<br>Chairman of the Board of Directors of Rhodia (from March 31, 2004 to March 17, 2008)<br>Vice President of Rhodia (from October 3, 2003 to March 30, 2004) |

*(1) Article 11 of the Company bylaws provides that a director must hold a minimum of 100 shares; the internal rules of the Board of Directors recommends that each director hold a significant number of shares in the Company, equivalent to approximately one year of attendance tokens.*

The Directors' professional address for the purposes of their functions in Rhodia is the registered office of Rhodia.

*(*) Following a lawsuit against him in his capacity as the chairman and chief executive officer of Faurecia in a case of corruption, Mr. Pierre Lévi entered into a settlement agreement with the public prosecutor in Frankfurt (Germany) in June 2007, involving a payment of €300,000 to charitable associations and a one-year suspended sentence.*

### 14.1.1.3 MANAGEMENT PRACTICES

At the time of the meeting of the Board of Directors on March 17, 2008, Mr. Yves René Nanot, pursuant to the statutory provisions concerning the age limit of Chairman, resigned as Chairman of the Board (maintaining his position as Director). Considering this situation and the development of the Company, the Board of Directors, at the same meeting, decided to combine the functions of the Chairman and the Chief Executive Officer and to confer to Mr. Jean-Pierre Clamadieu the position of the Chairman of the Board of Directors assuming the direction of the Management Committee of the Company.

The choice to reunite the functions of the Chairman of the Board of Directors and the Chief Executive Officer was made to the streamline decision-making and accountability. The presence of a majority of independent Directors on the Board as well as the internal rules of the Board of Directors offer the guaranties necessary to ensure the kind of management that respects good practices of corporate governance.

### 14.1.1.4 TERM IN OFFICE OF DIRECTORS

The bylaws provide that each Director is elected for a term of four years, as recommended in the AFEP-MEDEF Code of Corporate Governance of Listed Companies (December 2008) (the " AFEP-MEDEF Code").

The table below shows the term in office of each Director:

| **Term in office** | **Names of Directors** |
|---|---|
| Shareholders' general meeting called to approve the financial statements for 2008 | Jean-Pierre Clamadieu, Aldo Cardoso, Pascal Colombani, Jacques Khéliff, Olivier Legrain, Francis Mer |
| Shareholders' general meeting called to approve the financial statements for 2011 | Laurence Danon, Jérôme Contamine, Michel de Fabiani, Yves René Nanot |

The renewal of the appointments for Messrs. Jean-Pierre Clamadieu, Aldo Cardoso, Pasal Colombani, Olivier Legrain and Francis Mer will be voted on at the shareholders' meeting that is to be held on May 20, 2009 (upon first notice of meeting).

Detailed information on the status of the Directors' terms can be found in chapter 14.1.1.2, above.

The appointment of a Director representing employee shareholders will also be proposed to the next general shareholders' meeting.

### 14.1.1.5 MANAGEMENT SKILLS AND EXPERIENCE OF THE MEMBERS OF THE BOARD OF DIRECTORS

The criteria considered for the selection of Directors include their management skills and experience. The tables shown in chapter 14.1.1.2 above show the professional activity of the Directors and thus provides information on their respective experiences. Brief biographies illustrating their respective experiences are also provided below.

***Jean-Pierre Clamadieu*** has been the Chairman and Chief Executive Officer of Rhodia since March 17, 2008. Prior to that, he served as the Chief Executive Officer and Director since October 2003. He has also been a director on the board of directors of Faurecia since May 29, 2007 and of SNCF since February 21, 2008. Mr. Clamadieu was president of the Pharmacy and Agrochemicals Division from April to October 2003, president of the Fine Organics Division from January 2002 to April 2003, Senior Vice President of Corporate Purchases in 2001 and president of the Eco Services Enterprise between 1999 and 2000. From 1996 to 1999, he served as the president of the chemical activities of the Rhône-Poulenc Group for the Latin America zone. Mr. Clamadieu came to Rhône-Poulenc in 1993 to develop new activities in the field of automobile pollution control. Before joining Rhône-Poulenc, Mr. Clamadieu was a technical advisor to the Minister of Labor from 1991 to 1993. Mr. Clamadieu started his professional career in 1984, occupying various positions in French governmental agencies such as the Regional Industry and Research Office (DRIR) and the French Delegation for Territorial Development and Regional Action (DATAR). Mr. Clamadieu was born on August 15, 1958; he is a graduate of the École des Mines of Paris.

***Aldo Cardoso*** has been a Director of Rhodia since July 28, 2004; he is currently the chairman of the Group's Audit Committee and member of the Compensation, Selection and Governance Committee. Mr.Cardoso is also a director of GDF-Suez, Gecina, Imerys, Mobistar (Belgium) and censor of Bureau Veritas and AXA Investment Managers. Mr. Cardoso was the Executive President of Andersen Worldwide from 2002 to 2003, Chairman of the supervisory board of Andersen Worldwide from 2000 to 2001, and the Chief Executive Officer of Andersen France from 1998 to 2002. Mr. Cardoso began his career in 1979 as a consultant auditor in the Andersen Group, was named a partner in 1989 and was a director of the audit department in France in 1993, prior to taking responsibility for the European audit department and financial consultancy in 1998. Mr. Cardoso was born on March 7, 1956, and is a graduate of the École supérieure de commerce de Paris.

***Pascal Colombani*** was appointed Director of Rhodia during the shareholders' meeting of June 23, 2005, and currently serves as member of the Strategic Committee and the Compensation, Selection and Governance Committee. Mr. Colombani is a Senior Advisor of the strategy consulting office A.T. Kearney since 2003 and director of Alstom, Technip, Valeo, and the British Energy Group. Mr. Colombani held the chair of the supervisory board of Areva until 2003 and was a general director and the chairman of the board of directors of the *Commissariat à l'Energie Atomique* (CEA) from 1999 to December 2002. Mr. Colombani is also the Senior Advisor to Detroyat et Associés. From 1998 to 1999, he was the director of technology at the French Ministry of Education, Research and Technology, after working almost 20 years for Schlumberger in various positions in Europe, the United States, and Asia, presiding notably over a Japanese subsidiary of the group in Tokyo from 1995 to 1998. He began his career at France's CNRS Nuclear Physics Institute and Lawrence Berkley Laboratory. Mr. Colombani was born on October 14, 1945, and was educated at the École Normale Supérieure of Saint-Cloud. He holds a university degree (Aggrégation) (1969) and a doctorate in physics (1974).

***Jérôme Contamine*** has been a Director of Rhodia since March 2004, and is currently a member of the Audit Committee. He is also a director of Valeo. Since March 16, 2008 he has been Executive Vice President, Chief Financial Officer of Sanofi-Aventis. He previously served as Chief executive officer of Veolia Environnement, responsible for transfunctional affairs, from 2003 to January 2009. In 2000 he was named a director for the Europe/central Asia region of the Exploration/Production region of TotalFinaElf. The same year, he joined Vivendi Environment as the executive vice president, Finance (from 2000 to 2001), where he then served as director of the management board (January 2002 to April 2003) and then as the chief executive officer. He became the chairman Elf Norway in 1995, after being named deputy of the vice president of Elf Exploration-Production Division for Europe and the United States. Mr. Contamine began work in the Elf Aquitaine group in 1988, where he occupied several positions within the Finance Department. He started his career as a public auditor at the French Accounting Court, where he worked from 1984 to 1988. Mr. Contamine was born on November 23, 1957; he is a graduate of the École Polytechnique (1979) and of the École Nationale d'Administration (1984).

***Laurence Danon*** has been a director of Rhodia since May 16, 2008 and is currently a member of the Strategic Committee. She joined Edmond de Rothschild Corporate Finance in 2007 as a member of the Executive Committee. A graduate of the Ecole Normale Supérieure (Ulm), engineer of the Corps des Mines, with a degree in Physics and a DEA (a pre-doctoral research qualification) in Organic Chemistry, Laurence Danon, age 52, began her career in 1984 at the Ministry of Industry as Head of Industrial Development of the Picardy Regional Department of Industry and Research. In 1987, she joined the Department of Hydrocarbons of the Ministry of Industry as Head of Exploration-Production. In 1989, she joined the Elf Group where she successfully fulfilled commercial responsibilities within the Polymer Division. In 1991, she became Director of the Industrial Specialties Division before being appointed Director of the Worldwide Division of Functional Polymers in 1994. In 1996, she became Chief Executive of Ato Findley Adhesives, which became Bostik after merging with Total in 1999. Bostik is worldwide no. 2 in adhesives. Laurence Danon was appointed Chairman and CEO of Printemps in 2001, where she led its successful repositioning into higher-end fashion. After the successful sale of Printemps in October 2006, she left her position in February 2007. Laurence Danon chairs the "New Generations" Commission of the MEDEF. She is also a member of the Board of Directors of Diageo Plc and Experian Plc, as well as of Plastic Omnium S.A.

***Michel de Fabiani*** was appointed to the Board of Rhodia in April 2003, and currently serves as the chairman of the Compensation, Selection and Governance Committee and as a member of the Audit Committee. He is also the vice president of the Franco-British Chamber of Commerce and Industry, as well a chairman of Hertford British Hospital Corporation, a director of BP France, and a member of the supervisory board of Vallourec. Abroad, he is a director of Star Oil Mali, SEMS Morocco and EB Trans Luxembourg. He was the chairman and chief executive officer of BP France from 1995 to 2004 and the regional president of Europe BP Group from 1999 to 2004. He also previously served as the chief executive officer of BP Oil Europe. Mr. Fabiani was born on June 17, 1945; he is a graduate of the École des Hautes Études Commerciales (1967).

***Jacques Khéliff*** was appointed Director at the shareholders' meeting of June 23, 2005, upon voluntary proposal of the Board of Directors due to its interest in having a representative of employee shareholders. Since October 2003, he has been Rhodia's Vice President for Sustainable Development, after having joined the Group in November 2002 as Assistant and Special Advisor to the President for Sustainable Development. Mr. Khéliff was the federal secretary of the Federation of Chemical Industry CFDT from 1984 and general secretary of the same Federation from 1987. At the same time, he became a member of the CFDT trade union's national bureau. He also was the vice president of the European Mine, Chemical and Energy Workers Federation (EMCEF). He started his career with Rhône-Poulenc at the Chalampé factory in 1972, where he was involved in CFDT trade union activities. Mr. Khéliff was born on October 19, 1953.

***Olivier Legrain*** was appointed Director at the shareholders' meeting of June 23, 2005, and currently serves as a member of the Strategic Committee and of the Compensation, Selection and Governance Committee. Since January 2001, he is the chairman of the board and President of Materis, which was created out of Lafarge's specialty materials business. In 1994 he was appointed Executive Vice President, member of the executive committee, of the Lafarge group. In 1995 he took over the management of the specialty materials division. He was also responsible of the group's strategic coordination in 1997. He had previously held different positions as General Manager within the Rhône-Poulenc Group. He was appointed Group's Executive Vice President of the Basic Chemicals Division from 1986 to 1990, of the Fibers and Polymer Division from 1990 to 1991 and of the Intermediates, Organics and Inorganics industry from 1991 to 1993. Mr. Legrain was born on September 30, 1952, and graduated from École Civile des Mines and from Ecole Nationale de la Statistique et de l'Administration Economique (ENSAE)

***Pierre Lévi*** was a Director of Rhodia from October 25, 1999 to February 25, 2009 and was a member of the Strategic Committee. He is a director of Compagnie Deutsch (USA), CIS (Italy), Cotusal (Tunisia) and USE (Spain). He is Chairman of the Executive Board of the Société d'Investissement Saliniers (Groupe Salins) and Chairman and Chief Executive Officer of Compagnie des Salins du Midi and des Salines de l'Est since July 2008. He was Chief Executive Officer of Faurecia S.A. from May 22, 2000 to August 2, 2006. Before 1999, he held several executive positions at Rhône-Poulenc and Carnaud Metalbox. Mr. Lévi was born on February 19, 1955; he is a graduate of the École des Mines and received an MBA from Wharton Business School.

***Francis Mer*** has been a Director since May 13, 2004 and currently serves as the chairman of Rhodia's Strategic Committee. He was also Director of Adecco (Switzerland) and chairman of the SAFRAN's Supervisory Board. Mr. Mer served as Minister of Economy, Finance and Industry in the French Government from May 7, 2002 to March 30, 2004, and has been Chairman of the Board of Directors of Usinor-Sacilor then Arcelor from 1986 to 2002. In July 1982, he became the Chairman and chief executive officer of Pont-à-Mousson S.A. and Director of the Saint-Gobain Group Pipeline and Mechanical Engineering Division, after serving as the Deputy Managing Director in charge of industrial policy. He acted as the Managing Director of Saint-Gobain Industries (1974-1978), prior to which he was a Director at Saint-Gobain Pont-à-Mousson (1973). He started working for the Saint-Gobain group in 1970. Mr. Mer was born on May 25, 1939; he is a graduate of the École Polytechnique and École des Mines.

***Yves René Nanot*** has been a Director of Rhodia since October 25, 2002. He served as the Vice Chairman of the Board of Directors from October 3, 2003 to March 30, 2004, and as Chairman of the Board of Directors from March 31, 2004 to March 17, 2008. He is also the Chairman of the Board of Directors and Chief Executive Officer of Ciments Français, director of Provimi and Italcementi (Italy) and foreign subsidiaries of Ciments Français in the United States of America, Morocco, India, in Thailand, in Turkey and in Egypt. He served as chairman and chief executive officer of Total France, then as chairman of Total Refining and Marketing and a member of the Total Group Executive Committee. Mr. Nanot joined the Total Group in 1983, and was the chairman and chief executive officer of Hutchinson S.A. from 1983 to 1989. Mr. Nanot started his career at Du Pont de Nemours in the United States of America, holding various positions in that company in France and in Europe between 1962 and 1983. Mr. Nanot is a graduate of the École Nationale Supérieure des Arts et Métiers of Paris and holds an MBA and PhD from the University of California at Los Angeles (UCLA). Mr. Nanot was born on March 27, 1937.

#### 14.1.1.6 SANCTIONS APPLICABLE TO DIRECTORS AND EXECUTIVES

To the knowledge of the company, and except for the information provided in chapter 14.1.1.2 above, none of the persons indicated in the table above has been subject over the past five years:

- to a ruling for fraud, or associated with a bankruptcy, placed under seizure or liquidation;
- of an accusation or an official public sanction handed down by legal or regulatory authorities or professional organizations or has been barred by a court from acting as a member of an administrative body, management or auditing of an issuer, or to intervene in the management or running of the business of an issuer.

### 14.1.2 MANAGEMENT

#### 14.1.2.1 THE MANAGEMENT COMMITTEE

The Chairman and Chief Executive Officer has established the Management Committee, a small team that collaborates with the Group's Management.

As of December 31, 2008, this Committee was composed of:

- Jean-Pierre Clamadieu, Chairman and Chief Executive Officer;
- Gilles Auffret, Chief Operating Officer;
- Pascal Bouchiat, Group Executive Vice President and Chief Financial Officer;
- Bernard Chambon, Group Executive Vice President Supervising all Geographic Zones, Communication, Public Affairs, Security as well as Sustainable Development;
- Marc Chollet, Group Executive Vice President Strategy;
- Yolène Coppin, Group Executive Vice President, Human Resources;
- Jean-Pierre Labroue, Group Executive Vice President, General Counsel and Corporate Secretary.

The seven members of the Management Committee and the 15 other members who represent all the operating components of the Group make up the Group's Executive Committee (COMEX).

In addition, an expanded Management Committee, made up of seven members of the General Management as well as five operational officers from diverse backgrounds, meets monthly. This committee is responsible for defining and ensuring implementation of the Group's strategy decided by the Board of Directors and allocating resources among the various Enterprises and corporate functions and ensuring the smooth functioning of all Group operational processes.

#### 14.1.2.2 LIMITATIONS OF POWERS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As indicated in the Company's bylaws, the Chairman and Chief Executive Officer is vested with the broadest powers to act in any circumstance in the name of the Company, within the limits of its corporate purpose, and subject to the powers expressly conferred by law upon shareholders' meetings and upon the Board of Directors.

The internal rules of the Board of Directors indicate that while exercising his duties, the Chief Executive Officer is responsible for creating an ongoing and favorable relationship with the Board, aimed at allowing:

- the Board to make its decisions based on solid knowledge and to fully perform its role; and
- adequate consideration of the guidelines and decisions of the Board.

The same internal rules establish the Board's right of examination, specifically providing that the Board examines and makes preliminary decisions on significant transactions, particularly:

- the strategic orientation of the Group;
- the significant acquisitions and disposals of equity interests;
- strategy agreements of alliance and industrial cooperation;
- significant financial transactions;
- significant internal investments;
- significant modifications in structure and organization of the Group;

and more generally on:

- any significant transaction that is outside the established strategy of the Company; and
- any other transaction that the Chairman and Chief Executive Officer might submit to the examination or approval of the Board pursuant to his duty of care.

The threshold amount for the transactions requiring the Board's consultation is €60 million.

At the meeting held on March 17, 2008, the Board of Directors, as a result of the reunification of the functions of the Chairman and Chief Executive Officer, modified its internal rules, making the above-mentioned limitations applicable to the Chairman and Chief Executive Officer and raising to €250 million the threshold applicable to financial transactions.

# 14.2 Conflicts of interest at the level of administrative and Management bodies

## 14.2.1 INDEPENDENCE OF ADMINISTRATIVE BODIES

In accordance with the AFEP-MEDEF Code and the Board's internal rules (that provide for a review each year, at the proposal of the Compensation, Selection and Governance Committee, of the status of the Directors with regard to independence), the Board of Directors evaluates the independence of its members.

This evaluation was conducted based on the criteria proposed by this report to establish a presumption of non-independence. It is, however, understood that the Board is free to determine the independence of each Director on a case-by-case basis, supported by documented evidence. According to the terms of the AFEP-MEDEF Code, "***a director is independent when he does not maintain any relationship of any kind with the Company, its Group or its management that could compromise the exercise of his freedom of judgment***". It also recommends that the majority of the Board Directors and members of the Compensation, Selection and Governance Committee be independent, and that the number of independent Directors making up the Audit Committee (or accounts committee) be brought up to two-thirds.

In observance of the recommendations of the AFEP-MEDEF Code, the main criteria for qualifying a Director as independent are the following:

- not being an employee or officer of the company, its parent company or a company that the latter consolidates currently or within the past five years;
- not being an officer of a company in which the Company directly or indirectly holds a seat on the Board of Directors or in which an employee designated as such or an officer of the Company (currently or within the past five years) holds a seat on the Board of Directors;
- not being a client, vendor, business or loan banker:
  - that is significant for the Company or the Group, or
  - for which the Company or the Group represents a significant share of business;
- not having a close family tie to a corporate officer;
- not having served as the company's auditor within the past five years;
- not having served as a Director for more than 12 years.

At the meeting held on February 24, 2009, the Board of Directors thus decided on the independence of each of its members, after having examined their respective qualifications and any changes that occurred since the last evaluation.

The following individuals were qualified as independent Directors:

- Aldo Cardoso;
- Pascal Colombani;
- Jérôme Contamine;
- Ms. Laurence Danon;
- Michel de Fabiani;
- Olivier Legrain;
- Pierre Lévi; and
- Francis Mer.

These are the eight members out of 11 sitting on the Board of Directors as of that date.

Concerning ***Messrs. Cardoso, Colombani, Contamine, de Fabiani, Legrain*** and ***Mer*** their situation as independent directors has not changed since their most recent qualification by the Board. They continue to meet the criteria proposed by the AFEP-MEDEF Code for qualification as independent Directors.

The Board also confirmed the qualification of independence of ***Ms. Laurence Danon***, which occurred after she was appointed by general shareholders' meeting on May 16, 2008. It was indicated that this qualification fulfilled all criteria proposed in the AFEP-MEDEF Code as regards the independent administrator qualification.

Concerning ***Pierre Lévi*** more specifically, it is noted that he held executive positions in Rhodia until 1999. However, as he stepped down from his executive offices in the Company more than five years ago, the Board confirmed his independent director qualification with respect to the criteria proposed in the AFEP-MEDEF Code.

Concerning ***Yves René Nanot***, the Board of Directors has decided not to apply this qualification in light of his former position as Chairman of the Board of Directors and the compensation associated therewith.

***Jean-Pierre Clamadieu,*** the Chairman and Chief Executive Officer, and ***Jacques Khéliff***, Director of Sustainable Development of the Group, are not considered independent, because of their holding executive positions in the Group and the compensation associated therewith.

The formal non-qualification as "independent Director" in no way calls into question the professionalism or freedom of judgment that, in the Board's opinion, characterizes all Directors. In fact, to the best of Rhodia's knowledge, there are no conflicts between the duties of the Group's Board members and their private interests and their other duties.

### 14.2.2 STOCK TRANSACTIONS OF RHODIA EXECUTIVES

The Group's compliance policy relating to securities transactions and prevention of insider trading provides that Directors and officers conduct their transactions on the financial instruments of the Company only the day after the announcement of the annual, biannual and quarterly results and for a period of thirty (30) calendar days thereafter (provided this period is not declared as "closed" by the Company, and they do not possess inside information during this period).

Pursuant to Article L-621-18-2 of the Monetary and Financial Code and Articles 223-22 and following of the General Regulations of the Autorité des Marchés Financiers, transactions involving financial instruments of Rhodia carried out by each of the members of its Board of Directors and the Chairman and Chief Executive Officer (or persons related to them), to the extent the total amount of the transactions carried out by each of these executives exceeds €5,000 per year, must be declared.

Pursuant to Article 223-26 of the General Regulations of the Autorité des Marchés Financiers, the following table shows transactions that were declared by the Chairman and Chief Executive Officer and other Directors of Rhodia or persons related to them in 2008:

| Name of Director | Date of declaration (11/28/2008) | Reference to AMF Decisions and Information (available on the AMF website) | Description of transaction | Date of transaction |
|---|---|---|---|---|
| Yves René Nanot | 11/28/2008 | 208D8133 | Acquisition of 11,000 Rhodia shares at a unit price of €5.50 per share. | 11/27/2008 |
| Yves René Nanot | 11/28/2008 | 208D8132 | Sale of 11,000 Rhodia shares at a unit price of €5.3099 per share. | 11/26/2008 |
| Person related to Yves René Nanot | 04/04/2008 | 208D2453 | Acquisition of 500 Rhodia shares at a unit price of €14.23 per share | 03/28/2008 |

## 14.3 Organization and operation of the administrative bodies

### 14.3.1 INTERNAL RULES OF THE BOARD OF DIRECTORS

The Company established its own internal rules for its Board of Directors in 2000.

They have been amended several times since that date to keep up with developments concerning corporate governance, and specifically recommendations of the AFEP-MEDEF Code.

The Board of Directors, at its March 17, 2008 meeting, introduced new provisions into the internal rules designed to continue to ensure optimal functioning of its corporate organs as part of the modification of the management form, consisting of the combination of the functions of the Chairman and Chief Executive Officer, carried out on the same date.

Not a replacement of French law nor the Company's bylaws, the Board's internal rules are an internal document that defines the composition, role and powers of the Board of Directors and its committees by explaining or completing certain existing requirements of law or the company's bylaws. These rules are aimed at optimizing the efficiency of Board meetings and discussions as well as integrating into the functioning of corporate bodies adequate corporate governance practices.

It provides for the creation and implementation of ***committees***, and specifically establishes the rules with regard to composition, methods of operation, missions and powers, as described in chapter 14.4 below.

In terms of ***right to information***, the internal rules provide for the Board being regularly informed - directly or through its committees - of any significant event on Rhodia's business. They state that each member must receive all documents and information necessary to fulfill their mission, and particularly, all the significant information making it possible for them to evaluate the proper implementation of the strategy decided by the Board and the Company's financial condition and liquidity. Status reports on the progress of business are made at the meetings of the Board of Directors.

The internal rules establish ***rules of confidentiality and prudence***. In this regard, they require that Directors and officers conduct their transactions involving financial instruments of the Company starting the day after the announcement of the annual, biannual and quarterly results and for a period of thirty (30) calendar days thereafter (provided this period is not declared as "closed" by the Company, and they do not possess inside information during this period).

The rules establish a ***right of examination*** of the Board of Directors, requiring the latter to examine and deliberate on significant transactions. A discussion on this point is in chapter 14.1.2.2 "Limitation of powers of the Chairman and Chief Executive Officer" above.

The internal rules provide that the Board conduct an annual **evaluation** of its functioning, notably by providing a status report on the methods of operation and by checking that important issues are properly prepared and debated (see chapter 14.5 below).

### 14.3.2 POWERS AND PRINCIPAL DUTIES OF THE BOARD OF DIRECTORS

#### 14.3.2.1 POWERS

As indicated in the bylaws and the Board's internal rules, the Board of Directors is vested with all powers assigned to it in law, including the following:

- it determines the direction of the Company's business and monitors its implementation;
- it participates in any issue involving the proper operation of the Company and by its decisions settles matters concerning it, subject to the powers expressly assigned to shareholders' meetings and within the limit of the corporate purpose;
- it carries out any controls and verifications it deems appropriate;
- it can decide to create committees (and determines the composition and powers thereof) and/or grants special proxy to one of its members or to third parties for one or more given purposes;
- it also has specific powers under law, specifically:
  - to call shareholders' meetings and establish their agenda,
  - to approve corporate and consolidated financial statements and the management's report,
  - to authorize agreements defined as "regulated" by law,
  - to appoint replacement Board Directors,
  - to appoint or dismiss the Chairman and Chief Executive Officer, and (if applicable deputy general managers) establish their compensation,
  - to determine Directors' compensation, and
  - to change the share capital upon delegation of a shareholders' meeting.

#### 14.3.2.2 PRINCIPAL ACTS OF THE BOARD OF DIRECTORS IN 2008

Overall, the main events of the year involving the Board's work and entailing a high level of activity of the Directors are the evaluations, studies and decisions specifically dealing with:

- the thorough review of the Group's strategy and the examination of its main strategic projects including:
  - the sale of Rhodia and Lyondell's Isocyanates businesses to Perstorp, and
  - the acquisition of McIntyre Group Ltd;
- the regular monitoring of the Group's business and the measures taken in a context of financial and economic crisis;
- the preparing of new risk mapping;
- the composing and functioning of the Board of Directors:
  - change in management practice (combination of the functions of the Chairman of the Board and the Chief Executive Officer );
  - proposal to appoint Ms. Laurence Danon and to reappoint Messrs. Contamine, de Fabiani and Nanot.

For the preparation of its work, the Board of Directors relies on its committees whose composition, methods of operation, powers and activities during 2008 are described in chapter 14.4 below.

## 14.4 Committees of the Board of Directors

The Board of Directors has three committees: the Audit Committee, the Compensation, Selection and Governance Committee and the Strategic Committee.

As indicated in the internal rules of the Board of Directors, the purpose of these committees is to study and prepare for certain decisions of the Board. Within their field of respective authority, they make proposals and recommendations and provide opinions as applicable. As needed, they can invite anyone of their choice to their meetings and request the support of outside specialists. They only have a consulting power and act under the authority of the Board of Directors. They cannot substitute for the Board of Directors, which alone makes decisions. The committees report to the Board whenever necessary and at a minimum as many times as there are meetings of the committee during the year.

In addition to these special permanent committees, the Board of Directors can decide to create ***ad hoc*** committees for exceptional transactions, according to their importance or specificity, with a life-span limited to their purpose.

## 14.4.1 AUDIT COMMITTEE

### 14.4.1.1 COMPOSITION AND METHODS OF OPERATION

The Audit Committee is composed of three Directors, Aldo Cardoso, Jérôme Contamine and Michel de Fabiani. Aldo Cardoso is the chairman.

All members of the Audit Committee are qualified as being independent (100% independents). They were appointed based on their experience in the field in which the Audit Committee is interested (specifically their thorough knowledge of IFRS standards) as much as their independence. Additional information regarding the education and careers of the members of the Audit Committee is available in chapter 14.1.1.5 above.

The Audit Committee meets at least four times a year and as often as required in the best interests of Rhodia. Constituted in 1998, the Audit Committee is the new name of the former accounts committee which merged with the risks committee, due to the overlapping of problems dealt with by these committees.

The committee can decide to hear the Chief Executive Officer, the Chief Financial Officer and, outside the presence of the main officers, those responsible for the Finance Department, the internal audit manager and the statutory auditors.

### 14.4.1.2 GRANTED

The internal rules of the Board of Directors indicate that the specific mission of the Audit Committee is to examine the annual, biannual and quarterly financial statements of the Company in order to monitor the implementation of the recommendations of the statutory auditors and to monitor the internal control processes with regard to financial matters. More specifically, concerning the processes of financial auditing, gathering and controlling of information, it verifies that they are defined and that they ensure the reliability of the information; it monitors their evaluation and, if applicable, their regular improvement. It examines the significant off-balance sheet risks and commitments. It ensures the pertinence and constancy of the accounting methods adopted to establish the consolidated or statutory financial statements. It ensures the independence of the statutory auditors, within the framework of their appointment and during the performance of their mission. More generally, it examines any financial or accounting questions presented before it.

The Audit Committee is also intended to ensure that all appropriate efforts and means have been implemented by or at the initiative of the Group's management, in order to allow the identification, analysis, documentation and ongoing improvement of the prevention and control of risks of any kind, which the Group may face in its specialty chemicals business and that could have a negative impact on people or the tangible and intangible assets of the Group. In this framework, the committee ensures that management has verified that the procedures and policies of conduct are known and applied on a consistent basis throughout the Group, and that auditing (in and outside the Group) and quality assurance are constantly carried out. It takes part in review reports from outside and company auditors involving these risks. It examines the organization, operation and plan of missions carried out by internal auditing.

### 14.4.1.3 ACTIVITIES OF THE COMMITTEE IN 2008

The Audit Committee met nine times in 2008, with an attendance rate of 96% (compared to seven meetings in 2007 with an attendance rate of 90%). Prior to each meeting a full file is sent to each committee member.

Its work primarily involved the review of the key points regarding preparation of the annual, biannual and quarterly accounts and closure options, in the presence of the statutory auditors.

Its principal work also involves:

- internal control: assessment of the 2007 internal control (following withdrawal from the New York listing);
- the detailed presentation of certain risks identified in the Group risk map;
- the operation of fraud proceedings and the whistle-blowing procedure (exclusively concerning financial issues, to make it possible to point out any deficiency in compliance with accounting and financial rules to an ethics committee);
- insurance policies and programs;
- relations with statutory auditors: fees, review of services and selection process of statutory auditors whose terms in office ended in 2008 and end in 2009; and
- the review and the prospects of the internal audit and the auditing plan.

The Audit Committee conducts a self-evaluation of its operation on the basis of the summary of the responses to the self-evaluation questionnaire proposed by the AICPA (*American Institute of Certified Public Accountants*), filled out by each member of the committee.

During its meeting on February 23, 2009, the Audit Committee met, outside the presence of management with the statutory auditors, the Director of Financial Control and the Director of Internal Audit.

## 14.4.2 THE COMPENSATION, SELECTION AND GOVERNANCE COMMITTEE

### 14.4.2.1 COMPOSITION AND METHODS OF OPERATION

It is made up of four members, Michel de Fabiani, Aldo Cardoso, Pascal Colombani and Olivier Legrain. Michel de Fabiani is the chairman.

Pascal Colombani was appointed member of the Committee at the Board of Directors meeting on July 29, 2008.

All members of the Compensation, Selection and Governance Committee are qualified as being independent (100% independents).

The Committee meets at least twice a year and as often as required in the best interests of Rhodia.

### 14.4.2.2 POWERS

Established in May 1998, the Compensation and Selection Committee was granted additional powers with respect to corporate governance by the Board of Directors at its meeting on March 17, 2008, and was thus renamed the "Compensation, Selection and Governance Committee."

As indicated in the Board of Directors' internal rules, the purpose of this Committee is to:

- **As regards compensation:** make recommendations on the compensation of the Chairman and Chief Executive and, if need be, on the deputy general managers. It is responsible, by referring to the general practice of compensation of equivalent French or foreign groups, to recommend each year to the Board the amounts of fixed compensation, the criteria of the variable part of the compensation and their annual application according to performance, and to examine other forms of compensation and benefits in kind. It is also involved in defining a general policy of compensation and benefits for the officers (Executive Committee) including retirement benefits. Concerning stock options or free allocation of shares plans, it is involved in preparing plans for the benefit of executives and officers, as well as deciding on the most appropriate categories of allotment, considering the practice of equivalent French or foreign groups, if need be, eliminating any discount, and defining vesting and holding periods in advance. The work of the committee also involves any increases in share capital reserved for employees.
- **As regards appointments:** make recommendations on progression and succession of members of the Executive Committee and on plans to make significant modifications in the organization of the Group's management. The research and the choice of future Directors and the composition of the study committees are also part of the work of the Committee. The Chairman and Chief Executive Officer works systematically with the Committee on these appointments.
- **As regards governance:** ensure due consideration of functioning of the corporate bodies with respect to the internal rules of the Board of Directors and the recommendations for governance found in the AFEP-MEDEF Code, review the make up of the committees, prepare the annual procedure for evaluation of the operation of the Board of Directors and make recommendations on the independence of each of the Directors.

### 14.4.2.3 ACTIVITIES OF THE COMMITTEE IN 2008

The Compensation, Selection and Governance Committee met four times in 2008 with an attendance rate of 93% (compared to four meetings in 2007 with the attendance rate of 100%). Its work, opinions and recommendations mainly involved the following:

- compensation of the Chairman and Chief Executive Officer, setting the fixed and variable parts and compliance with the separation agreement, based on an analysis of market practices;
- free allocation of share plans (see chapter 17.2.3 below);
- review of the résumés of potential future Directors of the Company;
- examination of the progression and succession plans of the Executive Committee Members;
- establishment of a mechanism for appointing a Director representing employee shareholders; and
- compliance with AFEP-MEDEF recommendations on the compensation of corporate representatives of listed companies.

## 14.4.3 THE STRATEGIC COMMITTEE

### 14.4.3.1 COMPOSITION AND METHODS OF OPERATION

The Strategic Committee was made up of five Directors in 2008: Francis Mer, Ms. Laurence Danon, Pascal Colombani, Oliver Legrain and Pierre Lévi. Francis Mer is its chairman.

Ms. Laurence Danon and Olivier Legrain were appointed members of the Committee at the Board of Directors meeting on July 29, 2008.

All members of the Strategic Committee are qualified as independent (100% independents).

The Committee must meet at least twice a year, with one annual meeting to review and analyze Rhodia's operations and strategy, and as often as required by Rhodia's best interests.

#### 14.4.3.2 POWERS

Established in September 2000, the purpose of the Strategic Committee is to validate the Group's strategy as defined by the Board of Directors, to examine the operations of portfolio, investment and alliance in accordance with the chosen strategy, and to present its conclusions and recommendations to the Board of Directors, and to examine and present reports to the Board of Directors in the event of exceptional operations not anticipated in the Group's strategy.

#### 14.4.3.3 ACTIVITIES OF THE COMMITTEE IN 2008

The Strategic Committee met three times in 2008 with an attendance rate of 100% (compared to three meetings in 2007 with an attendance rate of 89%). During its meetings, its work involved:

- the review of strategic options and strategic priorities;
- the review of the Group's various growth projects, and
- the acquisition of McIntyre Group Ltd.

## 14.5 Evaluation of the operation of the Board of Directors and its Committees

Pursuant to its internal rules, in the beginning of 2009, the Board of Directors conducted an evaluation of its performance, specifically aimed at verifying that important issues had been properly formulated and discussed.

The Board of Directors met eight times in 2008, compared to nine times in 2007 and ten in 2006. The average length of its meetings was approximately three hours. It should be noted that the participation by the members of the Board remained strong throughout the year: 94% in 2008, compared to 90% in 2007. The frequency of the Board's meetings and the Directors' participation rate constitute the first objective factor allowing the assurance that throughout the year, the Board of Directors had been in the position to fully exercise its role and to make strategic decisions that would contribute to Rhodia's development. This strong involvement of the Directors was also apparent from the extensive working documents of the study committees, whose efforts were sustained throughout 2008.

At its meeting on December 11, 2008, the Board decided that an external organization, Whitehead Mann, would carry out an evaluation of the operation of the Board of Directors.

This evaluation was carried out in two steps:

- first, each Director completed a questionnaire on the quality of corporate governance and the general functioning of the Board of Directors and its committees;
- then, the Whitehead Mann consultants met with each Director in individual meetings, with the goal of allowing each one to freely discuss the positive aspects of the functioning of the Board, as well as any potential improvements that could be made to its functioning.

The conclusions of this evaluation were presented by the Whitehead Mann consultants to the Compensation, Nomination and Governance Committee and then to the Board at its February 24, 2009 meeting. The principal points of the evaluation were the following:

- **the functionning of the Board of Directors of Rhodia is of high quality:**
  - active and regular participation by Directors,
  - significant transparency desired and practiced by the Chairman and Chief Executive Officer and the Board of Directors,
  - a large majority of independent directors with significant management experience,
  - good quality internal control procedures,
  - a permanent search for improving the functioning of the Board of Directors and its committees,
  - significant freedom of expression for the Directors,
- **some points of improvement were proposed, concerning the dynamic of the functioning of the Board and its renewal, particularly:**
  - the documentation provided prior to meetings of the Board of Directors being abundant and of good quality, it should be possible to reduce the amount of time used for formal presentations in order to consequently increase the time that could be dedicated to discussions,
  - beyond the regular review by the Strategic Committee, the major strategic options could be more systematically presented during meetings of the Board of Directors so that all the Directors could participate, as was the case during the strategy seminar organized in 2008,
  - the pursuit of renewal in the composition of the Board of Directors over the next years could be beneficial, as well as a rotation or a change of presidents and members of the board committees.

The Chairman and Chief Executive Officer and chairman of the Compensation, Selection and Governance Committee will propose, at an upcoming meeting of the Board of Directors, steps to allow the implementation of these recommendations.

## 14.6 Participation in the Board of Directors and Committee meetings

| | Board of Directors | Audit Committee | Strategic Committee | Compensation, Selection and Governance Committee |
|---|---|---|---|---|
| Number of meetings in 2008 | 8 | 9 | 3 | 4 |
| Jean-Pierre Clamadieu | 8 | | | |
| Aldo Cardoso | 8 | 9 | | 4 |
| Pascal Colombani | 7 | | 3 | 2/3** |
| Jérôme Contamine | 7 | 8 | | |
| Laurence Danon | 3/3* | | 2/2** | |
| Michel de Fabiani | 8 | 9 | | 4 |
| Jacques Khéliff | 8 | | | |
| Olivier Legrain | 8 | | 2/2** | 4 |
| Pierre Lévi | 8 | | 3 | |
| Francis Mer | 7 | | 3 | |
| Yves René Nanot | 8 | | | |
| Hubertus Sulkowski | 3/5*** | | | |

* *Appointment of Ms. Danon as member of the Board of Directors at the General Meeting of May 16, 2008.*

** *Appointment of Ms. Danon and Messrs. Colombani and Legrain to committees at the Board of Directors meeting on July 29, 2008.*

*** *End of term of office of Mr. Sulkowski effective as of the General Meeting on May 16, 2008.*

# 15 Compensation and benefits

contents



At its meeting on December 11, 2008, the Board of Directors was informed of the October 6, 2008 AFEP-MEDEF recommendations on the compensation of corporate representatives of listed companies, and determined that they should be part of the Company's approach to corporate governance. Consequently, pursuant to the July 3, 2008 law transposing the European Community directive 2006/46/CE dated June 14, 2006, the AFEP-MEDEF Code thus amended is that which the Company shall continue to refer to for the preparation of the report stipulated in Article L. 225-37 of the Commercial Code as from the current financial year.

This chapter, as well as chapter 17.2 of this reference document regarding share subscription or purchase option and performance share allocation plans, were prepared within the framework of the AFEP-MEDEF Code.

## 15.1 Amount of compensation and benefits paid

### 15.1.1 COMPENSATION OF THE MEMBERS OF THE MANAGEMENT COMMITTEE

In reviewing this section on compensation of members of the Management Committee, it should be noted that membership of the committee went from five members at December 31, 2007 to seven members at December 31, 2008, due to the appointment of Yolène Coppin et Marc Chollet.

The comparison between 2008 and 2007 mentioned in this chapter should therefore be considered based on this evolution.

#### GENERAL POLICY FOR COMPENSATION OF MEMBERS OF THE MANAGEMENT COMMITTEE

The Compensation, Selection and Governance Committee examines the compensation structure proposed by the Chairman and Chief Executive Officer for the members of the Management Committee. To do this, several studies are presented to the committee, in particular, analyses of the market practices of comparable companies.

Based on those elements, the Chairman and Chief Executive Officer determines the fixed and variable compensation of the members of the Management Committee.

In addition, in the framework of the overall compensation policy, the members of the Management Committee benefit from the allocation of options for subscription or purchase of shares and free allocation of shares matched to certain performance conditions (these plans are described in chapter 17.2, below).

#### FIXED AND VARIABLE COMPENSATION

The overall amount of gross compensation [9] owed to members of the Management Committee in respect of 2008 (including changes in the make-up of the Committee over the year) amounted to €3,438,509. For reference, the gross compensation owed to members of the

*(9) In this section, "Compensation and Benefits", gross compensation should be understood as the amount not including employee payroll taxes but before employee payroll withholdings.*

Management Committee amounted to €4,152,241 in 2007 and €4,557,634 in 2006.

The overall amount of gross compensation paid in 2008 (including the amount of the 2007 variable portion, but not that of 2008) to the members of the Management Committee (including changes in the make-up of the Committee over the year) amounted to €4,925,888. For reference, the gross compensation paid in 2007 to the members of the Management Committee amounted to €4,803,681 in 2007 and €4,376,600 in 2006.

## BENEFITS IN-KIND

The total gross amount of benefits in-kind paid to those same members in 2008 amounted to 43, 975 compared to €31,068 in 2007 and €37,695 in 2006.

## RETIREMENT OBLIGATIONS

There are two specific supplemental retirement plans for executive Directors from which the members of the Management Committee benefit:

- the "supplemental" retirement plan with guaranteed benefits called "GRCD." Closed to all new incoming employees since 2001, this plan ensures the future payment of a retirement supplement for former and current members of Management who were part of the Management Committee before 2001;
- the "supplemental" retirement plan for executive directors called "RSD" (defined benefits plan). This plan, created after 2001 for the new members of management who are part of the Management Committee, ensures the future payment of a retirement supplement, subject to compliance with the double condition of (i) having acquired 10 years of service in the Group and one year on the Management Committee as an employee or corporate representative, and (ii) still being employed by Rhodia at the time of retirement or having left Rhodia after the age of 55 without working again later.

  The supplemental retirement indemnity to which such plan can give rise is equal to a certain percentage of the beneficiary's base compensation in excess of ceiling of tranches B and C AGIRC, increased for each year of seniority in excess of 10 years. However, this yearly supplemental retirement indemnity can in no event enable the beneficiary to receive an amount exceeding (i) 45% of his base compensation under all the plans borne by Rhodia or (ii) 55% of his base compensation under all the retirement indemnities whatsoever received by such beneficiary.

The overall amount of the retirement plans as of December 31, 2008 for the members of the Management Committee of the Group amounts to €17,195,542 compared to €15,122,222 in 2007 and €16,360,643 in 2006.

This change is explained by normal growth of obligations due to an additional year of seniority, as well as changes in the membership of the Management Committee.

## COMMITMENTS RELATED TO TERMINATION OF EMPLOYMENT

Rhodia has undertaken other types of commitments for the benefit of the members that make up the Management Committee of the Group in case of termination of their employment contract and/or of their corporate appointment. As of December 31, 2008, these amounted to €4,531,167, compared to €3,063,000 as of December 31, 2007 and €3,766,000 as of December 31, 2006. This change is explained by the entry of two new members to the Management Committee.

These additional benefits may apply in some cases of departure, except for dismissal for misconduct, or resignation.

This amount does not include the indemnity related to the non-compete and non-solicitation undertaking that could be owed to Jean-Pierre Clamadieu in case of termination of his mandate as Chairman and Chief Executive Officer as described in chapter 15.1.2.5 below.

## 15.1.2 COMPENSATION OF CORPORATE REPRESENTATIVES

Rhodia's corporate representatives are the directors. Of the Company's 11 directors, three received compensation aside from Directors' fees in 2008:

- Jean-Pierre Clamadieu, in his capacity as Chief Executive Officer (until March 17, 2008) then as Chairman and Chief Executive Officer;
- Yves René Nanot, in his capacity as Chairman of the Board of Directors (until March 17, 2008);
- Jacques Khéliff, in his capacity as President of Sustainable Development.

Detailed information with the amounts of these compensation items is for 2006, 2007 and 2008 is provided below in compliance with the AFEP-MEDEF Code.

### 15.1.2.1 GENERAL POLICY FOR COMPENSATION OF CORPORATE REPRESENTATIVES

In terms of general policy regarding the compensation of corporate representatives, the special role of the Compensation, Selection and Governance Committee in making recommendations and proposals is to be noted. To carry out such role, the committee relies on various studies and in particular on analyses of the market practices of comparable companies. It thus proposes:

- setting the fixed part of Chief Executive Officer's compensation or, when appropriate, that of the Chairman and Chief Executive Officer;

- the criteria for determining the variable part of the Chief Executive Officer's compensation, these criteria being quantitative and qualitative;
- the policy and criteria for setting Directors' fees.

The Board of Directors determines such items based on these proposals.

In addition, some officers, within the limits provided for by law, may benefit from plans for the free allocation of shares or of share subscription or share purchase options that may be decided by the Board of Directors (For more information on the share subscription option and free allocation of shares plans, see chapter 17.2 below).

Lastly, like all the other senior managers and corporate representatives of the Group and its subsidiaries, Rhodia corporate representatives benefit from civil liability insurance coverage for Directors and officers.

### 15.1.2.2 COMPENSATION AND BENEFITS

#### Compensation of the Chairman and Chief Executive Officer (Chief Executive Officer until March 17, 2008)

The gross amount of the 2008 fixed compensation paid to Mr. Jean-Pierre Clamadieu in his capacity as the Chief Executive Officer and then Chairman and Chief Executive Officer amounted to €700,000, unchanged from 2007.

The gross amount of his variable compensation with respect to 2008 (which will be paid in 2009) could have represented between 0 and 180% of his fixed compensation. Its allocation was contingent on meeting objectives, which were 50% quantitative (ratio of recurring EBITDA and Group free cash flow) and 50% qualitative (30% on strategy, 10% on health, safety, environment and sustainable development, and 10% on preparing the progress and succession plan of the expanded Management Committee). The evaluation by the Board of Directors of the meeting of these objectives led to the setting of a level of 69% of fixed compensation, or €485,000. In light of the economic situation at the beginning of 2009 and the various measures put in place by the Group to deal with the situation, Jean-Pierre Clamadieu proposed that this amount be reduced to €315,000, which the Board of Directors accepted. This represents a decline of 67% compared to his variable compensation with respect to 2007, which amounted to €945,000.

M. Jean-Pierre Clamadieu has use a company-owned car, which represents a benefit-in-kind of €5,076 for 2008.

From this, it results that the gross amount of the overall compensation:

- owed to Mr. Jean-Pierre Clamadieu in respect of 2008 was €1,020,076 (2008 fixed and variable portions and in-kind benefits); and
- received by Mr. Jean-Pierre Clamadieu in 2008 was €1,650,076 (2008 fixed portion and 2007 variable portion and in-kind benefits).

In addition, Mr. Jean-Pierre Clamadieu benefits from allocations of options for the subscription or purchase of shares and free allocations of performance shares (these plans are described in chapter 17.2 below).

**Summary table of compensation, options and performance shares allocated to the Chairman and Chief Executive Officer**

| *(in euros)* | **2008** | **2007** | **2006** |
|---|---|---|---|
| Compensation due with respect to the year | 1,020,076 | 1,650,076 | 1,455,076 |
| Value of options allocated during the year | - | - | - |
| Value of performance shares allocated during the year (see chapter 17.2.3 below) | 170,200 * | 1,522,000 ** | 1,099,500 ** |
| **TOTAL** | 1,190,276 | **3,172,076** | **2,554,576** |

* *Valued based on the opening price for Rhodia shares on December 31, 2008 (€4.60) after the non-achievement of the performance criteria of Plan A 2008 being taken into account. The amount would be €404,780 in 2008 based on the value taken into account in the consolidated accounts.*

** *Valued according to the method used for the consolidated financial statements.*

#### Compensation of the President (until March 17, 2008)

In 2008, over the period from January 1 to March 17 (date of the resignation of Yves René Nanot from his position of Chairman of the Board of Directors, though maintaining his position as Director), the gross amount of the fixed compensation paid to Mr. Yves René Nanot, in his capacity as Chairman of the Board of Directors amounted to €75,000. He did not receive variable or exceptional compensation in 2008.

In addition, from March 18 to December 31, 2008, the amount of Directors' fees received by Yves René Nanot amounted to €34,900.

## Summary of compensation of the Chairman and Chief Executive Officer, the Chairman and a director, Director for sustainable development

| | Amounts in 2008 | | Amounts in 2007 | | Amounts in 2006 | |
|---|---|---|---|---|---|---|
| *(in euros)* | | **owed** | **paid** | **owed** | **paid** | **owed** |
| ***Jean-Pierre Clamadieu (Chairman and Chief Executive Officer)*** [(a)] | | | | | | |
| Fixed compensation | 700,000 | 700,000 | 700,000 | 700,000 | 500,000 | 500,000 |
| Variable compensation | 315,000 | 945,000 | 945,000 | 950,000 | 950,000 | 800,000 |
| Exceptional compensation | - | - | - | - | - | - |
| Directors' Fees | - | - | - | - | - | - |
| Benefits In-kind [(1)] | 5,076 | 5,076 | 5,076 | 5,076 | 5,076 | 5,076 |
| **TOTAL** | **1,020,076** | **1,650,076** | **1,650,076** | **1,655,076** | **1,455,076** | **1,305,076** |
| ***Yves René Nanot (Chairman of the Board of Directors)*** [(b)] | | | | | | |
| Fixed compensation | 75,000 | 75,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Variable compensation | - | - | - | - | - | - |
| Exceptional compensation | - | - | - | - | - | - |
| Directors' Fees | 34,900 | - | - | - | - | - |
| Benefits In-kind | - | - | - | - | - | - |
| **TOTAL** | **109,900** | **75,000** | **300,000** | **300,000** | **300,000** | **300,000** |
| ***Jacques Khéliff (Director and Director for Sustainable Development)*** [(c)] | | | | | | |
| Fixed compensation | 200,000 | 200,000 | 170,000 | 170,000 | 153,400 | 153,400 |
| Variable compensation | 20,000 | 66,300 | 66,300 | 62,894 | 62,894 | 38,350 |
| Exceptional compensation | - | - | - | - | - | - |
| Directors' Fees | - | - | - | - | - | - |
| Benefits in-kind [(1)] | 3,636 | 3,636 | 3,636 | 3,636 | 3,584 | 3,584 |
| **TOTAL** | **223,636** | **269,936** | **239,936** | **236,530** | **219,878** | **195,334** |

*(a) Chief Executive Officer until March 17, 2008, then Chairman and Chief Executive Officer following the combining of the positions of Chairman of the Board of Directors and Chief Executive Officer.*

*(b) Yves René Nanot stepped down from his office as Chairman of the Board of Directors on March 17, 2008, but maintained his position as Director. He therefore received compensation until March 17, 2008, then, after this date, received Directors' fees in his capacity as Director.*

*(c) Compensation received under his employment contract in his capacity as Director for Sustainable Development of Rhodia. In addition, Jacques Khéliff received €2,128 in profit sharing payments from his employment contract.*

*(1) Company car.*

## Directors' fees

The maximum annual amount of Directors' fees that the Board of Directors of Rhodia can distribute among its Directors is set at €600,000. It was amended at the combined annual shareholders' meeting on May 3, 2007.

Within the limit of this ceiling, the Board of Directors distributes the Directors' fees as a function of criteria established in its procedural rules. These criteria provide for fixed portions (€20,000 per Director and €6,000 for the chairman of a committee of the Board of Directors) and variable portions tied to actual presence at meetings of the Board of Directors and of its committees (€4,000 per meeting).

For 2008, the total amount of Directors' fees Rhodia owed to its Directors amounted to €599,400. In 2007, this amount was €586,000, and in 2006 it amounted to €499,700.

Among the Directors in office, Messrs. Jean-Pierre Clamadieu and Jacques Khéliff (who receive compensation from Rhodia) did not receive Directors' fees in 2008. Yves René Nanot, who received compensation as Chairman of the Board of Directors until March 17, 2008, did not receive Directors' fees until this date.

The table below summarizes the Directors' fees owed to members of the Board of Directors for 2008, 2007 and 2006:

| | Directors' fees owed for 2008 | Directors' fees owed for 2007 and paid in 2008 | Directors' fees owed for 2006 and paid in 2007 |
|---|---|---|---|
| ***Directors whose term of office is underway as of December 31, 2008*** | | | |
| Mr. Jean-Pierre Clamadieu (Chairman and Chief Executive Officer) (1) | - | - | - |
| Mr. Yves René Nanot (2) | 34,900 | - | - |
| Mr. Aldo Cardoso | 96,200 | 102,000 | 94,200 |
| Mr. Pascal Colombani | 59,400 | 68,000 | 47,900 |
| Mr. Jérôme Contamine | 69,900 | 60,000 | 63,800 |
| Ms. Laurence Danon (3) | 34,900 | | |
| Mr. Michel de Fabiani | 96,200 | 102,000 | 94,200 |
| Mr. Jacques Khéliff (4) | - | - | - |
| Mr. Olivier Legrain | 66,400 | 68,000 | 57,500 |
| Mr. Pierre Lévi | 55,900 | 60,000 | 38,300 |
| Mr. Francis Mer | 57,700 | 70,000 | 55,900 |
| ***Directors whose term of office ended in 2008*** | | | |
| Mr. Hubertus Sulkowski (5) | 27,900 | 56,000 | 47,900 |

*(1) Chief Executive Officer until March 17, 2008 then Chairman and Chief Executive Officer.*
*(2) Chairman of the Board of Directors' until March 17, 2008, Yves René Nanot did not receive Directors' fees after this date.*
*(3) Term of office began on May 16, 2008.*
*(4) Jacques Khéliff receives compensation in his capacity as Director for Sustainable Development of the Group and therefore does not receive Directors' fees.*
*(5) Term of office ended on May 16, 2008.*

## 15.1.2.3 RETIREMENT PLANS FOR CORPORATE REPRESENTATIVES

### Current corporate representatives

There is no specific supplemental retirement plan set up for the officers.

Mr. Jean-Pierre Clamadieu, Chief Executive Officer, is a potential beneficiary of the "RSD" supplemental retirement plan (see chapters 15.1.1. above).

In addition, Mr. Jacques Khéliff, under his employment contract and as a Rhodia employee, benefits from the IRP-RP supplemental retirement plan, a retirement plan with guaranteed benefits covering all the French employees at the time and which has been closed to new incoming employees since the end of the 1970s.

### Former corporate representatives

Rhodia's obligations with respect to the retirement plans for its former corporate representatives or Directors as of December 31, 2008 (who no longer have any duties at Rhodia) amounted to €9,114,307.

## 15.1.2.4 Obligations for the benefit of corporate representative with regard to taking on, terminating or changing officIal duties

### Regarding Jean-Pierre Clamadieu, the Chairman and Chief Executive Officer

See chapter 15.1.2.5 below.

### Regarding other corporate representatives

Other than the obligations regarding Jean-Pierre Clamadieu described above, there are no other obligations undertaken by Rhodia for the benefit of its current or former corporate representatives with regard to taking on, terminating, or changing the duties of the corporate representatives.

Nevertheless, under his employment contract, if Jacques Khéliff leaves the company, he could be allotted severance pay in the amount equivalent to 36 months of his reference pay as it exists under his employment contract.

This obligation would apply in certain cases of departure.

### 15.1.2.5 SUMMARY OF OBLIGATIONS OF THE CAMPANY FOR THE BENEFIT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board of Directors had decided to grant Mr. Jean-Pierre Clamadieu, in the event of a termination of his appointment as Chief Executive Officer, and subsequently as Chairman and Chief Executive Officer, an indemnity and benefits customarily granted by listed companies comparable to Rhodia. These obligations were formalized in a severance agreement entered into March 26, 2007 and approved by the shareholders at the annual shareholders' meeting held on May 3, 2007. This agreement was subsequently modified by an amendment dated March 24, 2008, in order to conform it to the Law of August 21, 2007 in favor of Work, Employment and Purchasing Power. This amendment was approved by the shareholders at the annual shareholders' meeting held on May 16, 2008.

The Company having decided to comply with the AFEP/MEDEF Code, including the recommendations relating to compensation of corporate representatives, the Board of Directors desired to review the existing undertakings between the Company and Mr. Jean-Pierre Clamadieu relating to his appointment as Chairman and Chief Executive Officer. In addition, the Board wanted to obtain from Mr. Jean-Pierre Clamadieu a non-compete and non-solicitation undertaking in the event of the termination of his appointment, which Mr. Clamadieu accepted. These undertakings were authorized by a special decision of the Board of Directors at its meeting of March 16, 2009, and were then formalized in a new agreement, a so-called « regulated » agreement which must therefore be presented to the next general shareholders' meeting on the basis of a special report by the statutory auditors.

The entry into force of this new agreement is subject to the prior resignation of Mr. Jean-Pierre Clamadieu from his employment contract before June 1, 2009. It will also terminate the severance agreement mentioned above.

This new agreement provides for a non-compete and non-solicitation undertaking by Mr. Jean-Pierre Clamadieu prohibiting him, for a period of two years from (i) conducting any activity for the benefit of a company which is active in the chemicals sector in any territory in which the Rhodia Group is located, and (ii) contacting any member of the Rhodia Executive Committee to offer him an activity for his benefit or for the benefit of an entity in which he would have an interest. As consideration, Rhodia undertakes to pay Mr. Jean-Pierre Clamadieu, for a period of two years as from the termination of his duties, a quarterly payment in a gross amount of €220,000.

The agreement also provides that Rhodia shall grant Mr. Jean-Pierre Clamadieu an advantage in kind consisting in health coverage and supplemental retirement benefits.

In addition, the agreement confirms that:

- the years during which he acts as Chairman and Chief Executive Officer and the compensation received pursuant thereto shall be taken into account in calculating the rights (in particular, the base compensation and group seniority) that Mr. Jean-Pierre Clamadieu could benefit from under the Supplemental Retirement Plan for officers and directors ("RSD"), it being noted that Mr. Clamadieu became a potential beneficiary under this plan in 2002 prior to his appointment as Chairman and Chief Executive Officer due to his membership in management committees and his seniority within the group.
- in the event of termination of his duties as Chairman and Chief Executive Officer and subject to any performance conditions provided for in the plans, the rights attached to the allocations of free shares and options for the subscription or purchase of shares that Mr. Jean-Pierre Clamadieu benefited or will benefit from pursuant to his employment agreement or his appointments within the Rhodia Group will be maintained. The agreement specifies that any future plan that may benefit Mr. Jean-Pierre Clamadieu will, for so long as he holds a corporate appointment, be subject to performance conditions.

In accordance with the AFEP-MEDEF Code, the table below summarizes the Company's undertakings for the benefit of its corporate representatives Chairman of the Board of Directors and Chief Executive Officer, following in particular the decisions of the Board of Directors mentioned above:

| | **Employment contract** | | **Supplemental retirement plan** | | **Payments or benefits due or potentially due for termination of change of position** | | **Payments due under a non-compete clause** | |
|---|---|---|---|---|---|---|---|---|
| | yes | no | yes | no | yes | no | yes | no |
| Jean-Pierre Clamadieu (1)<br>Chairman and Chief Executive Officer | | x | x (2) | | | x | x | |
| Yves René Nanot Chairman of the Board of Directors through March 17, 2008 | | x | | x | | x | | x |

*(1) Subject to the entry into force of the agreement mentioned above, which will terminate the severance agreement mentioned above. A detailed description of the agreement is set forth in chapter 15.1.4.1 of the Company's 2007 reference document.*

*(2) See chapters 15.1.1 and 15.1.2.3 above*

## 15.2 Sums contributed to provisions or recognized for the purposes of paying pensions, retirement, or other benefits

See Note 33.2 (Compensation and benefits paid to key Group executives) to the consolidated financial statements in chapter 20.3.1.3 below, as well as chapters 15.1.1 and 15.1.2.3 above.

# 16 Operation of administrative and Management bodies

contents



## 16.1 Terms of office of directors and senior managers

See chapter 14.1 above.

## 16.2 Service contracts providing for the granting of future benefits

Rhodia has not entered into service contracts providing for the granting of future benefits.

## 16.3 Committees of the Board of Directors

See chapter 14.4 above.

## 16.4 Observing the practices of corporate governance

Rhodia carries out a policy aimed at ensuring that good practices, recommendations, and provisions related to corporate governance of listed companies are well incorporated into the methods of operation of its administrative and management bodies and has chosen to voluntarily follow the AFEP-MEDEF Code, which is available on the MEDEF website (www.medef.fr). The principal aspects of this policy carried out by Rhodia are presented in chapter 14 above.

# 16.5 Other notable aspects related to corporate governance, procedures, and internal control

## 16.5.1 CHAIRMAN'S REPORT PURSUANT TO ARTICLE L. 225-37 OF THE COMMERCIAL CODE

This report was approved by the Board of Directors at its meeting of March 16, 2009.

It was prepared based on Article L. 225-37 of the Commercial Code, as modified by Law no. 2008-649 concerning various provisions for adapting French company law to European Community legislation.

This report indicates the corporate governance code which Rhodia follows voluntarily, and, if applicable, explains why Rhodia has deviated from certain provisions of the code.

It reflects the composition and the conditions of preparing the work of the Board of Directors, and indicates the limitations the Board has placed on the powers of the Chairman and Chief Executive Officer, as well as the principles and rules it has enacted to set the compensation and benefits granted to corporate representatives.

This report also specifies the special procedures relating to the participation of shareholders in the general shareholders' meeting.

Lastly, it reviews internal control and risk management procedures established by Rhodia, and specifically, procedures relating to the preparation and handling of financial and accounting information for corporate and consolidated financial statements.

### 16.5.1.1 CORPORATE GOVERNANCE CODE

Chapter 16.4 constitutes this portion of the Chairman's report.

### 16.5.1.2 COMPOSITION AND THE CONDITIONS OF PREPARING AND ORGANIZING THE WORK OF THE BOARD OF DIRECTORS.

- Composition

  The section of Chapter 14.1.1.1 describing the composition and development of the Board of Directors, together with chapter 14.2.1, constitutes this portion of the Chairman's report.

- Conditions of preparing and organizing the work of the Board of Directors

  Chapters 14.3.1. Internal Rules of the Board of Directors, 14.3.2.1 Powers, 14.3.2.2 Principal Acts of the Board of Directors in 2008, 14.4 Committees of the Board of Directors and 14.5 Evaluation of the Operation of the Board of Directors and its Committees constitute this portion of the Chairman's report.

- Compensation of corporate representatives

  Chapter 15.1.2.1 General Policy for Compensation of Corporate Representatives and the section Directors' Fees of chapter 15.1.2.2 constitute this portion of the Chairman's report.

  Chapter 18 includes the information required by Article L-225-100-3 of the commercial Code.

### 16.5.1.3 LIMITATION OF POWERS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chapter 14.1.2.2 Limitations of Powers of the Chairman and Chief Executive Officer constitutes this portion of the Chairman's report.

### 16.5.1.4 SPECIAL PROCEDURES RELATING TO THE PARTICIPATION OF SHAREHOLDERS IN THE GENERAL SHAREHOLDER'S MEETING

Chapter 21.2.5 General Shareholders' Meetings (Article 18 of the Bylaws) constitutes this portion of the Chairman's report.

### 16. 5.1.5 INTERNAL CONTROL ACTIVITIES

The purpose of this part of the report, prepared with the support of the Internal Control Department and the Internal Audit Department, is to present the significant internal control procedures in effect in the Rhodia Group, that is, the parent company and the consolidated companies.

The following points are developed in this chapter:

- the general organization of internal control; and
- the description of the operation of internal control.

#### 1. General organization of internal control

##### *a. Definition and objectives of internal control at Rhodia*

In the 2008 edition of the Management Book, Rhodia used the definition of internal control appearing in the reference framework for internal control published by the AMF in January 2007, consistent with that of the COSO (*Committee of Sponsoring Organization of the Treadway Commission*), from which Rhodia adopted the following standard:

*"Internal control is a Group mechanism, defined and implemented under its responsibility, which aims to ensure:*

- *compliance with laws and regulations;*
- *the application of instructions and guidelines set by Management;*

- *the smooth functioning of internal company processes, specifically those contributing to the protection of its assets;*
- *the reliability of financial information;*

*and that which generally contributes to the control of its activities, to the efficiency of its operations and to the efficient use of its resources."*

The part of internal control intended to provide reasonable assurance regarding the reliability of reporting will be referred to as "internal control of financial reporting."

In his message presenting the Audit Charter, updated in September 2006, the Chief Executive Officer (now the Chairman and Chief Executive Officer) of Rhodia specified, in addition, that *"Each one at his level must adopt an internal control procedure and systematically seek to improve it."*

Thus, internal control is more than a set of control activities; it is also a concern incorporated into all of the operations of the Group; the senior managers of Enterprises and Support Functions, as well as the various people in charge who report to them, are in charge of designing and implementing internal control within the bodies they manage. The objective is to anticipate and control the risks resulting from all Rhodia activities, including the risks of error or fraud, especially in the accounting and financial fields.

These objectives were fully confirmed, in spite of Rhodia's decision in 2007 to end the registration of its securities with the *Securities and Exchange Commission*, which had required it to comply with the requirements of Section 404 of the Sarbanes-Oxley Act.

Like any control system, internal control cannot, however, provide an absolute guarantee that those risks are totally eliminated, especially in case of human failure.

### *b. Actors*

Through the Audit Committee, the Board of Directors monitors:

- the process of preparing financial information; and
- the internal control and internal auditing tools.

In its position as manager, the Senior Management is naturally the main actor in preparing principles and in implementing internal control procedures. It put into place a set of delegations of powers, regularly updated as a function of the change in the scope and organization of the Group. Similarly, the corporate representatives play this role within the subsidiaries of the Group. The Legal Department maintains corporate files, which include the list of officers.

The Group Internal Control Department was created at the beginning of 2006 and has the following missions:

- to ensure worldwide leadership of the process for evaluating internal control over financial information and reporting;
- to develop the quality of internal control procedures within the Group, by overseeing that each department head defines, puts into place, and ensures the proper operation of an internal control mechanism for all the processes for which he or she is responsible; and
- to incorporate the process for evaluating the internal control into a perennial method.

The Group Internal Control Department reports to the Chief Financial Officer. The department is composed of a central team of five people who coordinate:

- local teams in the principal zones or countries in which the Group is present;
- the functional heads of the processes having an impact on the reliability of the financial information; and
- an information technology team.

The Internal Audit Department, independent from the Internal Control Department, reports to the Chairman and Chief Executive Officer of the Group, which guarantees its independence, vital to its effectiveness. Its general mission and its rules for intervention are formalized in the Internal Audit Charter that takes its inspiration from the recognized principles of the profession (IIA/IFACI).

The Internal Audit conducts reviews of operations and procedures and recommends improvements related to internal control. Gradually, the program of its missions and its approach evolve to incorporate and supplement the work of the Internal Control Department.

The Rhodia organization is built around its worldwide Enterprises that ensure operational responsibility in their respective sectors as well as Support Functions, the role of which is to provide services to these Enterprises, which are responsible for their own specific internal control processes. In 2008, their involvement, under the coordination of the Internal Control Department, consisted of:

- keeping the process documentation and key controls that make up the internal standard that ensures the control over financial reporting up-to-date;
- rectifying the noted disparities; and
- defining and implementing worldwide Group financial reporting internal control standards.

In February 2008, a worldwide Convention was held with the main actors from different countries and functions to assess the past year and to launch the 2008 improvement actions.

## 2. Description of the operation of internal control

This description follows the plan of the COSO standard adopted by Rhodia.

### *a. The Control environment*

The policies and various standards of the Group (rules, procedures, good practices, etc.), which apply to all subsidiaries are widely accessible on the Group Intranet.

They specifically include:

- the *Management Book*, which makes the link between corporate governance and internal control. Updated in late 2008, this document describes the processes underlying the operation of the Group, and designates, for each of them, a Group manager, called the *Corporate Process Manager* (CPM). The *CPMs* established *"red lines"* which are mandatory rules that all Group employees must follow.
- the *Compliance Policy* that deals with the ethical principles to which the employees of the Group must adhere, especially regarding the following topics:
  - purchase and sale of shares (insider trading),
  - protection of sensitive information,
  - protection of the legal entity,
  - conflicts of interest,
  - use of communication networks,
  - respect for free competition,
  - good business practices,
  - prevention of the risk of bribery,
  - responsible influence;
- the *Rhodia Way* standard, which establishes the Group's ambitions for responsibility to its customers, employees, suppliers, investors, communities, and the environment, and evaluates the various entities with respect to a set of good practices. All target entities answered the questionnaire and the self-evaluation process was reviewed by one of the statutory auditors.
- the *Ethical Code for Financial Managers*, adopted at the end of 2003, which specifies the rules of conduct expected on the part of the principal managers of the Finance Department who, through their signature, personally commit to complying with the Code;
- the *Internal Audit Charter of the Group*, previously mentioned above;
- *whistleblowing*, which allows any employee of the Group to point out, either anonymously or not, any breach of accounting and financial rules to the ethics committee by mail or email. In order to respect confidentiality, the ethics committee, made up of five Group employees, investigates the allegations received before sending the files to the Management Committee, which must decide on measures to be taken. The National Commission for Data Protection and Liberties (*Commission Nationale de l'Informatique et des Libertés* or *CNIL*) guidelines were analyzed and taken into consideration when setting up this procedure. To date, the whistleblowing mechanism has been seldom used.

The general policies defined by the *Corporate Process Managers* are set forth in the *Group Procedures*, accessible on the Group Intranet, and can be adjusted as a function of the special local characters of the subsidiaries.

In particular, the Finance Department provides the following documents on a dedicated Intranet:

- a Group Reporting Guide specifying the accounting principles to be applied in the framework of consolidation with detailed explanations of the most complex points. This Guide is regularly updated by the central consolidation team as a function of the changes in the reference accounting standards (IFRS);
- Group procedures that serve as a general framework for the actors in the Finance Department and which can be locally adapted if necessary;
- Instructional notes issued before the ends of quarters, emphasizing the topics to be considered with special attention as a function of the change in accounting rules or the points for improvement detected during the previous quarterly closing of accounts.

Finally, and as in preceding years, the Chief Executive Officers and Chief Financial Officers of the various consolidated legal entities answered a questionnaire in January 2009 covering some fifty points related to internal control before signing letters of affirmation pledging their responsibility to comply with and apply the procedures and controls contributing to the reliability of the information published for 2008 within their scope.

### *b. Risk management*

Rhodia manages risk with a sustainable development approach, the objectives of which are to strengthen the protection of its employees, the environment, its customers and suppliers, as well as to protect company assets.

For many years, the Group has implemented processes to ensure that risks, specifically industrial, environmental or ones related to products sold by Rhodia, are evaluated and managed at the appropriate level of the organization.

Rhodia's matrix organization of Enterprises, which focuses on operational and commercial activities, and on Functions, which focus on processes, enables oversight at the most relevant level while fostering the deployment of specific actions at the local level.

With regard to identifying, assessing and managing the principal risks facing the Group, see chapter 4, "Risk Factors," of this reference document.

In 2007, in accordance with an updating of the Group's risk-mapping, members of the Executive Committee had reevaluated the impact and likelihood of occurrence of principal risks, and implemented action plans at the most appropriate level with a view to improving risk management. This risk-mapping, as well as the decisions and actions initiated, was shared with the Audit Committee and the Board of Directors in 2007 and 2008.

In 2006, mapping fraud risks enabled the formalization of a Fraud Prevention Plan. This Fraud Prevention Plan was presented to the Audit Committee in 2007, and then reported to the management of the Group (Executive Committee, Management Committees of the Enterprises, Support Functions, and Zones), and was reviewed and improved in 2008.

Raising employee awareness about good practices is done regularly for various participants in conjunction with the Internal Audit, either in dedicated training sessions, or through the "Rhodia News" newsletter, which is distributed internally to all Group employees.

In addition, one procedure requires the principal Finance Department managers to ensure that any case of fraud is reported back to the group financial controller and internal audit manager through an appropriate form. The Audit Committee is kept regularly informed about frauds pointed out and the follow-up actions taken.

The few cases identified in 2008 involved events that did not lead to any significant loss of assets for Rhodia.

### *c. The Control activities*

In 2008, process managers carried on with their continuous improvement actions regarding the standard to control risks that might have negative effects on the reliability of financial reporting. Within this framework, these efforts led them to:

- identify risks that might compromise the reliability of financial reporting;
- if necessary, define and, whenever possible, standardize key controls, in particular specifying their nature and frequency;
- ensure the deployment of controls at all relevant levels of the organization;
- fine-tune tests making it possible to ensure the operation of these key controls.

The principal processes having an impact on the production of financial information, and for which key controls were implemented, cover the following areas:

- consolidation and preparation of the financial documents;
- taxation;
- management of cash flow and financing;
- accounting closing processes;
- inventory management (physical inventories, valuation, etc.);
- management of environmental costs and provisions;
- purchases, procurement (from purchase requisition to the entering of invoices into the accounts);
- sales (from the taking of the order to the entering of invoices into the accounts);
- management of tangible and intangible fixed assets;
- payment and management of corporate commitments;
- data processing.

Some processes specific to the activities of the Energy Services Enterprise are added to the processes common to all subsidiaries within the Group's scope of consolidation.

Management's instructions and guidelines in the areas of Health, Safety and the Environment (HSE) and product safety (Responsible Care), are expressed in the form of "red lines" found in the Management Book, or in the form of procedures and rules. Their implementation is measured with the assessment ("Responsible Care Assessment"), which every year undergoes an external audit (see reports and certification by PricewaterhouseCoopers Audit on the calculation of environmental and security indicators in 2008 in Chapter 5.4 of this reference document).

The Industrial Management Department controls the compliance of Group sites with laws and regulations as regards HSE within the framework of audits that it carries out at least every three years, which are based on two standards, one for sites with more than 100 people, and the other for sites with fewer than 100 people.

Moreover, the worldwide social and environmental responsibility agreement Rhodia executed in 2005 with the ICEM, the international employees federation in this sector, and renewed in March 2008 for a period of three years is the only agreement in the world of this nature signed by ICEM with a chemicals company. It is part of the continuous march of progress, the *Rhodia Way*, presented in chapter 5.3.1 of this reference document.

Through this agreement, Rhodia has committed itself to respect fundamental social rights as defined by the International Labor Organization as well as by the United Nations Global Compact *(initiated in 1999 by Kofi Annan, Secretary-General of the United Nations, this compact commits company managers to foster and ensure compliance with ten major principles concerning human rights, working conditions, respect for the environment and combating corruption)*.

Rhodia has thus affirmed its rejection of all forms of discrimination, as well as its commitment to a rich and balanced corporate dialogue with the increasing involvement of employees and their representatives in every country where it operates, and has committed itself to applying its standards around the world as regards:

- health and workplace safety;
- controlling occupational risks and respecting the environment; and
- corporate policies.

Each year an assessment of the application of this agreement is prepared. The monitoring of the commitments under the agreement, as well their achievement within this framework is carried out jointly with the ICEM.

At the end of 2007, the visit to Group sites in China by a joint delegation from the ICEM and Rhodia's Management Committee made it possible to verify the proper application of the provisions of the worldwide agreement in that country, a necessary step towards its renewal. In December 2008, the two partners carried out an evaluation mission in Brazil. The ICEM visited sites and met with employee representatives. At the end of this visit, the ICEM made a positive assessment of Group practices and of its compliance with the commitments under the agreement in this country.

### d. Information Systems

The Information Systems Department is responsible for all Group information systems and telecommunications. It is organized in such a way so as to give priority to the autonomy of Group operations. It manages infrastructure and worldwide computer services.

All the financial information related to the consolidated data is obtained through a single, centrally managed consolidation computer tool.

A majority of the operating subsidiaries use a unified computer software program to manage their operations. The Group is seeking convergence in this area through the generalized use of a centralized system named RCS (*Rhodia Core System*).

The general controls for the information systems cover both the security aspects, aimed at protecting data, and the quality aspects, aimed at ensuring the best fit of solutions (management of changes) and services (operations) to user needs.

A specific team of computer specialists, separate from the project or operating teams, checks the effectiveness of the controls thus defined and also makes suggestions for improvement. These processes and controls are also audited annually by Rhodia's statutory auditors.

As information systems are critical data management components, at each request for renewal, or for each new certification request, Rhodia's internal IS auditors and external ISO auditors systematically audit the quality of the processes and controls in the Information System.

In 2008, with other US chemical, transport and some IT companies, Rhodia participated in Cyber Storm II, an exercise organized by the North American government agencies. The goal of this exercise was to measure the effectiveness of procedures in protecting against cyber attacks having an impact on the industrial and financial sectors as well as on communications. This type of exercise will be repeated in 2010.

### e. Steering the "internal Control over financial reporting" process

To guarantee the desired degree of local appropriation and implementation of internal control of financial reporting, the Internal Control Department keeps the standard up-to-date for the processes contributing to the preparation and handling of financial and accounting information.

The department analyzes the risks inherent in the various accounting items as well as in the subsidiaries in order, at first, to adapt the control activities to the challenges of the Group and ensure the deployment of the key controls, then to draw up the policy to test those key controls in order to have available a statistically significant view of the degree of control. In 2008, the effectiveness of approximately 1,800 control points was tested, of which 130 were specific to the information system.

The Internal Control Department managed this process using a specific computer tool, which centralized the key controls deployed for the whole Group, the results of the tests of effectiveness and, when appropriate, the corrective actions decided on.

In 2008, the work of the Internal Control Department was supervised by:

- the Committee to Supervise Internal Control, made up of the Chief Operating Officer, the Chief Financial Officer, and the Manager of Information Systems. The heads of Internal Audit and Internal Control participate in its work. This committee met three times in 2008 to examine the progress of the work and the corrective measures taken, to validate the guidelines and organization selected, and to make key decisions, especially regarding the nature of acceptable risks and the follow-up to the deployment of the Rhodia internal control model; and
- the Audit Committee of the Board of Directors, which was kept regularly informed in 2008 of the progress of the work and the results obtained.

Rhodia recognizes the importance of the internal control tools to contributing to mastery of its activities, the effectiveness of its operations, and the efficient use of its resources. For several years now, the Group has invested heavily in establishing rigorous internal control procedures and training the employees involved. The elements described in this report testify to the Group's progress in this field.

Executed in Courbevoie, on March 16, 2009

Jean-Pierre Clamadieu

Chairman and Chief Executive Officer

## 16.5.2 REPORT OF THE STATUTORY AUDITORS, PREPARED PURSUANT TO ARTICLE L. 225-235 OF THE COMMERCIAL CODE ON THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF RHODIA S.A.

To the Shareholders,

In our capacity as statutory auditors of Rhodia SA, and in accordance with article L.225 235 of the French Commercial Code (Code de Commerce), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31, 2008.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by articles L.225-37 of the French Commercial Code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### Information concerning the internal control procedures relating to the preparation and processing of financial and accounting information

French professional standards require that we perform procedures to assess the fairness of the information on internal control procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

### Other information

We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris La Défense, March 19, 2009

The statutory auditors

| PricewaterhouseCoopers Audit | KPMG Audit<br>*Division of KPMG S.A.* |
|---|---|
| Christian Perrier | Denis Marangé |

# 17 Employees

contents



## 17.1 Responsibilities of Rhodia with regard to its employees

With 14,353 employees at the end of 2008, of whom more than 43% are based in the zones of Latin America and Asia, Rhodia has implemented a human resources and corporate control and supervision program that takes these cultural diversities into consideration. The Group has met this requirement by adhering to a high ethical standard, by fostering dialogue within the Group and by promoting career development at the worldwide level.

With its economic performance and the development of its workforce being so closely inter-related, the policy regarding human resources is at the core of the challenges facing the Group, in particular in areas of significant growth.

### 17.1.1 DEVELOPMENT OF THE WORKFORCE AND EMPLOYMENT: MAIN TRENDS

| Historical group structure | 2006 | 2007 | 2008 |
|---|---|---|---|
| Change in workforce | 17,077 | 15,530 | 14,353 |

The gradual decline in the number of employees since 2006 is in part due to disposals. In 2008, 697 employees left the Group in this way, since the Isocyanates activity had been sold.

#### EMPLOYMENT TALLY: CREATION/ELIMINATION OF JOBS (EXCLUDING THE EFFECT OF CHANGES IN THE SCOPE OF CONSOLIDATION)

- 2008: +800 outside recruits/-1,280 departures;
- 2007: +1,192 outside recruits/-1,133 departures;
- 2006: +1,116 outside recruits/-1,739 departures.

After eight years of significant decreases and stabilization in 2007 (+0.4%), Rhodia reduced the number of its employees by 3.2% in 2008. This decline amounted to (1.3%) in the first half of the year and it accelerated in the second (1.9%) on account of the crisis.

Rates for new hires and departures were, respectively, 5.4% and 8.6%. Fifty-five point five percent of new hires were made in Asia and Latin America. In all, the percentage of Rhodia's workforce in these two zones continues to increase, from 27% in 2003 to 43% in 2008, which reflects the Group's development strategy.

**EVOLUTION OF THE GEOGRAPHICAL DISTRIBUTION OF THE WORKFORCE BETWEEN 2003 AND 2008**

| | 2003 (historical scope of consolidation) | 2008 |
|---|---|---|
| France | 38% | 31% |
| Europe not including France | 24% | 15% |
| North America | 11% | 11% |
| Latin America | 16% | 21% |
| Asia/Pacific | 11% | 22% |

## DIVERSITY

In May 2005, the Group signed the Charter of Diversity in France, which committed 60 large French companies to a voluntary program to promote diversity in all its forms. Within this context, Rhodia has entrusted a team from the University of Evry with the task of evaluating the level of assimilation of the concept of diversity by the Group workforce (which includes studying awareness of the Group's policy, the actual status of diversity, improvements, etc.).

At the beginning of 2007, the results from this study were simultaneously presented to the advisory board and to the labor union organizations in order to share and jointly develop actions to be undertaken. A consensus was reached that a stronger initiative would be spearheaded in favor of hiring people with reduced employment capacity.

In 2008, the HR population took a diversity training session in France, particularly those who recruit, specifically to explain the challenges of this issue and the need to apply exemplary practices in this field.

In Brazil, Rhodia launched a program for hiring disabled persons in 2007. This program, including a training and adaptation plan for work stations and their environments, continued in 2008. It also includes actions regarding management to integrate this population. Accordingly, 73 individuals were hired in 2007 and 44 in 2008.

The percentage of women in the total workforce of the Group is 22.5%, which is stable with respect to the previous year. The percentage of women managers in the total management workforce is 27.5%, an increase compared to the previous year. Of the executive managers, 11% are women, which represents a clear improvement compared to 2007 (8%).

Among entry-level managers, 31% are women, who also make up 25% of the "high-potential managers" (with the percentages remaining stable as compared to 2007).

50% of the "high-potential" managers are not French nationals.

## 17.1.2 MONITORING THE HEALTH AND SAFETY OF INDIVIDUALS

Rhodia has made the health and safety of its employees a priority. Providing good working conditions and managing risks are daily concerns for the Group.

To this end, Rhodia has set up systematic preventive procedures with regard to the health not only of its own employees but also those of third parties who work on its sites, and communities neighboring its plants.

In 2006, with regard to a "*red line*" in its Management Book (see Chapter 4.2.1.1, "Management Book," of this reference document), the Group developed procedure for managing CMR products (carcinogens, mutagens and substances toxic to reproduction) that provides a framework for substitution possibilities and the management of risks. In 2006, a tracking indicator for the application of this red line was set up. Thus, at all the Group sites in late December 2008, 542 uses[10] of CMRs (European Union categories 1 & 2, IARC (CIRC) 1 & 2A) were declared involving less than 130 CMR substances, for which:

- 98% of the justifications [11] for non-replacement were drafted;
- 98% of risk evaluations [11] were conducted;
- 98% of CMR files [11] were completed for an objective of 100% by the end of 2008 (for some CMRs, the files are in the process of completion).

The mobilization of the Rhodia Group in the areas of health, safety and the environment has translated into a very concrete commitment by managers in the field. In this regard, the "Safety" visits of the members of the Group's executive committee, and safety visits from the upper management ("VSH"), made by the members of the management committees of Rhodia's companies, have helped to raise awareness and increase the motivation of the teams. The average rate of VSH per member of the executive committees of the companies has stabilized at 7.6.

*(10) A CMR used several times on the same site is counted once. The same CMR used on several sites is counted as multiple uses.*

*(11) Arguments, risk evaluations and files refer to an "activity" (process or operating mode) implementing a CMR on a site (these concepts are defined in the glossary of the reporting procedure "Responsible care®" of the Group DRC 06-01).*

Rhodia has numerous methods at its disposal, most of which are based on conduct to improve the application of good practices by employees with regard to safety. Thus, in 2008, 77% of the workforce became involved in a progress action in terms of health, safety or the environment. The development of actions in the domain of human and organizational factors (HOF) will enable the Group to maintain its performance levels at their current level or even to improve them.

Sixty-nine occupational illnesses, recognized in 2008 or likely to be recognized subsequently ***, were identified in 2008. These diseases are mostly the consequence of past exposures.

## SAFETY RESULTS

Since 2006, the Group has developed overall frequency rates that take into account all people working on its sites. This demonstrates Rhodia's desire to treat all of those who are concerned by HSE problems in a uniform manner.

Beginning in 2007, Rhodia decided to present more precise results (two digits after the decimal) which allowed for better tracking of progress on safety measures (data given on the basis of a historical scope of consolidation).

| | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|
| TF1 Personnel working on a Rhodia site (1) | 0.9 | 0.7 | 0.67 | 0.59 |
| TF2 Personnel working on a Rhodia site (2) | 2.1 | 1.5 | 1.43 | 1.18 |
| TF1 Rhodia personnel (3) | 0.8 | 0.5 | 0.50 | 0.63 |
| TF2 Rhodia personnel (4) | 1.8 | 1.1 | 1.18 | 0.91 |
| TG Rhodia personnel (5) | 0.05 | 0.04 | 0.05 | 0.05 |
| Work-related illnesses for Rhodia personnel | 41 | 57 (10) | 53 (10) | 69 (10) |
| TF1 Temporary workers (6) | 1.4 | 1.7 | 2.57 | 1.05 |
| TF2 Temporary workers (7) | 2.3 | 2.3 | 3.22 | 2.11 |
| TF1 Outside companies (8) | 1.1 | 1.2 | 0.82 | 0.46 |
| TF2 Outside companies (9) | 3.0 | 2.6 | 1.79 | 1.68 |
| Number of deaths of Rhodia personnel, outside companies and temporary workers | 0 | 0 | 1 | 0 |

*(1) Frequency rate of accidents resulting in a work disruption of one full day (or more) in addition to the day of the accident, for Rhodia personnel, temporary workers and companies not belonging to the Group working on Rhodia sites measured in number of accidents per million of work hours.*

*(2) Frequency rate of accidents, whether or not resulting in a work disruption, for the personnel of Rhodia, temporary workers and companies that do not belong to the Group and which are working on Rhodia sites, measured in number of accidents per million of work hours.*

*(3) Frequency rate of accidents resulting in a work disruption of a full day (or more), in addition to the day of the accident, for Rhodia personnel, measured in the number of accidents per million of work hours.*

*(4) Frequency rate of accidents resulting or not in a work disruption for Rhodia personnel, measured in the number of accidents per million of work hours.*

*(5) Rate of seriousness of the accidents with work disruptions for Rhodia personnel, measured according to the number of work days lost per thousand hours of work.*

*(6) Frequency rate of accidents resulting in a work disruption of a full day (or more) in addition to the day of the accident, for temporary workers employed by the sites of the Rhodia Group, measured in the number of accidents per million of work hours.*

*(7) Frequency rate of accidents resulting or not in a work disruption for temporary workers employed by the sites of the Rhodia Group, measured in the number of accidents per million of work hours.*

*(8) Frequency rate of accidents resulting in a work disruption for companies not belonging to the Rhodia Group but working on Rhodia sites, measured in the number of accidents per million of work hours.*

*(9) Frequency rate of accidents resulting or not resulting in a work disruption for companies not belonging to the Rhodia Group but working on Rhodia sites, measured in the number of accidents per million of work hours.*

*(10) Recognized or susceptible of recognition subsequently, as defined in the Group's internal procedure (DRC 28) on the process of handling work-related illnesses.*

The frequency rate TF1 (accidents with work disruptions for all personnel working on the Group sites), which is the only rate widely reported by all industrial companies, is now less than one for four years, a level that places Rhodia among worldwide leaders in the chemistry industry with regard to workplace safety results. In 2008, this rate was lower than 0.6.

The frequency rate TF2 (accidents with or without work disruptions) is clearly improving compared to 2007.

Nevertheless, it is with regret that the Group reports accidents with irreversible effects that have led the Group to implement and follow up a specific indicator "restated rate of seriousness" enabling better management of the "Safety of Individuals at work stations" process. This indicator, set up by the Group in 2007, is not known definitively until the end of the work disruptions linked to accidents during the year. Thus, for 2008, the improvement reported is provisional, the Group's estimate after integration of days in 2009 being of a value substantially equal to that for 2007.

**** As defined in the Group's internal procedure DRC 28 on the process for handling work-related illnesses.*

## 17.1.3 INVESTMENTS IN HYGIENE, HEALTH AND SAFETY IN 2008

In 2008, the Group invested €16.1 million in hygiene, health and safety.

## 17.1.4 DEVELOPING A RICH AND BALANCED CORPORATE DIALOGUE

Regular dialogue with corporate partners is part of Rhodia's culture. The Group's management is mindful of keeping the representatives of its employees informed in total transparency, so that everyone can prepare better for any foreseeable changes. This approach helps to promote the concept of the corporate partners' responsibility and all parties' capacity for commitment.

Recently, this shared culture made possible the signing in 2004 of a method agreement that established a strategic dialogue body (SDB). An agreement in March 2007 confirmed the existence of this body, which has met four times since then.

Furthermore, this agreement supplements the system for detecting future job problems set up in 2003 through a system of early detection. This agreement also sets up the legal and regulatory procedures while adjusting them. Given its restrictive scope, an amendment to this agreement was signed in 2008 so that employees from the Roussillon site, concerned by the announced shut down of one of its activities, could benefit from this system.

The following were also signed at the Group level in 2008:

- a Company Savings Plan agreement;
- a profit-sharing agreement;
- an agreement on Supplemental Coverage for Health Care Expenses.

Lastly, the first worldwide corporate and environmental responsibility agreement that had been signed in 2005, with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) was updated and renewed in 2008 (see Chapter 5.3.1.3, "A global commitment to corporate and environmental responsibility," of this reference document).

## 17.1.5 DEVELOPING SKILLS AND ENCOURAGING THE IN-HOUSE PROMOTION OF EMPLOYEES

Rhodia considers the development of its employees a key factor in its success. This involves outside and in-house training sessions, but also simulations of work situations; in this case, the employee is given a project responsibility or a job different from his normal work, on the same site or at another site, or even in another country; managers are encouraged to promote this dynamic type of situation particularly through progression, development and succession plans (PDSP).

In 2008, the Group continued to spread its new model of behavioral skills (results orientation, customer orientation, initiative, perceptiveness and global vision, open mind, courage, team spirit, proactive cooperation, self-knowledge, impact and influence, and the development of others). In 2008, 300 new managers were trained in this observation and development procedure. Presently, 2,100 managers, or approximately two-thirds, have been trained in behavioral skills. Furthermore, in 2008, 50 Group executives participated in the five-day program aimed at leadership, cooperation, team development and strategy. This program raised the number of executives trained in behavioral skills to 350; in other words, the Group fully achieved the target it had set.

The training session for the e-learning Annual Development and Performance Interview was widely used in France during the campaign of interviews held there in the fall.

The employability of its employees is also a significant objective of the Group. The Early Professions, Jobs and Skills Management Agreement signed in 2003 represented a true leap forward in our culture. The Group is convinced of the importance of this policy and continues its efforts to promote it. A report on the implementation of the approach in France was presented to the Group Committee, the highest representative body of the Group in that country.

In 2008, a major effort was undertaken to increase the number of training programs headed in-house by Group managers and experts.

### 17.1.5.1 GETTING THE MOST OUT OF TRAINING

In 2008, Rhodia pursued the implementation of a worldwide vision of training priorities separated by professional groups.

The key programs of 2008 were:

- an integration internship at Rhodia for new arrivals, with special sessions in IT and finance;
- industrial group: human and organizational safety factors (behavioral approach), training in European REACH regulations on chemical products;
- operating excellence: the deployment of the *Six Sigma* program, intended to ensure a culture of variability and performance measurement, was expanded by the involvement of in-house trainers;
- commercial & marketing group: as a supplement to training sessions on project management and innovation and training sessions on commercial performance, an ambitious program of training in marketing within the framework of innovation, and a training session on the "voice of the customer" was developed in 2007 and deployed in 2008 around the world (notably in the US and the Asia/Pacific region);

- group purchases: training in international commercial terms (INCOTERMS) was developed by the customs specialist and distributed worldwide; on-line training in Durables Purchases was developed in the form of modules translated into the main languages of the Group; and
- diversity training to combat discrimination in France: a program was developed in 2007 and deployed in 2008 for around 100 employees concerned, either because of their activity in Human Resources or because of their role in management decisions that might involve discriminatory decisions. Developed with a contribution from the HALDE (*Haute Autorité de Lutte contre les Discriminations et pour l'Egalité*), this program was particularly appreciated by interns.

In 2008, 78% of Rhodia's employees worldwide benefited from at least a training session; in other words, the proportion of employees receiving training increased compared to 2007; the average number of training hours in 2008 was 19 hours (22 hours for managers and 18 hours for other employee categories), compared to 23 hours in 2007.

| *(in euros)* | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Training investment indicator per person | 324 | 317 | 357 | 290 |

Given the harsh economic climate, and especially due to the impact of implementing numerous in-house training sessions, the average investment per person declined from €357 in 2007 to €290 in 2008.

In 2008, a major effort was undertaken to increase the number of training programs headed by Group managers and experts.

### 17.1.5.2 PROMOTING STAFF MOBILITY

Rhodia promotes the internal mobility of its staff by the coordinated and international management of its professional groups. The process is headed by the Human Resource network of the Group in each country for the positions managed locally, and at the international level by geographic zone for the positions requiring centralized coordination—i.e., mainly for managers. The "career opportunities" tab on the Group's Intranet enables employees to consult the jobs available within the Group and to apply for jobs. Workers, employees, technicians and supervisors (OETAMs) benefit from an internal agency for promoting and recruiting in France. The purpose of this agency is to list available jobs and give preference to promoting employees within the Group in France. The agency has helped to implement the approach at the country level by acting effectively as an internal and external recruitment office.

#### Internal mobility: confirmation of a positive trend

Ten percent of managers have benefited from internal promotions, which confirms the positive trend that began in 2002.

| | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Internal mobility | 17% | 10% | 10% | 10% |

#### Geographical mobility

In 2008, Rhodia continued its policy of skills development for local employees and has continued to reduce the number of expatriates, which has stabilized at approximately 0.4% of the total number of employees.

The number of expatriates declined in 2008, but in proportions comparable to those of the overall change in the number of Group employees:

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Number of expatriates, of "opportunity missions" and short-term job assignments | 121 | 111 | 137 | 132 | 114 |

In the United States, the end of the IT project that switched over to RCS (Rhodia Core System), a system specific to Rhodia based on SAP, explains a significant portion of this change.

## 17.2 Share subscription or purchase option and allocation of performance shares plans

### 17.2.1 ALLOCATION POLICY

The allocation of share subscription or purchase options and performance shares are indispensable tools for hiring and retaining high-proficiency management personnel. The persons that can be involved in these allocations are senior managers and management personnel with high potential, whom it is necessary to retain, and, on an exceptional basis, general workers or employees, whose work performance is outstanding. The allotment of share subscription or purchase options or performance shares to employees and management personnel takes into account their strong involvement in Rhodia.

The price for the exercise of share subscription or purchase options is set in accordance with certain legal provisions, and there has never been a discount with respect to this reference price. Moreover, some of the plans for allocating share subscription or purchase options, as well as all the plans for the allocation of performance shares targeting the groups defined above are conditional upon meeting economic performance criteria.

## 17.2.2 SHARE SUBSCRIPTION OR PURCHASE OPTION PLANS

At December 31, 2008, the number of outstanding share subscription options was 2,032,682, representing 2% of the Company's share capital assuming the exercise of all of the share subscription options and the creation of new shares.

### INFORMATION RELATED TO THE SHARE SUBSCRIPTION OPTIONS IN 2008

#### Allocation of share subscription options

In 2008, the Board of Directors did not authorize any share subscription option plans.

#### Exercise of share subscription options

No stock options were exercised by officers of the Company in 2008.

The table below indicates the number and price of the shares that were subscribed during 2008 by the non-officer beneficiaries of the Group (2 employees having made such transactions):

| | Number of Shares | Price of Subscription (in euros) | Share Subscription Option Plan |
|---|---|---|---|
| Share subscription options exercised by non-officers of the Group | 1,111 | 15.12 | Plan A 2004 |

### SUMMARY AND FEATURES OF THE CURRENT SHARE SUBSCRIPTION OPTION PLANS

See Note 34.2 (Stock option plans) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

In addition, the weighted average remaining maturity of the stock options at the end of the year amounted to 3 years in 2008, 4 years in 2007, and 5.1 years in 2006.

## 17.2.3 ALLOCATION OF PERFORMANCE SHARES

As of December 31, 2008, the number of shares that would be allocated at the end of the vesting period was 1,312,628, representing 1.3% of the capital of the Company, after the vesting of those shares.

### REPORT ON THE ALLOCATION OF PERFORMANCE SHARES IN 2008

#### Allocations of performance shares in 2008

At its meeting of March 17, 2008, based on the authorization given by the 16th resolution adopted by the combined annual shareholders' meeting of May 3, 2007, the Board of Directors authorized the following plans for the allocation of performance shares, with the 2+2 plans benefiting mainly French tax residents and the 4+0 plans foreign tax residents:

- the first plan (Plan A 2+2), conditional on the attainment of certain economic performances providing for:

– a performance condition consisting of achieving a CFROI (Cash Flow Return on Investment), as shown in the consolidated financial statements of the Company as of December 31, 2008, greater than or equal to 8%,

– the allocation of 355,000 shares to 189 beneficiaries,

– a two-year vesting period (which will therefore end by the end of the day on March 17, 2010) and a two-year holding period (which will therefore end by the end of the day on March 19, 2012);

- the second plan (Plan B 2+2), conditional on the attainment of certain economic performances providing for:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (incorporating the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2008, two points greater than the average ratio of a reference panel made up of specialty chemistry companies,
  - the allocation of 355,000 shares to 189 beneficiaries,
  - a two-year vesting period (which will therefore end by the end of the day on March 17, 2010) and a two-year holding period (which will therefore end by the end of the day on March 19, 2012);
- the third plan (Plan A 4+0), conditional on the attainment of certain economic performances providing for:
  - a performance condition consisting of achieving a CFROI (Cash Flow Return on Investment), as shown in the consolidated financial statements of the Company as of December 31, 2008, higher or equal to 8%,
  - the allocation of 156,980 shares to 153 beneficiaries,
  - a four-year vesting period (which will therefore end by the end of the day on March 19, 2012);
- the fourth plan (Plan B 4+0), conditional on the attainment of certain economic performances providing for:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (incorporating the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2008, two points greater than the average ratio of a reference panel made up of specialty chemistry companies,
  - the allocation of 156,980 shares to 153 beneficiaries,
  - a four-year vesting period (which will therefore end by the end of the day on March 19, 2012);

The performance condition of Plans A 2+2 and 4+0 was not met (thus cancelling these plans) and the performance condition of Plans B 2+2 and 4+0 was met.

## Allocations of performance shares to corporate representatives

The number and value of shares allocated to the corporate representatives of the Group under the various plans described above are indicated in the table below.

Insofar as Plan A was canceled due to failure to meet the performance condition, this table only presents performance shares allocated under Plan B.

| Corporate representatives | Number of shares allocated | Value of the shares (IFRS) * in euros | Value of the shares (at 12/31/08) ** in euros |
|---|---|---|---|
| Jean-Pierre Clamadieu, Chief Executive Officer. | 37,000 shares | 404,780 | 170,200 |
| Jacques Khéliff (Director) | 7,500 shares (allocated in his capacity as Head of Sustainable Development) | 82,050 | 34,500 |

* *Valued according to the method used for the consolidated financial statements, i.e. €10.94 per share (see Note 34.3 (Free shares plan) to the consolidated financial statements in chapter 20.3.1.3 of this reference document).*

** *Value of Rhodia shares at opening of market on December 31,2008, i.e. €4.60 per share.*

Furthermore, in accordance with Article L.225-197-1 II, paragraph 4 of the Commercial Code, the Board of Directors of the Company set the number of shares coming from those two plans that the Chief Executive Officer must hold until his duties end at 25%.

## Allocations of performance shares to employees of the Group

The table below indicates the number and value of the allocations made to each of the ten non-officers of the Group who received the highest number of shares allocated under Plans A and B.

Insofar as Plan A was canceled due to failure to meet the performance condition, this table only presents performance shares allocated under Plan B.

| Number of shares allocated | Value of the shares (IFRS) * in euros | Value of the shares (at 12/31/08) ** in euros | Beneficiary(s) | Position | Country |
|---|---|---|---|---|---|
| 23,500 | 257,090 | 108,100 | Gilles Auffret *** | Chief Operating Officer | France |
| 17,500 | 191,450 | 80,500 | Laurent Schmitt | President of Polyamide | France |
| 14,000 | 153,160 | 64,400 | Pascal Bouchiat *** | Group Executive Vice President and Chief Financial Officer | France |
| 12,500 | 136,750 | 57,500 | Bernard Chambon *** | Group Executive Vice President supervising all Geographic zones, Communications, Public Affairs, Security as well as Sustainable Development. | France |
| 12,500 | 136,750 | 57,500 | Yolène Coppin *** | Executive Vice President Human Resources | France |
| 12,500 | 141,250 | 57,500 | Pascal Juery | President of Novecare | United States |
| 12,500 | 136,750 | 57,500 | Jean-Pierre Labroue *** | Group Executive Vice President, General Counsel and Corporate Secretary | France |
| 10,000 | 109,400 | 46,000 | Marc Chollet *** | Group Executive Vice President, Strategy | France |
| 10,000 | 109,400 | 46,000 | Eric Noirez | President of Polyamide | France |
| 10,000 | 109,400 | 92,000 | Philippe Rosier | President of Energy Services | France |

** Valued according to the method used for the consolidated financial statements, i.e. €10.94 per share for plans A and B 2+2 and €11.30 for plans A and B 4+0 (see Note 34.3 (Free shares plan) to the consolidated financial statements in chapter 20.3.1.3 of this reference document).*
*** Value of Rhodia shares at opening of market on December 31, 2008, i.e. €4.60 per share.*
**** Members of the Management Committee.*

## Performance shares that became available during 2008

No performance shares allocated to corporate representatives of the Company became available during 2008.

## OTHER CURRENT PLANS FOR ALLOCATION OF PERFORMANCE SHARES

In addition to the plans for the allocation of performance shares authorized in 2008 described above, the Board of Directors had drawn up two plans for the allocation of performance shares in 2007. Since the performance conditions provided for in those plans had been met, 578,264 post-reverse split shares were issued by the Company and given to the beneficiaries of those plans at the end of the vesting period, or end of the day on January 15, 2009 (or 289,132 shares under Plan A and 289,132 shares under Plan B).

Those shares must now be held by their holders until the end of the holding period, or end of the day on January 17, 2011.

## INFORMATION ON 2009

### Allocations of performance shares granted in 2009

At its meeting of March 16, 2009, based on the authorization given by the 16th resolution adopted by the combined annual shareholders' meeting of May 3, 2007, the Board of Directors authorized the following plans for the allocation of performance shares, with the 2+2 plans benefiting mainly French tax residents and the 4+0 plans foreign tax residents:

- a first plan (Plan A 2+2), conditional on the attainment of certain economic performances providing for:
  - a performance condition linked to Free Cash Flow generated in 2009, as shown in the consolidated financial statements of the Company as of December 31, 2009,
  - the allocation of 279,800 shares to 101 beneficiaries,
  - a two-year vesting period (which will therefore end by the end of the day on March 16, 2011), and a two-year holding period (which will therefore end by the end of the day on March 16, 2013);
- a second plan (Plan B 2+2), conditional on the attainment of certain economic performances providing for:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (incorporating the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2009, two points greater than the average ratio of a reference panel made up of specialty chemicals companies,
  - the allocation of 279,800 shares to 101 beneficiaries,
  - a two-year vesting period (which will therefore end by the end of the day on March 16, 2011), and a two-year holding period (which will therefore end by the end of the day on March 16, 2013);
- a third plan (Plan A 4+0), conditional on the attainment of certain economic performances providing for:
  - a performance condition linked to Free Cash Flow generated in 2009, as shown in the consolidated financial statements of the Company as of December 31, 2009,
  - the allocation of 101,400 shares to 72 beneficiaries,
  - a four-year vesting period (which will therefore end by the end of the day on March 16, 2013);
- a fourth plan (Plan B 4+0), conditional on the attainment of certain economic performances providing for:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (incorporating the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2009, two points greater than the average ratio of a reference panel made up of specialty chemicals companies,
  - the allocation of 101,400 shares to 72 beneficiaries,
  - a four-year vesting period (which will therefore end by the end of the day on March 16, 2013).

## SUMMARY AND FEATURES OF THE PLANS FOR FREE ALLOCATIONS OF SHARES AT THE PRICE AT DECEMBER 31, 2008

See Note 34.3 to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

# 17.3 Employee shareholding

## 17.3.1 THE GROUP SAVINGS PLAN (PEG)

The PEG gives employees of the Group companies that belong to this plan the option of making voluntary payments and of investing their share of profit sharing plans. The PEG provides access to various corporate mutual funds, some of which serve to make capital increases reserved for the employees of the Group companies that belong to that PEG, those investment funds then being invested in Rhodia shares.

The Rhodia PEG is made up in particular of various corporate mutual funds (FCPE), some of which have invested in Rhodia shares. The regulations of the FCPE invested in Rhodia shares provide for the exercise through their supervisory boards, at general shareholders' meetings, of the voting rights attached to the Rhodia shares held by each of those FCPEs.

## 17.3.2 EMPLOYEE SHAREHOLDERS' STAKE IN RHODIA'S CAPITAL

As of December 31, 2008, the total number of shares held by employees of the Company, as defined in Article L. 225-102 of the Commercial Code, breaks down as follows:

| | |
|---|---|
| FCPE Rhodia 2000 | 565,250.00 |
| FCPE Actions Rhodia | 431,800.00 |
| FCPE Rhodia International | 62,680.00 |
| | |
| FCPE Avenir 2006 | 1,351,003.00 |
| FCPE Aspire 2006 | 272,621.00 |
| FCPE International Aspire 2006 | 65,764.00 |
| FCPE Avvenire 2006 | 24,802.00 |
| FCPE Zukunft 2006 | 53,389.00 |
| Rhodia shares directly held by employees through the PEG | 189,653.00 |
| **TOTAL NUMBER OF SHARES HELD BY EMPLOYEES, REPRESENTING 3.25% OF RHODIA'S CAPITAL** | **3,280,659.00** |

## 17.3.3 DIRECTORS REPRESENTING THE EMPLOYEE SHAREHOLDERS

It was noted, at the end of 2006, that the stake of Rhodia's employees and its subsidiaries in Rhodia's capital (pursuant to Article L. 225102 of the Commercial Code) had surpassed the 3% threshold.

With the threshold surpassed, regulations require including in the Company bylaws a mechanism allowing for the election by the general shareholders' meeting of a Director to represent the employee shareholders. For this purpose, an amendment to the Company bylaws was put to the vote of the shareholders during the general shareholders' meeting called to approve the 2007 financial statements.

In 2008, an electoral process was established allowing each employee shareholder active in the Group to present his or her candidacy to be selected, according to a vote of employee shareholders, as one of two candidates who would be proposed by the Board of Directors to the general shareholders' meeting of May 20, 2009.

Two candidates were chosen through this process: Jacques Khéliff and Marielle Martiny. The Rhodia Board of Directors, after having listened to each candidate at its meeting of March 16, 2009 and having evaluated their experience, personal qualities and their ability to contribute t the work of the Board, recommended shareholders vote in favor of Mr. Jacques Khéliff.

# 18 Principal shareholders

contents



## 18.1 Distribution of capital and voting rights

Changes in holdings of Rhodia's shares over the past three years are described in the following table:

| | December 31, 2008 (1) | | | December 31, 2007 (1) | | | December 31, 2006 (1) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares (2) | % capital | % Voting rights | Number of shares (2) | % capital | % Voting rights | Number of shares | % capital | % Voting rights |
| Capital Group Companies, Inc. | 12,626,821 | 12.49 | 12.72 | 8,449,470 | 8.42 | 8.42 | 59,050,917 | 4.91 | 4.91 |
| Wellington Management Company, LLP | 10,062,086 | 9.95 | 10.13 | 6,799,116 | 6.77 | 6.77 | (2,092,737) | 0.17 | 0.17 |
| Henderson Global Investors Ltd. | 5,298,423 | 5.24 | 5.34 | 4,593,185 | 4.58 | 4.58 | 41,095,792 | 3.41 | 3.41 |
| JP Morgan Asset Management | 3,836,673 | 3.80 | 3.86 | 2,327,717 | 2.32 | 2.32 | 63,490,878 | 5.27 | 5.27 |
| Other international institutions | 24,681,367 | 24.42 | 24.86 | 46,750,712 | 51.16 | 51.16 | 618,913,893 | 47.81 | 47.81 |
| French institutions | 21,953,412 | 21.72 | 22.11 | 15,224,528 | 15.17 | 15.17 | 279,822,502 | 23.24 | 23.24 |
| Individuals | 16,865,429 | 16.68 | 16.98 | 12,876,666 | 12.83 | 12.83 | 138,838,812 | 11.53 | 11.53 |
| Employees (Article L. 225-102 of the Commercial Code) | 3,974,054 | 3.93 | 4.00 | 3,346,437 | 3.33 | 3.33 | 44,075,172 | 3.66 | 3.66 |
| Treasury | 1,788,803 | 1.77 | 0.00 | 0 | | | | | |
| **TOTAL** | **101,087,068** | **100** | **100** | **100,367,831** | **100** | **100** | **1,204,186,174** | **100** | **100** |

*(1) Source: Euroclear France and Capital Precision.*

*(2) As set forth in chapter 21.1.1 of this reference document, on June 12, 2007, Rhodia carried out a reverse share split by exchanging a new share with a nominal value of €12 for 12 former shares with a nominal value of €1 each. Thus, on December 31, 2007, Rhodia's share capital consisted of 100,367,831 shares, with a nominal value of €12 per share. Prior to this reverse share split, Rhodia's share capital consisted of 1,204,186,174 shares with a nominal value of €1 per share on December 31, 2006.*

*(3) By letter dated March 13, 2009, supplemented by a letter dated March 16, Capital Group International – CGII, acting on behalf of funds under its management, declared having crossed below the holding threshold of 5% of capital and voting rights on March 12, 2009, following the sale of Rhodia shares on the market, and holding, on behalf of the funds, 5,007,052 Rhodia shares representing 60,084,624 voting rights, or 4.95% of the Company's capital and voting rights.*

## 18.2 Different voting rights

There are no double voting rights.

Following the reverse split of Company shares (see chapter 21.1.1 below), the shareholders have a period of two years counting from the start of the reserve share split, or until June 12, 2009, to claim the post-reverse split shares (each with a nominal value of €12) and to exchange them for 12 pre-reverse split shares (each with a nominal value of €1).

As a result, during this two-year period and in accordance with Article 18 of the Company bylaws, any pre-reverse split share will entitle its holder to one (1) vote and any post-reverse split share to twelve (12) votes, so that the number of votes attached to the Company's shares will be proportional to the part of the capital that they represent.

As of December 31, 2008, there were outstanding:

- 101,063,947 post-reverse split shares giving right to 12 voting rights each, or 1,200,536,820 theoretical voting rights (that is, the reverse share split rate of 99.98%); and
- 277,452 pre-reverse split shares giving right to one voting right each, or 277,452 voting rights.

## 18.3 Information on the control of the Company's share capital

To Rhodia's knowledge, the shares registered directly with the Company and subject to a pledge represent less than 1% of its share capital.

The principal events that have occurred relative to the control of the share capital of the Company since January 1, 2008, are the following:

- Wellington Management Company, LLP made the following declarations to the Company and to the Autorité des Marchés Financiers:
  - by letter dated April 4, 2008, of having crossed above the holding threshold of 10% of the capital and voting rights on April 3, 2008, as a result of acquiring Rhodia shares and of holding on behalf of its clients 10,330,194 Rhodia shares, representing 123,962,328 voting rights, i.e., 10.22% of the Company's capital and voting rights;
  - by letter dated November 3, 2008, of having crossed below the holding threshold of 10% of the capital and voting rights on October 31, 2008, as a result of a sale of Rhodia shares and of holding on behalf of its clients 9,993,592 Rhodia shares, representing 119,923,104 voting rights, i.e. 9.89%, of the Company's capital and voting rights;
- by letter dated May 23, 2008, supplemented by a letter dated May 24, Capital Research and Management Company declared having crossed above the holding threshold of 5% of capital and voting rights on May 20, 2008 as a result of an acquisition of Rhodia shares on the market and of holding on behalf of its clients 5,237,851 Rhodia shares, representing 62,854,212 voting rights, i.e., 5.18% of the Company's capital and voting rights.
- by letter dated March 13, 2009 supplemented by a letter dated March 16, Capital Group International - CGII, acting on behalf of founds under its management, declared having crossed below the holding threshold of 5% of capital and voting rights on March 12, 2009, following the sale of Rhodia shares on the market and holding, on behalf of the founds, 5,007,052 Rhodia shares representing 60,084,624 voting rights, or 4.95% of the Company' capital rights.
- by letter dated March 20, 2009, Société Générale declared having, directly or indirectly, crossed above the holding threshold of 5% of capital and voting rights on March 6, 2009 as a result of an acquisition of Rhodia shares on the market in the framework of its trading activities and of holding 5,662,575 Rhodia shares on March 13, 2009, representing 67,950,900 voting rights, i.e. 5.60%, of the Company's capital and voting rights.

To Rhodia's knowledge, the percentage of the capital and voting rights held by the members of the Board of Directors and the Management Committee of Rhodia is not significant.

To Rhodia's knowledge, no shareholder, other than those indicated in the table above, directly or indirectly holds more than 5% of the capital or the voting rights of Rhodia.

## 18.4 Change of control

To Rhodia's knowledge, no shareholders' agreement nor any clause of any agreement containing preferential terms for selling or purchasing Rhodia shares was reported to the Autorité des Marchés Financiers. Nor were any concerted actions noted.

In addition, the information below is provided within the framework of and for the purpose of complying with the provisions of Article L. 225-100-3 of the Commercial Code involving implementation of the guidelines regarding takeover bids:

- the structure of the Company's capital is described in chapter 18.1;
- there are no restrictions in the bylaws on the exercise of voting rights and the transfers of shares or clauses of agreements brought to the attention of the Company in application of Article L. 233-11 of the Commercial Code (see also chapters 18.2 and 21.2);
- the direct or indirect shareholdings in the capital of the Company of which it is aware pursuant to Article L. 233-7 (declaration of crossing of thresholds) and Article L. 233-12 of the Commercial Code are described in chapter 18.3;
- no shareholders have special rights of control;
- the control mechanisms provided for in the shareholding system for the personnel of the Company are presented in chapter 17 of the reference document;
- as far as the Company is aware, there are no agreements among shareholders that may entail restrictions on the transfer of shares and on the exercise of voting rights in the Company;
- there are no rules specific to the Company applicable to the appointment and replacement of members of the Board of Directors or to the amendment of the bylaws of the Company of a nature to have an impact in case of a takeover bid;
- the powers of the Board of Directors regarding the issue or repurchase of shares appear in chapter 21.1;
- the agreements entered into by the Company which could be terminated in case of a change in control of the Company and which the Company deems capable of having an impact in case of a takeover bid are:
  - the securities note related to the issuance of bonds with an option of conversion and/or exchange for new shares or shares to be issued, made in April 2007 (presented in chapter 10.3 above) mentions that the change in control of the Company could result in an early redemption of all or some of those bonds, at the option of the bondholders,
  - the "new RCF" syndicated line of credit, described in chapter 10.3 above, mentions that a change in control of the Company could result in an early repayment of the line of credit, at the option of the lenders and under certain conditions,
  - the "Floating Rate Note" issuance described in chapter 10.3 above mentions that a change in control of the Company could result in an early redemption of those notes, at the option of the noteholders and under certain conditions,
  - the North American receivables securitization program put into place with HSBC, presented in chapter 10.3 above, mentions that a change in control of the Company could entail an early termination of the program, at the option of HSBC under certain conditions;
- the agreements that provide for indemnity for the Chairman and Chief Executive Officer and the members of the Management Committee in the case of a change in control are described in chapter 15 above.

# 19 Transactions with related parties

See chapter 7.1.3 of this reference document as well as Note 33 (Related party transactions) to the consolidated financial statements in chapter 20.3.1.3 below.

In addition, the special report of statutory auditors on the regulated agreements and undertakings is presented below.

## SPECIAL REPORT OF THE STATUTORY AUDITORS ON REGULATED AGREEMENTS AND COMMITMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Dear Shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements and commitments.

### 1. Agreements and commitments authorized during the year and through the date of the present report.

In accordance with article L.225-40 of the French commercial Code ("Code de commerce") we have been advised of agreements and commitments which have been previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements or commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article R.225-31 of the French Commercial Code, to evaluate the benefits arising from these agreements and commitments prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

### 1.1 Agreement relating to the mandate of the Chairman and Chief Executive Officer (Président-Directeur Général)

The Board, on the occasion of the meeting held on March 16, 2009, decided to authorize the conclusion of an agreement with Mr. Clamadieu, providing for a non-compete and non-solicitation clause, as well as certain undertakings and advantages in the context of the performance of his mandate as Chairman and CEO (Président-Directeur Général) and, as the case may be, the termination thereof. Such undertakings were formalized by an agreement relating to the mandate of the Chairman and CEO.

Such agreement:

- provides that the obligations under the Agreement are subject to the prior resignation of Mr. Clamadieu pursuant to his employment contract before June 1st, 2009. Such resignation entails express waiver by Mr. Clamadieu of all the advantages and contractual indemnities that he could have benefited from pursuant to the performance or termination of his employment contract;
- provides for a non-compete and non-solicitation undertaking by Mr. Clamadieu. Therefore, in case of termination of his mandate as Chairman and CEO, Mr. Clamadieu undertakes, for a period of 2 years, not to (i) conduct any activity to the benefit of a company which is active in the chemical sector in any territory in which the Rhodia Group is located, and (ii) contact any member of the Rhodia Executive Committee to offer him an activity in his own favor or in favor of an entity in which he would have an interest. As consideration, Rhodia undertakes to pay Mr. Clamadieu, for a period of two years as from the termination of his duties, a quarterly gross compensation of 220,000 €;
- also provides that Rhodia shall grant Mr. Clamadieu an advantage in kind consisting of a complementary health and life insurance policy;

- confirms that the years during which he acts as Chairman & CEO and the compensation received pursuant thereto shall be taken into account in calculating the rights (in particular, the base compensation and group seniority) that Mr. Clamadieu could benefit from under the Supplemental Retirement Plan for officers and directors (“RSD”), being noted that Mr. Clamadieu, as a member of management committees and his seniority within the group, became a potential beneficiary under such plan prior to his appointment as Chairman & CEO; the supplemental retirement regime in favor of directors and officers called “RSD” (defined benefits pension plan) was created in 2001 in favor of the new members of the Management members of the General Executive Committee and provides for the payment of a supplemental retirement benefit, subject to the following cumulative conditions: (i) to have acquired a 10-year group seniority and a 1-year seniority within the General Executive Committee (as employee, director or officer) and (ii) to be within the Rhodia group at the time of exercising one’s retirement rights or to have left the Rhodia group after 55 years-old without having exercised any activity thereafter. The supplemental retirement indemnity to which such plan can give rise is equal to a certain percentage of the beneficiary’s base compensation in excess of the ceilings of tranches B and C AGIRC, increased for each year of seniority in excess of 10 years. However, this yearly supplemental retirement indemnity can in no event enable the beneficiary to receive an amount exceeding (i) 45% of his base compensation under all the plans borne by Rhodia or (ii) 55% of his base compensation under all the indemnities whatsoever received by such beneficiary;
- provides that, in the event of termination of his duties as Chairman & CEO and subject to any performance conditions provided for in the plans, the rights attached to the share free attribution and subscription or purchase options that Mr. Clamadieu benefited or will benefit from will be maintained. The agreement specifies that any future plan that may benefit to Mr. Clamadieu will, for so long as he holds a corporate office, be subject to performance conditions;

Provides that the effectiveness of this agreement will entail the termination of the Severance Agreement concluded on March 26, 2007 and approved at the May 3, 2007 Shareholders’ Meeting, as amended on March 24, 2008 and approved at the May 16, 2008 Shareholders’ Meeting.

## 2. Continuing agreements and commitments which were entered into in prior years

Moreover, in accordance with the French Commercial Code (ou French Commercial Law), we have been informed of the following agreements and commitments, which were approved during previous years and which were applicable during the period:

### 2.1 *Employment agreement of a Director*

Director concerned by the agreement or commitment: Mr Jacques Khéliff

According to his employment contract, Mr. Jacques Khéliff, Director and Vice President for Sustainable Development of the Rhodia Group, is still receiving a to fix annual compensation amounting to €200,000 since 2008.

### 2.2 *Guarantee authorized pursuant to a program of securitization of commercial loans*

On December 21st, 2004, Rhodia S.A. and certain of its European subsidiaries concluded a series of contracts with a French bank putting into place a five year program for the securitization of commercial debt, for a maximum financing amount of €300 million. In particular, Rhodia S.A. committed itself to guarantee the payment of any amount due by its subsidiaries as part of this program.

At December 31, 2008, the amount of financing obtained under this program amounted to approximately €37 million.

Neuilly-sur-Seine and Paris La Défense, March 19, 2009

Statutory auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
|---|---|
| | *Département de KPMG S.A.* |
| Christian Perrier | Denis Marangé |

# 20 Financial information concerning the Company's assets and liabilities, financial position and profits

contents

# 20.1 Historical financial information

In accordance with Article 28 of the European Council regulation 809/2004, the following information is included by reference in this reference document:

- the consolidated financial statements for the year ended December 31, 2006 prepared in accordance with the IFRS (International Financial Reporting Standards) as adopted by the European Union and the report of the statutory auditors related to the financial statements for the year ended December 31, 2006 that are found in the Company's reference document filed with the Autorité des Marchés Financiers on March 30, 2007 under the number D.07-0257, starting on page 128;
- the consolidated financial statements for the year ended December 31, 2007 prepared in accordance with the IFRS (International Financial Reporting Standards) as adopted by the European Union and the report of the statutory auditors related to the financial statements for the year ended December 31, 2007 that are found in the Company's reference document filed with the Autorité des Marchés Financiers on March 31, 2008 under the number D.08-0812, starting on page 123;
- the financial statements for the year ended December 31, 2006 and the report of the statutory auditors related to the financial statements for the year ended December 31, 2006 that are found in the Company's reference document filed with the Autorité des Marchés Financiers on March 30, 2007 under the number D.07-0257, starting on page 208;
- the financial statements for the year ended December 31, 2007 and the report of the statutory auditors related to the financial statements for the year ended December 31, 2007 that are found in the Company's reference document filed with the Autorité des Marchés Financiers on March 31, 2008 under the number D.08-0812, starting on page 196.

The two reference documents cited above are available on the Company's Internet site (www.rhodia.com) and the site of the Autorité des Marchés Financiers (www.amf-france.org).

# 20.2 Pro forma financial information

Not applicable

# 20.3 Financial positions

## 20.3.1 CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2008

## 20.3.1.1 STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2008, on:

- the audit of the accompanying consolidated financial statements of Rhodia SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2008, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II - Justification of our assessments

The accounting estimates used to prepare the consolidated financial statements at December 31, 2008 were made against a backdrop of highly volatile financial markets and significant difficulty in assessing the economic outlook. In this context, and in accordance with the requirements of article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

At each reporting date, the Group assesses whether there are any indications of impairment of property, plant and equipment, in accordance with the methods described in note 2.9 to the financial statements and performs, where applicable, impairment tests on these assets. We examined the methods used to implement these impairment tests as well as the projected cash flows and the assumptions used, and verified that notes 2.9 and 5.1 to the consolidated financial statements provide appropriate disclosures.

Notes 2.17 and 27 to the consolidated financial statements describe the methods used by the Group to assess and recognize its retirement and other long-term employee benefit obligations. As part of our assessment of the accounting estimates used to prepare the consolidated financial statements, and considering the complexity of the procedure involving specialist techniques, our work consisted in verifying that the main retirement and other long-term employee benefit obligations were assessed by independent actuaries, examining the data used to perform this assessment as well as the underlying assumptions, and verifying that notes to the consolidated financial statements provide appropriate disclosures.

The Group recognizes provisions for environmental risks in accordance with the methods described in the notes to the consolidated financial statements (notes 2.19, 28.1, 28.2, and 28.4). Moreover, note 28.4 to the consolidated financial statements describes contingent liabilities that are not covered by provisions at December 31, 2008. Based on the information available, our work consisted in analyzing the procedures put in place by management to identify, classify and measure environmental risks, examining the information and assumptions underlying the estimates used, and verifying that the notes to the consolidated financial statements provide appropriate disclosures.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

## III - Specific verification

As required by law we also verified the information given in the Group's management report. We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, March 19, 2009

Statutory auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
|---|---|
| | *Département de KPMG S.A.* |
| Christian Perrier | Denis Marangé |

## 20.3.1.2 CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2008

### A. CONSOLIDATED INCOME STATEMENTS

| | | For the year ended December 31 | |
|---|---|---|---|
| *(in millions of euros)* | **Note** | **2008** | **2007** |
| **Net sales** | 3 | **4,763** | **4,781** |
| Other revenue | 3 | 550 | 463 |
| Cost of sales | | (4,382) | (4,168) |
| Administrative and selling expenses | | (482) | (506) |
| Research and development expenditure | | (73) | (93) |
| Restructuring costs | 6 | (40) | (55) |
| Other operating income/(expenses) | 7 | (27) | - |
| **Operating profit** | 3 | **309** | **422** |
| Finance income | 8 | 138 | 129 |
| Finance costs | 8 | (313) | (420) |
| Foreign exchange losses | 8 | (3) | (3) |
| Share of profit/(loss) of associates | 15 | (1) | 2 |
| **Profit before income tax** | | **130** | **130** |
| Income tax expense | 9 | (55) | (83) |
| Profit/(loss) from continuing operations | | 75 | 47 |
| Profit/(loss) from discontinued operations | 10 | 32 | 84 |
| **Net profit for the period** | | **107** | **131** |
| Attributable to: | | | |
| Equity holders of Rhodia S.A. | | 105 | 129 |
| Minority interests | | 2 | 2 |
| **Earnings per share (in euros)** | | | |
| **Continuing and discontinued operations** | | | |
| • Basic | 11 | 1.05 | 1.29 |
| • Diluted | 11 | 1.04 | 1.27 |
| **Continuing operations** | | | |
| • Basic | 11 | 0.73 | 0.46 |
| • Diluted | 11 | 0.72 | 0.45 |

## B. CONSOLIDATED BALANCE SHEETS

### ASSETS

| *(in millions of euros)* | Note | At December 31, 2008 | At December 31, 2007 |
|---|---|---|---|
| Property, plant and equipment | 12 | 1,501 | 1,686 |
| Goodwill | 13 | 197 | 207 |
| Other intangible assets | 14 | 181 | 183 |
| Investments in associates | 15 | 13 | 13 |
| Other non-current financial assets | 17 | 92 | 113 |
| Deferred tax assets | 18 | 171 | 161 |
| **Non-current assets** | | **2,155** | **2,363** |
| Inventories | 19 | 666 | 583 |
| Income tax receivable | | 12 | 12 |
| Trade and other receivables | 20 | 821 | 965 |
| Derivative financial instruments | 26 | 148 | 96 |
| Other current financial assets | 21 | 28 | 19 |
| Cash and cash equivalents | 22 | 492 | 415 |
| Assets classified as held for sale | 10 | 2 | 25 |
| **Current assets** | | **2,169** | **2,115** |
| **TOTAL ASSETS** | | **4,324** | **4,478** |

### EQUITY/(DEFICIT) AND LIABILITIES

| *(in millions of euros)* | Note | At December, 31, 2008 | At December, 31, 2007 |
|---|---|---|---|
| Share capital | | 1,213 | 1,204 |
| Additional paid-in capital | | 138 | 147 |
| Other reserves | | 86 | 123 |
| Deficit | | (1,812) | (1,863) |
| **Equity deficit attributable to equity holders of Rhodia S.A.** | | **(375)** | **(389)** |
| Minority interests | | 19 | 21 |
| **Total equity deficit** | 23 | **(356)** | **(368)** |
| Borrowings | 24 | 1,612 | 1,675 |
| Retirement benefits and similar obligations | 27 | 1,155 | 1,154 |
| Provisions | 28 | 279 | 318 |
| Deferred tax liabilities | 18 | 38 | 43 |
| Other non-current liabilities | | 33 | 29 |
| **Non-current liabilities** | | **3,117** | **3,219** |
| Borrowings | 24 | 219 | 243 |
| Derivative financial instruments | 26 | 123 | 68 |
| Retirement benefits and similar obligations | 27 | 93 | 92 |
| Provisions | 28 | 137 | 138 |
| Income tax payable | | 19 | 8 |
| Trade and other payables | 29 | 972 | 1,071 |
| Liabilities associated with assets classified as held for sale | 10 | - | 7 |
| **Current liabilities** | | **1,563** | **1,627** |
| **TOTAL EQUITY DEFICIT AND LIABILITIES** | | **4,324** | **4,478** |

## C. CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

| *(in millions of euros)* | **Note** | **For the year ended December 31,** **2008** | **2007** |
|---|---|---|---|
| Currency translation differences and other movements | 23 | 26 | 7 |
| Gains/(losses) on cash flow hedges | 23 | (51) | - |
| Actuarial gains/(losses) on retirement benefits | 27 | (65) | (4) |
| Tax impact of items taken to equity | | 25 | (7) |
| Net loss directly recognized in equity | 23 | (65) | (4) |
| Net profit for the period | | 107 | 131 |
| Total recognized income and expense | | 42 | 127 |
| Attributable to: | | | |
| Equity holders of Rhodia S.A. | | 39 | 126 |
| Minority interests | | 3 | 1 |

## D. CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(in millions of euros)* | For the year ended December 31, 2008 | 2007 |
|---|---|---|
| **Net profit for the period attributable to equity holders of Rhodia S.A.** | **105** | **129** |
| *Adjustments for:* | | |
| Minority interests | 2 | 2 |
| Depreciation and impairment of non-current assets | 299 | 295 |
| Net increase/(decrease) in provisions and employee benefits | (29) | (17) |
| Impairment of non-current financial assets | 1 | (1) |
| Share of profit/(loss) of associates | 1 | (2) |
| Other income and expense | 28 | 54 |
| Gain/(loss) on disposal of non-current assets | (65) | (101) |
| Deferred tax expense | 4 | 25 |
| Foreign exchange losses | 29 | 29 |
| **Net cash flow from operating activities before changes in working capital** | **375** | **413** |
| *Changes in working capital* | | |
| • (Increase)/decrease in inventories | (149) | 16 |
| • (Increase)/decrease in trade and other receivables | 134 | 33 |
| • Increase/(decrease) in trade and other payables | (7) | (19) |
| • Increase/(decrease) in other current assets and liabilities | (34) | (33) |
| **Net cash from operating activities before margin calls** | **319** | **410** |
| Margin calls (1) | - | 3 |
| **Net cash from operating activities** | **319** | **413** |
| Purchases of property, plant and equipment | (241) | (258) |
| Purchases of other non-current assets | (41) | (66) |
| Proceeds on disposal of non-current assets | 209 | 273 |
| Purchases of entities, net of cash acquired | - | (17) |
| (Purchases of)/repayments of loans and financial investments | (9) | 16 |
| **Net cash from/(used by) investing activities** | **(82)** | **(52)** |
| Proceeds from issue of shares, net of costs | - | (2) |
| Treasury share purchase costs | (14) | - |
| Dividends paid to minority interests | (27) | (3) |
| New non-current borrowings, net of costs | 23 | 635 |
| Repayments of non-current borrowings, net of costs | (53) | (925) |
| Net increase/(decrease) in current borrowings | (58) | (117) |
| **Net cash from/(used by) financing activities** | **(129)** | **(412)** |
| **Effect of foreign exchange rate changes** | **(31)** | **(1)** |
| **Net increase/(decrease) in cash and cash equivalents** | **77** | **(52)** |
| Cash and cash equivalents at the beginning of the year | 415 | 467 |
| Cash and cash equivalents at the end of the year | 492 | 415 |

*(1) The margin call agreements are standardized credit risk reduction contracts, which are concluded with the clearing house of an organized market or bilaterally by private contract with a counterparty.*

Interest and income tax paid are presented in note 22.2.

## 20.3.1.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 The Group and its business

Rhodia S.A. and its subsidiaries ("Rhodia" or the "Group") produce, market and develop chemicals. Rhodia is the partner of major players in the automotive, tire, electronics, perfume, health & beauty and home care markets.

Rhodia has offices worldwide, particularly in Europe, the United States, Brazil and Asia.

Rhodia S.A. is a public limited company registered and domiciled in France. Its registered office is located at Paris – La Défense.

The company is listed on the Euronext Paris.

These consolidated financial statements were approved on February 24, 2009 by the Board of Directors.

### NOTE 2 Principal accounting methods

#### 2.1 *Accounting standards*

The Group's consolidated financial statements for the year ended December 31, 2008 are prepared in accordance with IFRS (International Financial Reporting Standards), as adopted by the European Union and applicable as from December 31, 2008.

The IFRS adopted by the European Union can be found on the website of the European Commission at the following address:

htpp://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission

These consolidated financial statements are also consistent with the IFRS issued by the IASB (International Accounting Standards Board) and applicable as from December 31, 2008.

#### 2.2 *Basis of preparation for the consolidated financial statements*

The consolidated financial statements are presented in millions of euros, unless otherwise indicated, which is the functional and presentation currency of the parent company. Amounts are rounded up to the nearest million.

The Group's consolidated financial statements were prepared on a historical cost basis, with the exception of derivatives and financial assets held for trading or classified as available for sale, which are measured at fair value.

Non-current assets and groups of assets held for sale are measured at the lower of their net carrying amount and fair value, less costs to sell.

The preparation of the financial statements requires the use of estimates and the formulation of judgement and assumptions that have an impact on the application of accounting methods and the amounts shown in the financial statements. The areas for which the estimates and assumptions are material with regard to the consolidated financial statements are presented in the following notes:

- Note 5: Depreciation and impairment;
- Note 13: Goodwill;
- Note 14: Other intangible assets;
- Note 18: Deferred tax assets and liabilities;
- Note 24: Borrowings;
- Note 26: Risk management and derivatives;
- Note 27: Retirement benefits and similar obligations;
- Note 28: Provisions;
- Note 32: Litigation;
- Note 34: Share-based payment.

The accounting methods outlined below have been consistently applied to all the periods presented in the consolidated financial statements. Pursuant to Article 28.1 of EC regulation no. 809/2004 of April 29, 2004, the consolidated financial statements for the year ended December 31, 2006 will be incorporated by reference into the 2008 reference document filed by Rhodia with the AMF. Hence, the financial statements for the year ended December 31, 2008 do not present any comparative data for fiscal year 2006.

**Standards, interpretations and amendments applicable as from 2008**

Interpretation IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was adopted as of January 1, 2008. This interpretation covers the measurement of the economic benefits relating to a defined benefit asset and the minimum funding requirements. This interpretation did not have any impact on the recognition or presentation of plan surpluses. Furthermore, Rhodia did not identify any additional liability to be recognized for its obligations to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received.

No other standards, interpretations and amendments to standards adopted by the European Union and applicable as from 2008 had an impact on the consolidated financial statements.

**Standards, interpretations and amendments to standards already published, but not yet applicable in 2008**

IFRS 8 *Operating segments* is applicable as from the fiscal year beginning on January 1, 2009 and will replace IAS 14 *Segment reporting*.

IFRS 8 requires segment information to be reported based on the internal management data used by management in order to measure segment performance and allocate resources, regardless of whether such data is IFRS compliant. Insofar as current segment information reflects the Group's internal reporting, the adoption of this new standard will not have a significant impact on the consolidated financial statements.

The purpose of the amendment to IAS 1 *Presentation of the financial statements*, applicable as of January 1, 2009, is to facilitate the analysis and comparison by users of the information provided in the financial statements. Insofar as Rhodia has adopted the amendment to IAS 19 *Employee benefits* since 2005 and produces a statement of recognized income and expense, the adoption of this amendment will not have a significant impact on the consolidated financial statements.

According to the Group, the other standards, interpretations and amendments already adopted by the European Union but not yet applicable to the year ended December 31, 2008 have no impact on the consolidated financial statements.

## 2.3 *Consolidation principles*

### Subsidiaries

Subsidiaries are those companies over which Rhodia exercises control directly or indirectly, i.e. it has the power to govern the financial and operating policies so as to obtain benefits from their activities. Rhodia is presumed to exercise control when it acquires, directly or indirectly, more than 50% of voting rights. To assess this control, potential voting rights that are immediately exercisable or convertible held by Rhodia and its subsidiaries are taken into consideration.

Special purpose entities that are, in substance, controlled by Rhodia and in which the Group does not have an equity investment are considered as subsidiaries. Rhodia may, under trade receivable securitization programs, use special purpose entities.

### Joint ventures

The companies over which Rhodia exercises a joint control in accordance with contractual arrangements are proportionately consolidated. The consolidated financial statements include the Group's share in the assets, liabilities, income and expenses of these companies.

### Associates

Associates are those companies over which Rhodia exercises significant influence, but not control, with generally an investment representing between 20% and 50% of voting rights. They are initially recognized at cost and are then accounted for using the equity method.

The Group's share in the profit or loss of the associate is reflected in the income statement. When a change is recognized directly in the equity of the associate, the Group recognizes its share directly in its equity.

Subsidiaries, joint ventures and associates are included in the financial statements as from the date of obtaining control or significant influence. They are excluded from the financial statements as from the date of losing control or significant influence. Any investments in a joint venture or associate meeting the criteria as "held for sale" in accordance with IFRS *5 Non-current assets held for sale and discontinued operations* are classified as non- current assets held for sale (see note 2.26).

In the event of impairment, the Group determines the recoverable amount of its net investment in the associate and recognizes an impairment loss should its equity carrying value exceed such amount.

### Transactions eliminated in the consolidated financial statements

Transactions between subsidiaries are fully eliminated. Transactions with joint ventures are eliminated to the extent of the investment reflected in the consolidated financial statements.

Unrealized gains arising from intra-Group transactions are eliminated in the same way as unrealized losses unless they represent an impairment loss. Unrealized gains and losses arising from transactions between the Group and its joint ventures or associates are eliminated in proportion to the Group's investment in these entities.

## 2.4 *Translation of the transactions and financial statements of foreign companies*

### Translation of foreign currency transactions

The functional currency of the Group's entities is generally the local currency. Foreign currency transactions are translated in their functional currency using the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated at the closing rate. The corresponding exchange differences are recognized in finance income or costs.

The exchange differences relating to loans and borrowings with a foreign subsidiary, which, in substance, form part of the net investment in the subsidiary, are recognized directly in equity, until the disposal of the net investment when they are recognized in profit or loss.

**Translation of the financial statements of foreign entities**

The financial statements of the Group's foreign entities (that do not conduct their business in a hyperinflationist economy), whose functional currency is not the euro, are translated as follows:

- assets and liabilities (including goodwill and fair value adjustments on the date of acquisition) are translated at the official closing rates;
- income and expenses are translated at the average rate for the period, excluding major exchange rate fluctuations, which is considered as similar to the exchange rates at the date of the transactions;
- all resulting exchange differences are recognized directly in equity.

### 2.5 *Greenhouse gas emission allowances and Certified Emission Reductions.*

With respect to the mechanism set up by the European Union to encourage manufacturers to reduce their greenhouse gas emissions, Rhodia was granted carbon dioxide ($CO_2$) emission allowances for some of its installations. Rhodia is also involved in Clean Development Mechanism (CDM) and Joint Implementation (JI) projects placed under the authority of the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. Under these projects, Rhodia has deployed facilities in order to reduce greenhouse gas emissions at the relevant sites in return for Certified Emission Reductions (CER) or Emission Reduction Units (ERU).

**Treatment of European Union allowances (EUA)**

These allowances are granted each year under the national allocation plan with an initial trading period of three years beginning January 1, 2005, and the second trading period of 5 years beginning January 1, 2008. During the second period, the allowances are delivered free of charge and are valid over the entire trading period if not used. Allowances may be freely traded upon allocation and may be purchased or sold, especially if too many or too few allowances are allocated with respect to actual emissions.

In the absence of specific IFRS guidance, Rhodia recognizes emission allowances using the following method:

- initial recognition: The allocated emission allowances, measured at market value at the date of allocation, are recognized as other intangible assets in consideration of a government grant recognized in liabilities;
- Subsequent recognition: The grant is recognized in the income statement on a straight-line basis over the trading period (in the absence of seasonal discharges). In addition, a liability corresponding to the allowances to be delivered is recognized for the actual gas emissions, with the related expense being recognized in the income statement. This liability is measured at the initial value of allowances allocated or purchased and, where necessary, at market value up to the number of allowances held at closing over the number of allowances to be delivered. Excess allowances maintained in assets are tested for impairment annually and more frequently should there be indications of impairment;
- allowances delivered for the emissions for the period: At the effective date of delivery, the intangible asset and the corresponding liability are derecognized;
- sales of allowances: The gains or losses arising on the sale of allowances are recognized in the income statement under cost of sales.

**Treatment of Certified Emission Reductions (CER)**

Under the CDM projects, Rhodia has deployed facilities in order to reduce the greenhouse gas emissions at its Onsan (Korea) and Paulinia (Brazil) sites. Upon verification by independent experts, should these emissions fall below the benchmark levels set by the UNFCCC, Rhodia receives Certified Emission Reductions (CER) which are freely transferable. As part of the development of Rhodia Energy Services and to organize the sale of the CERs arising from the two projects, Rhodia has entered into a partnership with Société Générale Energie, a Société Générale subsidiary, comprising a joint venture, **orbeo**.

Allocated CERs are recognized in inventories at the lower of cost and net realizable value. The cost of allocated CERs mainly corresponds to the amortization of gas emission reduction units.

The CER sales realized between participants in CDM projects and in organized markets are recognized in net sales upon delivery of the CERs, i.e. when they are recorded in the account of the transferee in the UNFCCC register.

In order to manage exposure to future CER price fluctuations, Rhodia has set up forward CER sales contracts, with or without guarantee of delivery. Based on their characteristics, when these contracts represent derivatives within the meaning of IAS 39 *Financial Instruments: Recognition and measurement*, they are recognized and measured according to the rules described in note 2.16. Otherwise, they represent off-balance sheet commitments.

**Treatment of orbeo's activities**

In addition to selling CERs on behalf of the two shareholders, the **orbeo** joint venture is involved in developing $CO_2$ instrument trading, arbitrage and hedging activities. The net income or expense from these activities is recorded, for Rhodia's share (50%), after elimination of intra-Group transactions:

- in net sales or cost of sales for the "industrial" component, where **orbeo** sells the CERs generated by Rhodia;
- in "other operating income and expenses" for the *trading* component, where **orbeo** purchases/sells CERs and EUAs.

The margin calls relating to the derivative instruments contracted by **orbeo** are recognized in Other current financial assets in respect of guarantee deposits paid, and in Borrowings in respect of guarantee deposits received.

Cash flow movements arising from these margin calls have been separated in the Statements of Cash Flows under Net cash flow from operating activities.

## 2.6 *Property, plant and equipment*

### Initial recognition

The property, plant and equipment owned by Rhodia are recognized as assets at acquisition cost when the following criteria are satisfied:

- it is probable that the future economic benefits associated with the asset will flow to Rhodia;
- the cost of the asset can be reliably measured.

Items of property, plant and equipment are carried on the balance sheet at cost less accumulated depreciation and impairment. The cost of an item of property, plant and equipment comprises its purchase or production price and any costs directly attributable to the location and condition necessary for its operation, including, where necessary, the interim interest accrued during the construction period.

The components of an item of property, plant and equipment with different useful lives are recognized separately.

Items of property, plant and equipment are derecognized from the balance sheet on disposal or discontinuation. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognized in profit or loss for the period of derecognition.

### Subsequent expenditure

Subsequent expenditure incurred for the replacement of a component of an item of property, plant and equipment is only recognized as an asset when it satisfies the general criteria mentioned above.

The carrying amount of replaced items is derecognized.

Repair and maintenance costs are recognized in the income statement as incurred.

On account of its industrial activity, Rhodia incurs expenditure for major repairs over several years for most of its sites. The purpose of this expenditure is to maintain the proper working order of certain installations without altering their useful life. This expenditure is considered as a specific component of the item of property, plant and equipment and is amortized over the period during which the economic benefits flow, i.e. the period between the major repairs.

### Depreciation

Land is not depreciated. Other items of property, plant and equipment are depreciated using the straight-line method over the estimated useful life. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 10 – 40 years |
| Plant and equipment: | |
| Machinery and equipment | 5 – 15 years |
| Other equipment | 3 – 15 years |
| Vehicles | 4 – 20 years |
| Furniture | 10 – 15 years |

The residual values and useful lives are reviewed and, where necessary, adjusted annually or when there are permanent changes in operating conditions.

### Dismantling costs

Dismantling and restoration costs are included in the initial cost of an item of property, plant and equipment if the Group has a legal or constructive obligation to dismantle or restore.

Generally, Rhodia does not have any current, legal or constructive obligation to dismantle and/or restore its operating sites in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, as such obligation is only likely to arise upon the discontinuation of a site's activities. To date, Rhodia has not therefore set aside any provisions for dismantling costs or recognized the components relating to the dismantling of its operating installations.

However, the costs of dismantling discontinued sites or installations are provided when there is a legal obligation (due to a request or injunction from the relevant authorities), or there is no technical alternative to dismantling to ensure the safety compliance of the discontinued sites or installations.

### Property, plant and equipment acquired under finance leases

Leases, including those falling within the scope of IFRIC 4 *Determining whether an arrangement contains a lease* are considered as finance leases if they transfer substantially to Rhodia all the risks and rewards inherent to the ownership of the leased assets with the characteristics of an acquisition. An asset acquired by Group under a finance lease is recognized at fair value at the lease inception date, or if lower, the present value of the minimum lease payments. The corresponding debt is recognized in borrowings. The recognized asset is depreciated using the method described above.

### Government grants

Government grants which cover totally or partially the cost of an item of property, plant and equipment are deducted from the acquisition cost and transferred on a systematic basis to the income statement over the useful life of the assets.

### 2.7 Goodwill and business combinations

The purchase method is used to recognize the acquisition of subsidiaries, joint ventures and investments in associates. Goodwill is the excess of the cost of an acquisition over the Group's share of the fair values of the entity's net identifiable assets at the acquisition date. The acquisition cost corresponds to the fair values of the assets given, liabilities incurred or assumed and equity instruments issued on the date of exchange, plus any costs directly attributable to the acquisition. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the date of acquisition, irrespective of the extent of any minority interest. If the fair value of the Group's interest in the net assets of the acquired subsidiary exceeds the cost of the acquisition, the difference is recognized directly in profit or loss. The identification and measurement of acquired assets and liabilities are finalized within a period of one year as from the acquisition date.

Goodwill arising from the acquisition of an investment in an associate is included in the carrying amount of the investment.

Goodwill is not amortized. Goodwill is tested for impairment annually or more frequently when events or changes in circumstances indicate a possible impairment (see note 2.9).

### 2.8 Other intangible assets

#### Research and development

Research expenditure is expensed as incurred.

Development expenditure arising from the application of research findings to a plan or design for the production of new or substantially improved products and processes is recognized as an intangible asset when the Group can demonstrate:

- its intention and financial and technical ability to complete the development of the asset;
- how the intangible asset will generate probable future economic benefits for the Group; and
- that the cost of the asset can be reliably measured.

Capitalized expenditure comprises employee expenses, the cost of materials and services directly attributed to the projects, and an appropriate share of overheads including, and where necessary, the interim interest accrued. It is amortized once the relevant products are sold or the relevant industrial processes are used over the estimated term of the economic benefits expected to flow from the project. The expenditure is tested for impairment if there is indication of a loss in value and annually for projects in the course of development (see note 2.9).

Development expenditure which does not satisfy the above conditions is expensed as incurred.

#### Other intangible assets

Other intangible assets are carried at cost in the balance sheet including, where necessary, the interim interest accrued during the development period, less accumulated depreciation and impairment losses. They mainly concern patents, trademarks and software.

The expenditure incurred by the Group for the development of software intended for its own use is capitalized when the economic benefits expected to flow from the use of the software over one year exceeds its cost.

Subsequent expenditure on intangible assets is capitalized only if it increases the future economic benefits associated with the specific asset. Other expenditure is expensed as incurred.

Intangible assets with finite useful lives are amortized using the straight-line method over their expected period of use. Amortization methods and useful lives are reviewed periodically. The estimated useful lives are as follows:

- patents and trademarks: 25 years on average;
- software: 3 to 5 years;
- development expenditure: 5 to 15 years.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if there is an indication of a loss in value (see note 2.9).

### 2.9 Impairment of property, plant and equipment, goodwill and other intangible assets

Impairment is tested annually and more frequently if there are indications of a loss in value for goodwill, intangible assets in the course of development and other intangible assets with indefinite useful lives, and only if there is an indication of a loss in value for items of property, plant and equipment and intangible assets with finite useful lives.

To test impairment, assets are grouped in cash-generating units (CGUs), in accordance with IAS 36 *Impairment of assets*. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill is tested for groups of CGUs that benefit from the synergies resulting from the business combinations that gave rise to the goodwill.

These tests consist in comparing the carrying amount of the assets with their recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from a CGU or group of CGUs. The discount rate used reflects the current market assessments of the time value of money and the risks specific to the asset, CGUs or groups of CGUs tested. In absence of a rate specific to the asset tested, the rate used is calculated using the average cost of capital.

The discount rates are post-tax rates applied to post-tax cash flows. Their use results in the calculation of recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows, as required by IAS 36.

An impairment loss is recognized in the income statement where the carrying amount of a CGU or group of CGUs exceeds its recoverable amount. The impairment loss is first recognized for the goodwill allocated to the CGU or groups of CGUs tested and then to the other assets of the CGU or group of CGUs on a pro rata basis to their carrying amount.

This allocation should not reduce the carrying amount of an individual asset below the higher of its fair value, value in use or zero.

Impairment losses recognized for goodwill cannot be reversed, contrary to the impairment of property, plant and equipment and other intangible assets. For the reversal of an impairment loss, the carrying amount of the asset should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. After recognition of an impairment loss or a reversal of an impairment loss, the subsequent depreciation (amortization) charge is calculated to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## 2.10 Non-derivative financial assets

### Initial recognition

Purchases and sales of financial assets are recognized at the date of transaction on which Rhodia is committed to the purchase or sale of the assets.

A financial asset is derecognized once the Group's contractual rights to receive the future cash flows from the asset have expired or the Group has transferred the financial asset to a third party without retaining control or substantially all the risks and rewards.

At initial recognition, the financial assets are carried in the balance sheet at fair value plus the transaction costs directly attributable to the acquisition or issue of the asset (except for the class of financial assets measured at fair value through profit or loss for which such transaction costs are recognized in profit or loss).

A financial asset is classified as current when the cash flows expected to flow from the instrument mature within one year.

### Subsequent recognition

At initial recognition, Rhodia classifies financial assets into one of the four categories provided in IAS 39 *Financial Instruments: recognition and measurement* according to the purpose of the acquisition. This classification determines the method for measuring financial assets at subsequent balance sheet dates: amortized cost or fair value.

Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

For instruments quoted in an active market, the fair value corresponds to a market price. For instruments that are not quoted in an active market, the fair value is determined using valuation techniques including reference to recent arm's length market transactions or transactions involving instruments which are substantially the same, or discounted cash flow analysis including, to a maximum extent, assumptions consistent with observable market data. However, if the fair value of an equity instrument cannot be reasonably estimated, it is measured at cost.

### Financial assets at fair value through profit or loss

These are financial assets classified as held for trading that the Group has acquired principally for the purpose of selling in the near term. They are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

Financial assets at fair value through profit or loss include cash and cash equivalents.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. They are measured at amortized cost.

This category includes operating receivables, deposits and guarantees and loans. These assets are classified in the balance sheet as non-current financial assets or other current financial assets if the repayment schedule is less than one year (at origination) and the asset does not meet the definition of a cash equivalent. Operating receivables are classified in the balance sheet as trade and other receivables.

### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that Rhodia has the positive intention and ability to hold to maturity. They are measured at amortized cost.

### Available-for-sale financial assets

These are non-derivative financial assets that are designated as available for sale or not classified under another category. They are measured at fair value, with subsequent changes in fair value recognized directly in equity.

This category includes among others, non-consolidated investments.

**Impairment of financial assets (excluding financial assets at fair value through profit or loss)**

A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and such events have a negative impact on the estimated future cash flows of the financial asset or group of financial assets.

The impairment loss of a financial asset measured at amortized cost is equal to the difference between the carrying amount and the estimated future cash flows, discounted at the initial effective interest rate. The impairment of an available-for-sale financial asset is calculated with reference to its current fair value.

An impairment test is performed, on an individual basis, for each material financial asset. Other assets are tested as groups of financial assets with similar credit risk characteristics.

Impairment losses are recognized in profit or loss. With respect to available-for-sale assets, in the event of an impairment loss, the cumulative negative changes in fair value previously recognized in equity are transferred to profit or loss.

The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognized in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognized directly in equity. Impairment losses relating to assets recognized at cost cannot be reversed.

## 2.11 *Inventories*

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined by using the weighted average cost or first-in, first-out (FIFO) method. Inventories having a similar nature are measured using the same cost formula.

Finished goods and work-in-progress are measured at the cost of production which takes into account, in addition to the cost of raw materials and supplies, the costs incurred in bringing the inventories to their present location and condition and an allocation of overheads excluding administrative overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2.12 *Non-current assets and liabilities held for sale*

Non-current assets (or groups of assets and liabilities) held for sale are classified separately in the balance sheet under Assets held for sale and Liabilities associated with assets for sale and are measured at the lower of net carrying amount and fair value less costs to sell.

They are no longer depreciated (amortized) when classified in this category.

## 2.13 *Current and deferred tax*

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. It also includes the adjustments in current tax for previous periods.

Deferred taxes are calculated by tax entity using the balance sheet liability method on the temporary differences between the carrying amount of assets and liabilities and their tax base. The following items do not give rise to the recognition of deferred tax: (i) the initial recognition of goodwill, (ii) the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit and, (iii) temporary differences associated with investments in subsidiaries and interest in joint ventures insofar as they will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities is based on how the Group expects to recover or settle the carrying amount of the assets and liabilities, by using, under the liability method, tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized or maintained in assets only where it is probable that the tax entity will have future taxable income to which the asset can be allocated.

Deferred tax assets and liabilities are offset for each tax entity when permitted by law.

## 2.14 *Cash and cash equivalents*

Cash and cash equivalents comprise cash funds, demand deposits, and short-tem, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## 2.15 *Non-derivative financial liabilities*

Non-derivative financial liabilities are initially recognized at the fair value of the amount required to settle the associated obligation, net of related costs. Subsequently (insofar as they are not designated as liabilities at fair value through profit or loss), these financial liabilities are recognized at amortized cost using the effective interest rate method (as defined in note 2.10).

This heading also includes the "debt" component of compound financial instruments. The compound financial instruments issued by the Group comprise bonds convertible or exchangeable for new or existing shares (OCEANE). An OCEANE is a compound financial instrument which grants the bondholder the option to convert and/or exchange a bond for a fixed number of Rhodia shares. On initial recognition, the total fair value of the compound instrument is allocated between its "debt" and "equity" components. The fair value of the "debt" component is calculated by discounting future flows at the interest rate obtained by Rhodia for a similar bond with no conversion or exchange option. The "equity" component corresponds to the difference between the total fair value of the compound instrument and the fair value of the "debt" component. The value allocated to the conversion option remains the same over the term of the bond. The "debt" component is subsequently measured at amortized cost using the effective interest rate method. Issue costs are allocated proportionately to the "debt" and "equity" components.

In the balance sheet, non-derivative financial liabilities are classified under "Borrowings" and "Trade and other payables" (with the distinction made between the current and non-current portions).

## 2.16 Risk management and derivatives

The Group uses derivatives (interest rate swaps and options, currency futures, commodity options and swaps and energy purchase and sale contracts) to hedge its exposure to foreign exchange, interest rate and commodity risk arising from its operating, financing and investing activities. Derivatives are initially recognized at fair value and subsequently remeasured at fair value on each balance sheet date. Changes in fair value are recognized in the income statement under financial income or expenses for derivative financial instruments hedging financial items, and under operating income and expenses for instruments hedging operating items, except in certain cases when hedge accounting is applicable:

- cash flow hedge: The change in the value of the effective portion of the derivative is recognized directly in equity. It is reclassified to profit or loss under a heading corresponding to the hedged item when the item is recognized in profit or loss or the Group no longer expects the hedged transaction to be realized. The change in the value of the ineffective portion of the derivative is recognized directly in financial income or expenses for hedges of financial items, and in operating income and expenses for hedges of operating items. When the expected transaction gives rise to the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedging instrument previously recognized in equity are included in the initial measurement of the asset or liability;
- fair value hedge: the change in the fair value of the derivative is recognized in profit or loss under the same heading as the change in fair value of the hedged item for the portion attributable to the hedged risk;
- hedge for a net investment in a foreign entity: the changes in the fair value of the hedging instrument are recognized in equity for the effective portion of the hedging relationship, while the changes in fair value relating to the ineffective portion of the hedge are recognized in profit or loss from financial items. Upon disposal of the net investment in the foreign entity, all changes in fair value of the hedging instrument previously recognized in equity are transferred to the income statement under the same heading as the disposal gains or losses.

## 2.17 Provisions for retirement obligations and other long-term employee benefits

The Group's employees are offered various post-employment and other long-term employee benefits as a result of legislation applicable in certain countries and the contractual agreements entered into by the Group with its employees. These benefits are classified under defined benefit or defined contribution plans.

### Defined contribution plans

Defined contribution plans involve the payment of contributions to a separate entity, thus releasing the employer from any subsequent obligation, as the entity is responsible for paying the amounts due to the employee. Once the contributions have been paid, no liability is shown in the Rhodia financial statements.

### Defined benefit plans

Defined benefit plans concern all plans other than defined contribution plans. Rhodia is required to provide for the benefits to be paid to active employees and pay those for former employees. Actuarial and/ or investment risks fall, in substance, upon the Group.

These plans mainly concern:

- retirement benefits: pension plans, termination benefits, other retirement obligations and supplemental benefits;
- other long-term employee benefits: long-service benefits granted to employees according to their seniority in the Group;
- other employee benefits: post-employment medical care, included in "Other related benefits" in the balance sheet.

Taking into account projected final salaries (projected credit unit method) on an individual basis, post-employment benefits are measured by applying a method using assumptions involving the discount rate, expected long-term return on plan assets specific to each country, life expectancy, turnover, wages, annuity revaluation, medical cost inflation and discounting of sums payable. The assumptions specific to each plan take into account the local economic and demographic contexts.

The amount recorded under retirement obligations and other long-term employee benefits corresponds to the difference between the present value of future obligations and the fair value of the plan assets intended to hedge them, less, where necessary, any unamortized past service cost (except regarding other long-term employee benefits for which the past service cost is immediately recognized in profit or loss). If this calculation gives rise to a net commitment, an obligation is recorded in liabilities. If the measurement of the net obligation gives rise to surplus for the Group, the asset recognized for this surplus is limited to the net total of any unrecognized past service cost and the present value of any future plan refunds or any reduction in future contributions to the plan.

Rhodia has adopted the option offered by the amendment to IAS 19. Hence the actuarial gains and losses on obligations or assets relating to post-employment benefits arising from experience adjustments and/or changes in actuarial assumptions are recognized directly in equity for the period in which they occur in consideration of the increase or decrease in the obligation. They are disclosed in the consolidated statement of income and expenses for the period.

The actuarial gains and losses relating to other long-term benefits such as long service awards are fully recognized in profit or loss for the period in which they occur.

The interest expenses arising from the reverse discounting of retirement benefits and similar obligations and the financial income from the expected return on plan assets are recognized in profit or loss from financial items.

The amendment or introduction of a new post-employment or other long-term benefit plan may increase the present value of the defined benefit obligation for services rendered in previous periods, otherwise known as past service cost. This past service cost is recognized in profit or loss on a straight-line basis over the average period until the corresponding benefits are vested by employees. The benefits vested upon adoption or amendment of the plan are immediately recognized in profit or loss.

The actuarial calculations of retirement obligations and other long-term benefits are performed by independent actuaries.

## *2.18 Share-based payment*

Rhodia has set up various compensation plans for employees offering free shares, preferential stock subscription and stock purchase and subscription options.

The fair value of services rendered by employees in consideration for the granting of shares or options represents an expense. This expense is recognized on a straight-line basis in the income statement over the vesting periods relating to these shares or options with the recognition of a corresponding adjustment in equity.

The fair value of services rendered is measured in reference to the fair value of the shares or options on the grant date. Where appropriate, the cost of the non-transferability of shares by the holder, determined using observable market data on the grant date and the specific market characteristics of the Rhodia share, is taken into account.

At each balance sheet date, the Group re-estimates the number of shares or options likely to be vested. The impact of the revised estimates is recognized in profit or loss against a corresponding adjustment in equity.

## *2.19 Provisions*

A provision is recognized when Rhodia has a legal or constructive obligation as a result of a past event, which can be reliably measured, and whose settlement is expected to result in an outflow of economic resources for Rhodia.

Provisions are discounted in order to take into account market assessments of the time value of money using risk free rates net of inflation and specific to the relevant geographical areas. The impact of interest rate fluctuations and changes to estimated future cash flows is recognized in other operating expenses in the income statement. The interest expense (reverse discounting) is recognized in finance costs in the income statement.

### Environmental liabilities

Rhodia periodically analyzes all its environmental risks and the corresponding provisions. Rhodia measures these provisions to the best of its knowledge of applicable regulations, the nature and extent of the pollution, clean-up techniques and other available information.

### Restructuring

Restructuring comprises all measures designed to permanently adapt structures, production and employees to economic changes. A provision for restructuring is recognized when the Group has approved a detailed formal plan and has either started to implement the plan, or announced its main features to the public.

## *2.20 Net sales and Other revenue*

Net sales and other revenue are measured at the fair value of the consideration received or receivable, net of returns, rebates and trade benefits granted and sales tax.

Net sales comprise the sales of goods (goods and goods for resale) and value-added services corresponding to Rhodia's know-how.

Other revenue includes the provision of services primarily corresponding to the rebilling of costs incurred on behalf of third parties and commodity and utility trading transactions, or other revenue deemed as incidental by the Group (e.g. temporary contracts following the sale of businesses).

Net sales and other revenue are recognized when all the following conditions have been satisfied:

(i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods or, with respect to the rendering of services, the stage of completion can be measured reliably;

(ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the future economic benefits associated with the transaction will flow to the entity; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 2.21 *Restructuring costs*

Restructuring costs include severance pay, compensation for the early termination of operating leases and all exit costs arising from restructurings, including impairment losses recognized on discontinued assets due to the closure of a site or operation. They are recognized net of reductions in employee benefits already accrued, in case of loss of these benefits by employees.

## 2.22 *Other operating income and expenses*

Other operating income and expenses mainly comprise:

- the gains or losses on disposal of non-current assets where they do not relate to operations sold or for sale which are disclosed under Profit or loss from discontinued operations in the income statement;
- in addition to **orbeo**'s *trading* activities (see Note 2.5 "Treatment of **orbeo**'s activities"), changes in fair value of derivative instruments not designated for the hedging of operating items, and changes in fair value corresponding to the ineffective portion of the derivative for hedges of operating items;
- other material operating income and expenses resulting from unusual events and likely to distort the analysis and comparability of the Group's performance.

## 2.23 *Operating profit or loss*

Operating profit or loss corresponds to all income and expenses not arising from financing activities, associates, discontinued operations and income tax.

## 2.24 *Finance income and costs*

Finance costs comprise the interest on borrowings calculated using the effective interest rate method, the systematic amortization of transaction costs relating to credit lines, borrowing prepayment or credit line cancellation costs and the cost of the reverse discounting of non-current non-financial liabilities.

Finance income comprises the expected return on plan assets, cash income and dividends.

Net foreign exchange gains or losses and the changes in fair value of derivatives are presented respectively in finance income or costs, with the exception of changes in fair value of derivatives which are recognized on the same line item as the hedged transaction.

All interest on borrowings is recognized in finance costs as incurred, with the exception of interest arising from the acquisition, construction and production of an eligible intangible asset or item of property, plant and equipment that is capitalized in the cost of the asset in accordance with the alternative treatment authorized by IAS 23 *Borrowing Costs*.

## 2.25 *Income tax expense*

Tax expense or tax income for the period includes current tax and deferred tax. Tax is recognized in profit or loss unless it relates to items that are directly recognized in equity, in which case tax is recognized in equity.

## 2.26 *Discontinued operations*

A discontinued operation is a component of Rhodia that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. An operation is classified as discontinued at the time of its sale or beforehand if the operation satisfies the criteria for classification as held for sale.

The net profit or loss from operations sold or for sale and, where necessary, disposal gains or losses and impairment losses subsequent to the measurement of assets at fair value less costs to sell, are disclosed in the income statement under "Profit or loss from discontinued operations".

When a component of the operation is classified in discontinued operations, the comparative income statements are restated as if the component had been classified in discontinued operations at the beginning of each previous comparative period.

## 2.27 *Earnings per share*

Basic earnings per share is calculated by dividing net profit or loss attributable to Rhodia shareholders by the weighted average number of ordinary shares outstanding during the period, after deduction of the shares owned by Rhodia.

Diluted earnings per share is calculated by taking into account all existing dilutive instruments and the value of the goods or services receivable for each stock purchase or subscription option.

Rhodia also discloses basic and diluted earnings per share for continued and discontinued operations.

### 2.28 *Segment information*

A segment is a distinguishable component of the Group that is either engaged in providing related products or services (business segment) or providing products or services within a particular economic environment (geographical segment) and that is subject to risks and returns that are different from those of components operating in other economic environments. Rhodia's primary segment reporting format is business segments.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### NOTE 3 Segment information

The following information concerns continuing operations, except for the capital expenditure (acquisitions of intangible assets and property, plant and equipment) in line with the cash flow statement. Information on discontinued operations is presented in note 10.

Following the disposal of the Isocyanates business in 2008, the Organics segment was discontinued. Its 3 businesses were reallocated as follows:

- the Diphenols business was transferred to Silcea;
- the Fine Chemicals business was transferred to Corporate and Other.

Rhodia was therefore reorganized into the following six companies:

- **Polyamide** whose structure remains unchanged;
- **Novecare** whose structure remains unchanged;
- **Silcea** which currently includes the Diphenols business of the former Enterprise Organics;
- **Energy Services** whose structure remains unchanged;
- **Acetow** whose structure remains unchanged;
- **Eco Services** whose structure remains unchanged.

The 2007 figures were restated so that they could be compared with those for 2008.

## 3.1 *Information by business segment*

Inter-segment transactions are performed at arm's length under normal market conditions.

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate and Other (2) | Group |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2008** | | | | | | | | |
| Net sales | 1,789 | 971 | 746 | 233 | 467 | 306 | 303 | **4,815** |
| Other revenue | 138 | 17 | 7 | 662 | 6 | 7 | 63 | **900** |
| Inter-company sales - Net sales | (39) | (4) | (2) | - | - | - | (7) | **(52)** |
| Inter-company sales - Other revenue | (18) | (7) | (2) | (304) | (3) | (1) | (15) | **(350)** |
| **External net sales** | **1,750** | **967** | **744** | **233** | **467** | **306** | **296** | **4,763** |
| External other revenue | 120 | 10 | 5 | 358 | 3 | 6 | 48 | **550** |
| **Operating profit/(loss)** | **10** | **91** | **41** | **195** | **54** | **58** | **(140)** | **309** |
| Share of profit/(loss) of associates | (1) | | | | | | | **(1)** |
| Profit/(loss) from financial items | | | | | | | | **(178)** |
| Income tax benefit/(expense) | | | | | | | | **(55)** |
| **Profit/(loss) from continuing operations** | | | | | | | | **75** |
| **Recurring EBITDA (1)** | **142** | **127** | **106** | **213** | **84** | **72** | **(80)** | **664** |

*(1) Recurring EBITDA comprises Operating profit or loss prior to depreciation and impairment, restructuring costs and other operating income and expenses.*

*(2) Corporate and Other mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemical industry.*
*Other revenue is generated from incidental businesses not directly related to the other companies and mainly comprises internal and third-party industrial service sales. In addition to the net profit from these activities, operating profit comprises the expenses of the Group's Corporate functions and departments, other operating income and expenses relating to the environment and disposal gains and losses (see* note 7*).*

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate and Other [2] | Group |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2007** | | | | | | | | |
| Net sales | 1,975 | 931 | 736 | 202 | 441 | 218 | 335 | **4,838** |
| Other revenue | 117 | 8 | 22 | 482 | 6 | 9 | 118 | **762** |
| Inter-company sales - Net sales | (40) | (5) | (4) | - | - | - | (8) | **(57)** |
| Inter-company sales - Other revenue | (18) | (1) | (6) | (207) | (3) | - | (64) | **(299)** |
| **External net sales** | **1,935** | **926** | **732** | **202** | **441** | **218** | **327** | **4,781** |
| External other revenue | 99 | 7 | 16 | 275 | 3 | 9 | 54 | **463** |
| **Operating profit/(loss)** | **156** | **71** | **93** | **165** | **42** | **54** | **(159)** | **422** |
| Share of profit/(loss) of associates | | | | | | | 2 | **2** |
| Profit/(loss) from financial items | | | | | | | | **(294)** |
| **Income tax benefit/(expense)** | | | | | | | | **(83)** |
| **Profit/(loss) from continuing operations** | | | | | | | | **47** |
| **Recurring EBITDA [1]** | **280** | **109** | **138** | **181** | **83** | **70** | **(103)** | **758** |

*(1) Recurring EBITDA comprises Operating profit or loss prior to depreciation and impairment, restructuring costs and other operating income and expenses.*

*(2) Corporate and Other mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemical industry.*
*Other revenue is generated from incidental businesses not directly related to the other companies and mainly comprises internal and third-party industrial service sales.*
*In addition to the net profit from these activities, operating profit comprises the expenses of the Group's Corporate functions and departments, other operating income and expenses relating to the environment and disposal gains and losses (see* note 7*).*

The analysis by business segment of income and expenses with no impact on cash flow is as follows:

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate and Other | Group |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2008** | | | | | | | | |
| Depreciation and impairment | (103) | (37) | (44) | (11) | (29) | (14) | (54) | **(292)** |
| (Allowance)/ Reversal of current and non-current provisions | (11) | 5 | (16) | - | 12 | - | 91 | **81** |
| Gain/(loss) on disposal of non-current assets | - | - | - | - | - | - | 26 | **26** |
| **For the year ended December 31, 2007** | | | | | | | | |
| Depreciation and impairment | (100) | (36) | (40) | (12) | (32) | (16) | (45) | **(281)** |
| (Allowance)/ Reversal of current and non-current provisions | (5) | 7 | 7 | - | 3 | - | 74 | **86** |
| Gain/(loss) on disposal of non-current assets | - | 1 | - | (4) | - | - | 30 | **27** |

Assets, liabilities and capital expenditure (acquisitions of intangible assets and property, plant and equipment) by business segment break down as follows:

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other** | **Group** |
|---|---|---|---|---|---|---|---|---|
| Year ended December 31, 2008 | | | | | | | | |
| Assets by business segment | 1,201 | 532 | 534 | 191 | 285 | 210 | 440 | **3,393** |
| Unallocated assets [1] | | | | | | | 931 | **931** |
| Total assets | | | | | | | | **4,324** |
| Liabilities by business segment | 504 | 169 | 168 | 168 | 205 | 42 | 1,463 | **2,719** |
| Unallocated liabilities [2] | | | | | | | 1,961 | **1,961** |
| Total liabilities | | | | | | | | **4,680** |
| Capital expenditure | 104 | 32 | 43 | 10 | 20 | 21 | 52 | **282** |

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other** | **Group** |
|---|---|---|---|---|---|---|---|---|
| Year ended December 31, 2007 | | | | | | | | |
| Assets by business segment | 1,284 | 512 | 548 | 129 | 281 | 182 | 612 | **3,548** |
| Unallocated assets [1] | | | | | | | 930 | **930** |
| Total assets | | | | | | | | **4,478** |
| Liabilities by business segment | 509 | 232 | 207 | 140 | 205 | 27 | 1,481 | **2,801** |
| Unallocated liabilities [2] | | | | | | | 2,045 | **2,045** |
| Total liabilities | | | | | | | | **4,846** |
| Capital expenditure | 101 | 32 | 59 | 6 | 17 | 21 | 88 | **324** |

*(1) Unallocated assets include non derivative financial assets (with the exception of trade receivables and available-for-sale financial assets), current tax receivables and deferred tax assets in addition to assets held for sale.*

*(2) Unallocated liabilities include non derivative financial liabilities (with the exception of trade payables), current tax payables and deferred tax liabilities in addition to liabilities held for sale.*

## 3.2 *Information by geographical area*

Total net sales and other revenue by geographical area break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| France | 882 | 807 |
| Rest of Europe | 1,410 | 1,489 |
| North America | 982 | 832 |
| Latin America | 741 | 803 |
| Asia and other countries | 1,298 | 1,313 |
| **TOTAL** | **5,313** | **5,244** |

Net sales by geographical area are calculated according to the customer's geographical location.

Segment assets based on their geographical location break down as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| France | 1,354 | 1,469 |
| Rest of Europe | 425 | 478 |
| North America | 610 | 570 |
| Latin America | 478 | 490 |
| Asia and other countries | 526 | 541 |
| **TOTAL** | **3,393** | **3,548** |

The amount of acquisition of assets (property, plant and equipment and intangible assets), based on the assets' geographical location, are as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| France | 120 | 153 |
| Rest of Europe | 25 | 18 |
| North America | 39 | 52 |
| Latin America | 59 | 36 |
| Asia and other countries | 39 | 65 |
| **TOTAL** | **282** | **324** |

## NOTE 4 Employee expenses

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Wages | (567) | (591) |
| Social security contributions (including expenses for defined contribution plans) | (201) | (205) |
| Other employee expenses | (25) | (36) |
| Retirement benefits and similar obligations | (75) | (64) |
| Share-based payments | (15) | (18) |
| **TOTAL** | **(883)** | **(914)** |

Other employee expenses mainly include training costs and lay-off compensation.

The heading "Share-based payments" includes the expenses relating to the free shares and share option plans (see note 34).

## NOTE 5 Depreciation, amortization and impairment of property, plant & equipment and intangible assets

The depreciation, amortization and impairment included in operating expenses concern the following assets:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Property, plant and equipment - depreciation | (242) | (255) |
| Development expenditure - depreciation | (6) | (4) |
| Other intangible assets - depreciation | (28) | (25) |
| Property, plant and equipment – impairment | (10) | (9) |
| Other intangible assets – impairment | (4) | - |
| Development expenditure – impairment | (5) | (1) |
| Total excluding items recognized in profit or loss from discontinued operations | (295) | (294) |
| Depreciation & amortization of items recognized in profit or loss from discontinued operations | (4) | (1) |
| **Total depreciation, amortization and impairment** | **(299)** | **(295)** |

The depreciation, amortization and impairment included in operating expenses and presented by function in the income statement break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Cost of sales | (237) | (251) |
| Administrative and selling expenses | (40) | (31) |
| Research and development expenditure | (12) | (11) |
| Restructuring costs | (4) | (1) |
| Other operating income and expense | (2) | - |
| Total continuing operations | (295) | (294) |
| Discontinued operations | (4) | (1) |
| **Total depreciation, amortization and impairment** | **(299)** | **(295)** |

### 5.1 *Impairment tests*

In accordance with the methodology adopted by the Group for the implementation of impairment tests (see Note 2.9) and in the absence of fair value observable in an organized market, the recoverable amount of cash generating units (CGUs) or groups of CGUs corresponds to their value in use, which is defined as equal to the sum of net cash flows from the latest forecasts for each CGU or group of CGUs and determined using the following methods:

- 5-year business plan prepared by management based on growth and profitability assumptions, taking into account past performances, forecast changes in the economic environment and expected market development;
- consideration of a terminal value determined by capitalizing a standard cash flow obtained by extrapolating the most recent cash flow of the explicit business plan period, affected by a long-term growth rate deemed appropriate for the activity and the location of the assets;
- discounting of expected cash flows at a rate determined using the weighted average capital cost formula.

The main assumptions used in 2008 for annual impairment tests on goodwill and tests on other intangible assets and property, plant and equipment on account of indications of impairment are as follows:

**Discount rate**

For the weighted average cost of capital, the market parameters were determined using a sample of 9 companies from the chemicals industry.

Considering these parameters and a market risk premium of 4.79% (versus 4.9% in 2007), the weighted average cost of capital used to discount future cash flows was set at 8% (8.5% in 2007).

**Long-term growth rate**

The long-term growth rates used for the main CGUs or group of CGUs were as follows:

| | 2008 |
|---|---|
| Polyamide | 2.0% |
| Novecare | 1.7% |
| Silica (Silcea) | 3.0% |
| Diphenols (Silcea) | 2.0% |
| Electronics & Catalysis (Silcea) | 2.0% |
| Eco services | 2.0% |
| Acetow | 2.0% |
| Salicylics (Corporate & Other) | 1.5% |

### 5.2 *Impairment by business segment*

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Polyamide | - | (1) |
| Novecare | (5) | (3) |
| Silcea | (2) | (1) |
| Acetow | - | (1) |
| Corporate & Other | (12) | (4) |
| **TOTAL** | **(19)** | **(10)** |

*The impairment losses recognized in profit or loss from discontinued operations are analyzed in* note *10.1.*

The impairment tests conducted in 2008 led to the recognition of an impairment in the amount of €(19) million (€(10) million in 2007) for assets, including €(10) million for property, plant and equipment (compared to (9) million in 2007) mainly relating to definitive production stoppages and €(9) million for intangible assets (compared to (1) million in 2007) relating to research and development expenditure incurred on projects which were abandoned and following the outcome of the impairment tests conducted on cash generating units (CGUs).

The impairment tests performed at December 31, 2008 did not lead to any impairment of goodwill, as the recoverable amounts of the groups of CGUs were significantly higher than their carrying amounts. The sensitivity analysis carried out on the main assumptions (discount rate, long term growth rate) did not change the result of the impairment tests.

## NOTE 6 Restructuring costs

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| New plans | (30) | (51) |
| Re-estimated costs of previous plans | (5) | (2) |
| Impairment of non-current assets | (4) | - |
| Impairment of current assets | (1) | (2) |
| **TOTAL** | **(40)** | **(55)** |

A description of restructuring plans is provided in note 28.3.

Restructuring costs by business segment break down as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Polyamide | (26) | (1) |
| Novecare | - | (2) |
| Silcea | (1) | (1) |
| Acetow | (1) | (8) |
| Corporate and Other | (12) | (43) |
| **TOTAL** | **(40)** | **(55)** |

## NOTE 7 Other operating income and expenses

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Net gains/(losses) on disposals of non-current assets | 26 | 27 |
| Environmental expenses | (34) | (14) |
| Other operating income and expenses | (19) | (13) |
| **TOTAL** | **(27)** | **-** |

In 2008, the net disposals gains or losses mainly include the disposal of Rhodia's distribution network, covering South-East Asia, India, Australia and Taiwan, with 180 employees, to Brenntag, a major player in chemical product distribution.

The disposal gains and losses recognized in 2007 mainly include the gain on the sale of the Sulfuric acid business in France to Adisséo, a subsidiary of China National Bluestar Corporation, and the gain on the sale of the Di-Calcium Phosphates business to Innophos.

In 2008, the other operating income and expenses mainly comprise the "trading" component, where **orbeo** carries out CER and EUA purchases/sales, changes in fair value of derivatives that do not qualify as hedges for operating items, and changes in fair value corresponding to the ineffective portion of the derivative for hedges covering operating items.

In 2007, other operating income and expenses mainly comprise the impairment losses recognized on the receivables held with the Nylstar Group, whose main subsidiaries filed for bankruptcy in the second half of 2007.

Environmental expenses are analyzed in note 28.4.

## NOTE 8 Profit/(loss) from financial items

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| *Gross interest expense on borrowings* | *(135)* | *(245)* |
| *Income from cash equivalents* | *20* | *17* |
| *Gains and losses from interest rate derivatives* | *(1)* | *(2)* |
| *Income/(expenses) on financial transactions* | *(3)* | *(23)* |
| *Discounting effects* | *(149)* | *(139)* |
| *Expected return on pension plan assets* | *87* | *94* |
| *Foreign exchange gains and losses* | *(3)* | *(3)* |
| *Proceeds from sale of available-for-sale financial assets* | *3* | *3* |
| *Other* | *3* | *4* |
| ***Profit/(loss) from financial items*** | ***(178)*** | ***(294)*** |
| *Of which:* | | |
| *Finance costs* | *(313)* | *(420)* |
| *Finance income* | *138* | *129* |
| *Foreign exchange gains and losses* | *(3)* | *(3)* |

No major refinancing operations took place in 2008.

The total non-recurring expense relating to refinancing transactions was €96 million in 2007 broken down as follows:

- gross interest expense on borrowings for €91 million;
- income/(expenses) on financial transactions for €3 million;
- gains and losses from interest rate derivatives for €2 million.

The discounting effects mainly comprise the finance cost relating to retirement benefit obligations (see note 27.1).

### 8.1 Gross interest expense on borrowings

This heading corresponds to the gross interest expense on borrowings measured at amortized cost, including the interest on interest rate derivatives eligible for cash flow hedge accounting (see note 26.2).

The interest expense breaks down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Recurring interest expense | (135) | (154) |
| Expenses related to refinancing transactions | - | (91) |
| **Gross interest expense on borrowings** | **(135)** | **(245)** |

The decrease in recurring interest expense arises from the full-year impact of the various refinancing transactions finalized during the first half of 2007.

### 8.2 Income/(expenses) on financial transactions

These costs mainly correspond to the financial expenses on current transactions and the borrowing expenses not calculated using the amortized cost method.

In 2008, expenses include a net capital gain of €15 million relating to the partial redemption of Floating Rate Notes in the nominal amount of €33 million.

In 2007, they comprise refinancing expenses of €3 million corresponding to the accelerated depreciation of the origination costs relating to the €300 million syndicated credit line (Revolving Credit Facility of March 2006) subsequent to its replacement by a new €600 million syndicated credit line in April 2007.

## NOTE 9 Income tax

Tax income (expense) breaks down as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Current income tax expense | (49) | (58) |
| Deferred tax income/(expense) | (6) | (25) |
| **Tax expense for the year** | **(55)** | **(83)** |

The reconciliation between the theoretical tax expense at the statutory tax rate in France and the actual tax expense after reclassification of discontinued operations is as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Profit/(loss) before income tax | 130 | 130 |
| Statutory tax rate in France | 33.33% | 33.33% |
| Theoretical tax expense at the statutory rate in France | (43) | (43) |
| Permanent differences | (3) | (9) |
| Tax rate difference between France and other countries | (1) | (2) |
| Transactions liable for reduced tax rate | - | 2 |
| Changes in deferred tax rates | - | (7) |
| Withholding tax | (4) | (6) |
| Other taxes | 3 | (4) |
| Unrecognized deferred tax assets | (7) | (14) |
| Tax expense | (55) | (83) |
| Effective tax rate | 42.3% | 63.8% |

The tax expense essentially corresponds to the income tax reported by US, German, Brazilian and Asian entities.

Management has not modified its estimate of the probability of recovering the deferred tax assets relating to the French and British tax groups. Hence, their deferred tax assets were recognized up to the amount of deferred tax liabilities so that the deferred tax position of the French and British tax groups show a nil value.

## NOTE 10 Assets held for sale and discontinued operations

### 10.1 *Profit/(loss) from discontinued operations*

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Net sales | 206 | 354 |
| Other revenue | 7 | 14 |
| Net operating expenses | (218) | (360) |
| Net finance costs | (2) | (4) |
| Profit/(loss) from discontinued operations before tax and gains/(losses) on disposals | (7) | 4 |
| Gains/(losses) on disposals | 41 | 80 |
| Tax effect | (2) | - |
| Profit/(loss) from discontinued operations | 32 | 84 |

**Disposals in 2007 and 2008**

On September 1, 2008, Rhodia and Lyondell Chimie TDI SCA finalized the disposal of the Aliphatic Isocyanates business (HDI, IPDI and derivatives). These activities are essentially based in Pont de Claix (France) and Freeport (USA).

The disposal gains and losses recognized in 2008 mainly relate to the sale of this business.

In 2007, Rhodia completed the following disposals:

- at the end of January, the Silicones activity was sold to China National Bluestar Corporation;
- at the end of April, the Phosphates Production business in Spain of the Corporate and Other segment was sold to MISA Inc.;
- on May 14, 2007, Rhodia and SNIA, joint shareholders in Nylstar, finalized the sale of their 50% interest in Nylstar to a third party designated by Nylstar's lending banks.

The disposal gains and losses recognized in 2007 mainly relate to the sale of the Silicones business and the sale of the Phosphates Production business in Spain.

**Disposals in progress at December 31, 2008**

At December 31, 2008, there were no disposals in progress that required classification as discontinued operations.

**Profit or loss from discontinued operations by business segment**

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate and Other | Group |
|---|---|---|---|---|---|---|---|---|
| 2008 | 1 | - | - | - | - | - | 31 | **32** |
| 2007 | (9) | - | 99 | - | - | - | (6) | **84** |

In 2007, the gain from discontinued operations of the Silcea segment mainly corresponds to the gain on the sale of the Silicones business at the end of January 2007.

The profit/(loss) from discontinued operations of the Corporate and Other segment mainly includes:

- for 2008, the gain arising from the Aliphatic Isocyanates business (HDI, IPDI and derivatives), intermediaries for industrial paints and coatings, to Perstorp on September 1, 2008;
- for 2007, the loss arising from the sale of the Phosphates Production business in Spain at the end of April 2007.

## 10.2 Assets held for sale and associated liabilities

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Property, plant and equipment | 1 | 2 |
| Other non-current assets | 1 | 4 |
| Inventories | - | 8 |
| Trade and other receivables | - | 8 |
| Cash and cash equivalents | - | 3 |
| Assets classified as held for sale | 2 | 25 |
| Trade and other payables | - | 7 |
| Liabilities associated with assets classified as held for sale | - | 7 |

## NOTE 11 Earnings per share

The average number of outstanding shares prior to and after dilution is determined as follows:

| *(in number of shares)* | **2008** | **2007** |
|---|---|---|
| Number of shares issued at January 1 | 100,367,831 | 100,348,847 |
| Shares issued in connection with the exercise of options (see note 34) | 1,111 | 18,984 |
| Shares issued in connection with the January 15, 2008 capital increase | 718,126 | - |
| Treasury shares | (1,792,137) | - |
| Number of shares issued at December 31 | 99,294,931 | 100,367,831 |
| **Weighted average number of shares outstanding at December 31, before dilution** | **100,722,391** | **100,357,347** |
| Granting of free shares | 752,986 | 1,065,840 |
| Granting of stock subscription options | - | 194,938 |
| Issue of stock subscription warrants | 17,932 | 17,932 |
| **Weighted average number of shares outstanding at December 31, after dilution** | **101,493,309** | **101,636,057** |

To calculate the average number of outstanding shares after dilution, the potential shares relating to the convertible bonds issued in April 2007 were not taken into account as they are not dilutive.

Basic and diluted earnings per share are determined as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Profit/(loss) from continuing operations for the period attributable to equity holders of Rhodia S.A. | 73 | 45 |
| Profit/(loss) from discontinued operations for the period attributable to equity holders of Rhodia S.A. | 32 | 84 |
| Profit/(loss) for the period attributable to equity holders of Rhodia S.A. | 105 | 129 |
| **Earnings per share** *(in euros)* | | |
| Basic earnings per share of continuing operations | 0.73 | 0.46 |
| Diluted earnings per share of continuing operations | 0.72 | 0.45 |
| Basic earnings per share of discontinued operations | 0.32 | 0.83 |
| Diluted earnings per share of discontinued operations | 0.32 | 0.82 |
| **Basic earnings per share** | **1.05** | **1.29** |
| **Diluted earnings per share** | **1.04** | **1.27** |

## NOTES TO THE CONSOLIDATED BALANCE SHEET

The movements presented in the notes to the consolidated balance sheet include those which impacted assets and liabilities held for sale until their classification under separate headings in the balance sheet. The net flows subsequent to this classification are presented in "Other movements".

## NOTE 12 Property, plant and equipment

| *(in millions of euros)* | Land | Buildings | Machinery and equipment | PPE under construction | Total |
|---|---|---|---|---|---|
| **Year ended December 31, 2008** | | | | | |
| At January 1, 2008 | 108 | 255 | 1,172 | 151 | **1,686** |
| Additions and assets under construction (1) | 1 | 28 | 217 | (3) | **243** |
| Disposals and retirements | - | (1) | (2) | - | **(3)** |
| Depreciation | (1) | (34) | (210) | - | **(245)** |
| Impairment | - | - | (10) | - | **(10)** |
| Changes in consolidation scope (2) | - | (14) | (74) | (17) | **(105)** |
| Currency translation differences and other movements (3) | (6) | (6) | (43) | (10) | **(65)** |
| At December 31, 2008 | 102 | 228 | 1,050 | 121 | **1,501** |
| Gross value | 133 | 762 | 3,949 | 121 | **4,965** |
| Accumulated depreciation and impairment | (31) | (534) | (2,899) | - | **(3,464)** |
| **Net carrying amount at December 31, 2008** | **102** | **228** | **1,050** | **121** | **1,501** |

*(1) Assets under construction represent €231 million in 2008.*
*(2) The changes in consolidation scope mainly include the impact arising from the disposal of the Aliphatic Isocyanates business to Perstorp of Pont de Claix (France) in the amount of €(98) million and Freeport (USA) in the amount of €(7) million.*
*(3) The foreign exchange loss generated in 2008 totaled €(61) million.*

| *(in millions of euros)* | Land | Buildings | Machinery and equipment | PPE under construction | Total |
|---|---|---|---|---|---|
| **Year ended December 31, 2007** | | | | | |
| At January 1, 2007 | 117 | 279 | 1,219 | 145 | **1,760** |
| Additions and assets under construction (1) | 1 | 27 | 214 | 13 | **255** |
| Disposals and retirements | (2) | (2) | (9) | - | **(13)** |
| Depreciation | - | (36) | (220) | - | **(256)** |
| Impairment | - | (1) | (8) | - | **(9)** |
| Changes in consolidation scope (2) | (1) | (2) | (4) | (1) | **(8)** |
| Currency translation differences and other movements (3) | (7) | (10) | (20) | (6) | **(43)** |
| At December 31, 2007 | 108 | 255 | 1,172 | 151 | **1,686** |
| Gross value | 137 | 819 | 4,333 | 151 | **5,440** |
| Accumulated depreciation and impairment | (29) | (564) | (3,161) | - | **(3,754)** |
| **Net carrying amount at December 31, 2007** | **108** | **255** | **1,172** | **151** | **1,686** |

*(1) Assets under construction represent €227 million in 2007.*
*(2) The changes in consolidation scope mainly include the impact arising from the change in consolidation method for GIE Osiris (France) into equity method for €(20) million, previously fully consolidated, and the purchase of the Washcoat Alumina business from the US group Grace & Co-Conn for €9 million.*
*(3) The foreign exchange loss generated in 2007 totaled €(43) million.*

The impairment losses recognized in 2007 and 2008 are detailed in note 5 for assets in continuing use and in note 10 for assets classified as held for sale.

Finance-leased assets break down as follows:

| *(in millions of euros)* | **Land and Buildings** | **Machinery and equipment** | **Total** |
|---|---|---|---|
| At December 31, 2008 | | | |
| Gross value | 5 | 23 | **28** |
| Depreciation | (4) | (14) | **(18)** |
| Total finance-leased assets | 1 | 9 | **10** |
| At December 31, 2007 | | | |
| Gross value | 4 | 29 | **33** |
| Depreciation | (4) | (16) | **(20)** |
| **Total finance-leased assets** | **-** | **13** | **13** |

## NOTE 13 Goodwill

### *13.1 Segment allocation*

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Polyamide | 8 | 9 |
| Novecare | 113 | 122 |
| Silcea | 37 | 37 |
| Acetow | 3 | 3 |
| Eco services | 35 | 33 |
| Corporate & Other | 1 | 3 |
| **TOTAL** | **197** | **207** |

The goodwill previously allocated to Organics was reallocated to other companies in 2008 (Silcea and Corporate and Other segments).

### *13.2 Movements during the year*

| *(in millions of euros)* | **Gross** | **Impairment** | **Net** |
|---|---|---|---|
| At January 1, 2007 | 248 | (23) | 225 |
| Currency translation differences | (20) | 2 | (18) |
| At December 31, 2007 | 228 | (21) | 207 |
| Disposals | (2) | - | (2) |
| Currency translation differences | (9) | 1 | (8) |
| At December 31, 2008 | 217 | (20) | 197 |

No impairment was recognized in 2007 and 2008 considering the results of the tests performed using the methodology described in note 5.

## NOTE 14 Other intangible assets

| *(in millions of euros)* | Trademarks and patents | Software | Development costs | Other [4] | Total |
|---|---|---|---|---|---|
| **Year ended December 31, 2008** | | | | | |
| At January 1, 2008 | 17 | 46 | 60 | 60 | **183** |
| Additions and assets under construction [1] | 4 | 31 | 21 | (15) | **41** |
| Disposals and retirements | - | - | - | - | **-** |
| Impairment | (4) | - | (5) | - | **(9)** |
| Depreciation | (3) | (21) | (4) | (5) | **(33)** |
| Changes in consolidation scope [2] | - | - | (7) | - | **(7)** |
| Currency translation differences and other movements [3] | 4 | (3) | (1) | 6 | **6** |
| At December 31, 2008 | 18 | 53 | 64 | 46 | **181** |
| Gross value | 54 | 232 | 79 | 75 | **440** |
| Depreciation and impairment | (36) | (179) | (15) | (29) | **(259)** |
| **Net carrying amount at December 31, 2008** | **18** | **53** | **64** | **46** | **181** |

*(1) Assets under construction (mostly acquired externally) represent €53 million in 2008.*
*(2) The changes in consolidation scope mainly include the impact arising from the disposal of the Aliphatic Isocyanates business to Perstorp of Pont de Claix (France).*
*(3) Other movements include greenhouse gas emissions for €7 million.*
*(4) Including €25 million at the 2008 year-end relating to greenhouse gas emission allowances to be delivered.*

| *(in millions of euros)* | Trademarks and patents | Software | Development costs | Other [4] | Total |
|---|---|---|---|---|---|
| **Year ended December 31, 2007** | | | | | |
| At January 1, 2007 | 16 | 43 | 33 | 86 | **178** |
| Additions and assets under construction [1] | 5 | 24 | 27 | 10 | **66** |
| Disposals and retirements | (1) | - | - | - | **(1)** |
| Impairment | - | - | (1) | - | **(1)** |
| Depreciation | (3) | (21) | (4) | (1) | **(29)** |
| Changes in consolidation scope [2] | - | - | - | (7) | **(7)** |
| Currency translation differences and other movements [3] | - | - | 5 | (28) | **(23)** |
| At December 31, 2007 | 17 | 46 | 60 | 60 | **183** |
| Gross value | 83 | 237 | 69 | 93 | **482** |
| Depreciation and impairment | (66) | (191) | (9) | (33) | **(299)** |
| **Net carrying amount at December 31, 2007** | **17** | **46** | **60** | **60** | **183** |

*(1) Assets under construction represent €19 million in 2007.*
*(2) The changes in consolidation scope include the impact arising from the change in consolidation method of GIE Osiris (France) to the equity method, previously fully consolidated for €(8) million.*
*(3) Other movements include greenhouse gas emissions for €(20) million.*
*(4) Including €9 million at the 2007 year-end relating to greenhouse gas emission allowances to be delivered.*

In 2007 and 2008, the "Other" heading includes the European gas emission allowances allocated to the Group primarily under French, Italian and German national allocation plans.

## NOTE 15 Investments in associates

Investments in associates break down as follows:

| | Investments in associates | | Share of profit/(loss) of associates | |
|---|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2008** | **2007** |
| GIE Osiris | 9 | 8 | - | 2 |
| GIE Chimie Salindres | 2 | 2 | - | - |
| Energostil | 1 | 2 | (1) | - |
| Qingdao Dongyue Rhodia Chemical Co Ltd | 1 | 1 | - | - |
| **TOTAL** | **13** | **13** | **(1)** | **2** |

The aggregate financial data relating to the main associates is shown below:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Total assets | 97 | 82 |
| Total liabilities | 64 | 49 |
| Net sales | 40 | 34 |
| **NET PROFIT** | **(3)** | **4** |

## NOTE 16 Investments in joint ventures

The share of assets, liabilities and profit (or loss) of the main joint ventures are shown below:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Non-current assets | 196 | 209 |
| Current assets | 239 | 228 |
| **Total assets** | **435** | **437** |
| Non-current liabilities | 98 | 111 |
| Current liabilities | 238 | 233 |
| Equity | 99 | 93 |
| **Total liabilities & equity** | **435** | **437** |
| **Net sales** | **527** | **458** |
| Other revenue | 49 | 39 |
| Operating profit (or loss) | 39 | 45 |
| **PROFIT FOR THE PERIOD** | **22** | **28** |

## NOTE 17 Non-current financial assets

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Loans and receivables | | |
| Gross value | 115 | 136 |
| Allowance | (33) | (34) |
| Net value | 82 | 102 |
| Available-for-sale financial assets | 9 | 11 |
| Retirement benefit surplus | 1 | - |
| **TOTAL** | **92** | **113** |

Non-current assets classified as loans and receivables break down as follows:

- at December 31, 2008: loans in the amount of €21 million, deposits and guarantees in the amount of €16 million and receivables in the amount of €45 million;
- at December 31, 2007: loans in the amount of €21 million, deposits and guarantees in the amount of €24 million and receivables in the amount of €57 million.

Available-for-sale assets are investments in non-consolidated companies as shown below:

| | **2008** | | **2007** | |
|---|---|---|---|---|
| *(in millions of euros)* | **% held** | **Value** | **% held** | **Value** |
| Phosphoric Fertilizers Industry (Greece) | 2.15 | 2 | 2.15 | 2 |
| Other (less than €2 million) | | 7 | - | 9 |
| **TOTAL** | | **9** | | **11** |

## NOTE 18 Deferred tax assets and liabilities

The deferred taxes recognized as non-current assets or liabilities break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Deferred tax assets | 171 | 161 |
| Less than one year | 17 | 14 |
| More than one year | 154 | 147 |
| Deferred tax liabilities | (38) | (43) |
| Less than one year | (12) | (9) |
| More than one year | (26) | (34) |

The deferred taxes shown on the face of the balance sheet arise from:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Differences between carrying and tax amounts of: | | | | | | |
| • assets | 7 | 7 | (68) | (111) | (61) | (104) |
| • retirement obligations | 53 | 30 | - | - | 53 | 30 |
| • provisions | 84 | 79 | (6) | (8) | 78 | 71 |
| • derivatives | 4 | 4 | (4) | (1) | - | 3 |
| • other items | 26 | 60 | (35) | (29) | (9) | 31 |
| Tax loss carryforwards and tax credits | 72 | 87 | - | - | 72 | 87 |
| **Deferred taxes** | **246** | **267** | **(113)** | **(149)** | **133** | **118** |
| Netting effect | (75) | (106) | 75 | 106 | - | - |
| **Net deferred taxes** | **171** | **161** | **(38)** | **(43)** | **133** | **118** |

At December 31, 2008, unrecognized deferred tax assets amount to €1,351 million and break down as follows:

- €869 million in tax loss carryforwards (€894 million at December 31, 2007) of which €796 million in losses that may be carried forward indefinitely in respect of French and British tax consolidation groups;
- €76 million in non ordinary tax losses that may only be offset against disposals of assets;
- €406 million generated by the differences in the carrying and tax amounts of the Group's assets and liabilities.

At each period-end, Rhodia determines whether each tax entity is likely to generate taxable profits against which its deferred tax assets may be offset or to benefit from unrecognized available tax credits. To assess this probability, Rhodia considers in particular current and past results of the tax entities as well as projected taxable profits. In the event of recent losses not relating to non-recurring items, Rhodia considers whether the entities are presumed not to have future taxable profits available to reverse such tax assets or credits. This analysis led the Group not to recognize net deferred tax assets for the French and British tax groups.

Movements in net deferred taxes recognized in the balance sheet break down as follows:

| | Maturity | |
|---|---|---|
| *(in millions of euros)* | **Less than one year** | **More than one year** |
| **At January 1, 2007** | **7** | **144** |
| Recognition in equity | 2 | (9) |
| Recognition in profit or loss | (6) | (19) |
| Changes in the scope of consolidation | - | 1 |
| Currency translation differences and other movements | 2 | (4) |
| **At December 31, 2007** | **5** | **113** |
| Recognition in equity | (10) | 35 |
| Recognition in profit or loss | 15 | (19) |
| Changes in the scope of consolidation | - | - |
| Currency translation differences and other movements | (5) | (1) |
| **At December 31, 2008** | **5** | **128** |

The breakdown of deferred taxes recognized in profit or loss is presented in note 9 "Income tax", and note 10.1 "Profit/(loss) from discontinued operations."

The movements in deferred taxes recognized directly in equity concern actuarial gains and losses relating to retirement benefits and on cash flow hedges recognized in equity (Refer to the "Consolidated Statements of recognized Income and Expense").

## NOTE 19 Inventories

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Raw materials | 280 | 246 |
| Work in progress | 55 | 39 |
| Finished goods | 365 | 330 |
| Gross carrying amount | 700 | 615 |
| Allowance | (34) | (32) |
| **Net carrying amount** | **666** | **583** |

## NOTE 20 Trade and other receivables

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Trade receivables | 502 | 715 |
| Other trade receivables | 138 | 93 |
| Gross trade receivables | 640 | 808 |
| Allowance | (49) | (73) |
| Net trade receivables | 591 | 735 |
| Employees and social security | 2 | 2 |
| French State and local authorities | 183 | 157 |
| Other receivables | 71 | 100 |
| Allowance | (26) | (29) |
| Net other receivables | 230 | 230 |
| **Total Trade and other receivables** | **821** | **965** |

## NOTE 21 Other current financial assets

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Financial assets at fair value through profit or loss | 18 | 12 |
| Loans and receivables | 4 | 4 |
| Available-for-sale financial assets | 6 | 3 |
| **TOTAL** | **28** | **19** |

Financial assets at fair value through profit or loss primarily include short-term investments maturing on issuance in over 3 months.

## NOTE 22 Cash and cash equivalents

### 22.1 Analysis by type

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Cash in banks | 122 | 84 |
| Cash equivalents | 370 | 331 |
| **TOTAL** | **492** | **415** |

At December 31, 2008 and 2007, cash equivalents mainly include monetary notes and certificates of deposit maturing on acquisition in less than 3 months.

### 22.2 Consolidated statements of cash flows

In 2008, discontinued operations contributed to net cash from operating activities in the amount of €(5) million and to net cash used by investing activities in the amount of €(15) million. Discontinued operations do not contribute to net cash used by financing activities.

In 2007, discontinued operations contributed to net cash from operating activities in the amount of €3 million, to net cash used by investing activities in the amount of €(4) million and to net cash used by financing activities in the amount of €22 million.

Cash received from the disposal of non-current assets arises mainly from:

- the disposal of the Isocyanates business and Rhodia's distribution network in South-East Asia, India, Australia and Taiwan in 2008;
- the disposal of the Silicones business and the Sulfuric acid business in France in 2007.

The cash and cash equivalents of sold entities or held for sale totaled €(1) million in 2008 and €26 million for in 2007. Cash and cash equivalents of acquired entities amounted to €1 million in 2007.

Paid interests costs on borrowings, net of interest received on cash and cash equivalents, totaled €82 million in 2008 and €189 million in 2007 (including cash outflows on refinancing operations of €72 million).

Income taxes paid totaled €47 million in 2008 and €49 million in 2007.

## NOTE 23 Equity

### 23.1 Statement of changes in equity

| (in millions of euros) | Share capital | Additional paid-in capital | Other reserves: Cash flow hedge reserve | Other reserves: Translation reserve | Other reserves: Legal reserve | Other reserves: Treasury shares | Deficit | Total | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2008** | 1,204 | 147 | 2 | 84 | 37 | - | (1,863) | (389) | 21 | **(368)** |
| Appropriation of earnings | - | - | - | - | 3 | - | (3) | - | - | **-** |
| Dividends | - | - | - | - | - | - | (25) | (25) | (5) | **(30)** |
| Share capital increase | 9 | (9) | - | - | - | - | - | - | - | **-** |
| Net profit for the period | - | - | - | - | - | - | 105 | 105 | 2 | **107** |
| Income and expense directly recognized in equity | - | - | (51) | 25 | - | - | (40) | (66) | 1 | **(65)** |
| Other movements [(1)] | - | - | - | - | - | (14) | 14 | - | - | **-** |
| **At December 31, 2008** | 1,213 | 138 | (49) | 109 | 40 | (14) | (1,812) | (375) | 19 | **(356)** |

*(1) Including the free shares plans for €14 million (see* note *34).*

| (in millions of euros) | Share capital | Additional paid-in capital | Other reserves: Cash flow hedge reserve | Other reserves: Translation reserve | Other reserves: Legal reserve | Other reserves: Treasury shares | Deficit | Total | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2007** | 1,204 | 23 | 2 | 75 | 32 | - | (1,989) | (653) | 25 | **(628)** |
| Appropriation of earnings | - | - | - | - | 5 | - | (5) | - | - | **-** |
| Dividends | - | - | - | - | - | - | - | - | (3) | **(3)** |
| Equity components of convertible debt | - | 124 | - | - | - | - | - | 124 | - | **124** |
| Net profit for the period | - | - | - | - | - | - | 129 | 129 | 2 | **131** |
| Income and expense directly recognized in equity | - | - | - | 9 | - | - | (12) | (3) | (1) | **(4)** |
| Other movements [(1)] | - | - | - | - | - | - | 14 | 14 | (2) | **12** |
| **At December 31, 2007** | 1,204 | 147 | 2 | 84 | 37 | - | (1,863) | (389) | 21 | **(368)** |

*(1) Including the free shares plans for €18 million.*

### 23.2 Share capital and additional paid-in capital

At December 31, 2008, Rhodia's share capital totaled €1,213,044,816, comprising 101,087,068 Rhodia shares with a par value of €12 each.

On January 15, 2008, Rhodia increased its capital by €8,617,512 in accordance with its 2006 free shares plan, i.e. 718,126 shares.

In 2008, the exercise of share subscription options resulted in the issue of 1,111 shares.

### 23.3 Dividends

As decided by shareholders at the general meeting on May 16, 2008, Rhodia S.A. paid out dividends totaling €25 million (€0.25 per share) for 2007.

### 23.4 Translation reserve

The movement in the translation reserve for the year ended December 31, 2008 in the amount of €25 million results from the appreciation of the US dollar and the depreciation of the Brazilian real, the Korean won and the British pound.

### 23.5 Treasury shares

A Rhodia share buyback program was approved at the Combined Shareholders' Meeting held on May 16, 2008 and authorized by the Board of Directors at its July 29, 2008 meeting in order to cover the current free shares plans for the employees and corporate officers of the Company and its subsidiaries. This program was limited to 2% of the share capital. In connection with the share buyback program, 1,792,137 shares were purchased in 2008 at an average price of €7.56.

### 23.6. Other movements

On March 17, 2008, the Rhodia Board of Directors approved a new free shares plan for 342 beneficiaries (2 x 511,980 shares) subject to conditions governing Rhodia's performance and the continued employment of the beneficiaries.

As the performance conditions governing one of the plans were not satisfied, the free shares plan will be limited to a maximum of 511,980 shares (see note 34).

## NOTE 24 Borrowings

### 24.1 Breakdown of borrowings by type

| | At December 31, 2008 | | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Amount at amortized cost (1)** | **Redemption value (2)** | **Amount at fair value (3)** | **Maturity** | **Effective rates before hedging (4)-(5)** |
| Bilateral credit facilities | 141 | 141 | 141 | 2009 | Euribor + 0.9% / Euribor + 2.5%/ 7% |
| Securitization of receivables | 37 | 37 | 37 | 2009 | 4.30% - 4.59% |
| Finance leases debts | 4 | 4 | 4 | 2009 | 3.10% - 3.96% |
| Other debts | 10 | 10 | 10 | 2009 | < 6% |
| Accrued interest payable | 27 | 27 | 27 | - | - |
| **Sub-total short term** | **219** | **219** | **219** | | |
| 2006 EUR senior notes | 1,048 | 1,067 | 536 | 15/10/2013 | Euribor 3M + 2.75% |
| OCEANE | 509 | 595 | 304 | 01/01/2014 | 6.29% |
| 2004 USD senior notes | 4 | 4 | 4 | 01/06/2010 | 10.25% |
| 2004 EUR senior notes | 1 | 1 | 1 | 01/06/2010 | 10.5% |
| Other notes | 16 | 16 | 16 | 31/12/2011 | Euribor 6M + 1.60% |
| Bilateral credit facilities | 21 | 21 | 21 | 2010-2012 | 5.07% - 6.7% |
| Finance leases debts | 4 | 4 | 4 | 2010-2014 | 3.10% - 3.96% |
| Other debts | 9 | 9 | 9 | 2010-2015 | < 6% |
| **Sub-total long term** | **1,612** | **1,717** | **895** | | |
| **TOTAL** | **1,831** | **1,936** | **1,114** | | |

*(1) The amortized cost of the OCEANE is determined after separate recognition in equity of the share conversion option for €124 million.*
*(2) The amount shown for the OCEANE corresponds to the principal excluding the 13.22% redemption premium.*
*(3) Senior notes and OCEANE are measured on the last day of the year. The redemption price was adopted for other borrowings.*
*(4) Effective interest rate before impact of hedges.*
*(5) Libor/Euribor are mainly 1, 3 or 6 months.*

| | At December 31, 2007 | | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Amount at amortized cost (1)** | **Redemption value (2)** | **Amount at fair value (3)** | **Maturity** | **Effective rates before hedging (4)-(5)** |
| Bilateral credit facilities | 97 | 97 | 97 | 2008 | Euribor + 0.9% / Euribor + 2.5%/ 6.5% |
| Securitization of receivables (6) | 114 | 114 | 114 | 2008 | 6.8% |
| Finance leases debts | 3 | 3 | 3 | 2008 | 3.37% to Euribor + 0.3% |
| Other debts | 6 | 6 | 6 | 2008 | < 6% |
| Accrued interest payable | 23 | 23 | 23 | - | - |
| **Sub-total short term** | **243** | **243** | **243** | - | - |
| 2006 EUR senior notes | 1,077 | 1,100 | 1,051 | 10/15/2013 | Euribor 3M + 2.75% |
| OCEANE | 482 | 595 | 551 | 01/01/2014 | 6.29% |
| 2004 USD senior notes | 4 | 4 | 4 | 06/01/2010 | 10.25% |
| 2004 EUR senior notes | 1 | 1 | 1 | 06/01/2010 | 10.5% |
| Other notes | 24 | 24 | 24 | 03/10/2009 | Euribor 6M + 1.60% |
| Securitization of receivables | 13 | 13 | 13 | 2009-2010 | 5.4% |
| Bilateral credit facilities | 45 | 45 | 45 | 2009-2012 | Euribor + 1.5%/ 5.93% to 6.93% |
| Finance leases debts | 10 | 10 | 10 | 2009-2014 | 3.10% to Euribor + 0.3% |
| Other debts | 19 | 19 | 19 | 2009-2014 | < 6% |
| **Sub-total long term** | **1,675** | **1,811** | **1,718** | - | - |
| **TOTAL** | **1,918** | **2,054** | **1,961** | **-** | **-** |

*(1) The amortized cost of the OCEANE is determined after separate recognition in equity of the share conversion option for €124 million.*
*(2) The amount shown for the OCEANE corresponds to the principal excluding the 13.22% redemption premium.*
*(3) Senior notes and OCEANE are measured on the last day of the year. The redemption price was adopted for other borrowings.*
*(4) Effective interest rate before impact of hedges.*
*(5) Libor/Euribor are mainly 1, 3 or 6 months.*
*(6) The trade receivable securitization agreements will mature in 2010 with cash facilities renewable annually.*

## 24.2 Analysis of borrowings by maturity

| | At December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **2010** | **2011** | **2012** | **2013** | **After 2013** | **Total** |
| 2006 EUR senior notes | - | - | - | 1,048 | - | **1,048** |
| OCEANE | - | - | - | - | 509 | **509** |
| 2004 USD senior notes | 4 | - | - | - | - | **4** |
| 2004 EUR senior notes | 1 | - | - | - | - | **1** |
| Other EUR notes | - | 16 | - | - | - | **16** |
| Bilateral credit facilities | 7 | 8 | 6 | - | - | **21** |
| Finance leases debts | 1 | 0 | 1 | 1 | 1 | **4** |
| Other debts | 1 | 1 | 1 | 1 | 5 | **9** |
| **Sub-total long term** | **14** | **25** | **8** | **1,050** | **515** | **1,612** |

| | At December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **2009** | **2010** | **2011** | **2012** | **After 2012** | **Total** |
| 2006 EUR senior notes | - | - | - | - | 1,077 | **1,077** |
| OCEANE | - | - | - | - | 482 | **482** |
| 2004 USD senior notes | - | 4 | - | - | - | **4** |
| 2004 EUR senior notes | - | 1 | - | - | - | **1** |
| Other EUR notes | 24 | - | - | - | - | **24** |
| Securization of receivables | 5 | 8 | - | - | - | **13** |
| Bilateral credit facilities | 27 | 9 | 8 | 1 | - | **45** |
| Finance leases debts | 5 | 1 | - | 1 | 3 | **10** |
| Other debts | 1 | - | 1 | 1 | 16 | **19** |
| **Sub-total long term** | **62** | **23** | **9** | **3** | **1,578** | **1,675** |

## 24.3 *Analysis of borrowings by currency*

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Euro | 1,652 | 1,745 |
| US Dollar | 71 | 86 |
| Chinese yuan | 56 | 47 |
| Brazilian real | 22 | 25 |
| Korean won | 17 | 1 |
| Other | 13 | 14 |
| **Total borrowings** | **1,831** | **1,918** |

## 24.4 *Comments on the financing arrangements*

**Floating Rate Notes**

Floating Rate notes were issued for a nominal amount of €1,100 million at 3-month Euribor + 2.75%, maturing on October 15, 2013. In December 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of € 33 million, thus reducing the principal amount of the notes to € 1,067 million. The redemption price was €17 million.

**OCEANE**

The issue on April 27, 2007 of OCEANE bonds (bonds that can be converted or exchanged for new or existing shares) for a nominal amount of €595 million, maturing on January 1, 2014 and bearing interest at 0.5%. The issue price amounted to €48.1 per bond. OCEANE bond holders may, at any time, exercise their conversion option on a 1.02 for 1 basis. OCEANE bonds carry a 13.22% redemption premium and a buyback option that may be exercised by Rhodia under certain conditions. The debt and equity components were measured upon issue of the bonds. The debt component was measured at amortized cost using a market interest rate for an equivalent non-convertible bond.

**Syndicated credit line**

On March 30, 2007, Rhodia entered into a multi-currency syndicated credit facility with a limited number of lending banks for €600 million ("Multicurrency Revolving Credit and Guaranty Facility" or "RCF") maturing on June 30, 2012.

The interest rate applied to the borrowed sums corresponds to the bank discount rate according to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio ("leverage"). In addition, Rhodia pays a commitment fee corresponding to 40% or 35% of the applicable margin depending on its level. The syndicated credit facility is usable in the form of bank loans and/or guarantees.

Rhodia has given collateral security in connection with the implementation of this syndicated credit line. Such collateral security is made up of a pledge of the securities of one of its subsidiaries and a pledge of a secured loan of another of its subsidiaries.

The RCF includes early repayment clauses, including a change of control of Rhodia or the adoption of a break-up or liquidation plan for the Company.

Moreover, the RCF includes mandatory repayment and partial cancellation clauses, notably in the case of asset disposals beyond certain thresholds provided for in the agreement, and under certain conditions, notably in respect of the application of proceeds from disposals.

The continuation of the RCF syndicated credit facility is subject to the compliance with certain financial ratios ("covenants") by Rhodia which are tested on a half-yearly basis on the following dates:

| | Consolidated net debt/Adjusted recurring EBITDA | Recurring EBITDA/Net financial expenses |
|---|---|---|
| 12/31/2008 | 3.0:1.0 | 4.0:1.0 |
| 06/30/2009 | 3.0:1.0 | 4.0:1.0 |
| 12/31/2009 | 3.0:1.0 | 4.5:1.0 |
| 06/30/2010 | 3.0:1.0 | 4.5:1.0 |
| 12/31/2010 | 3.0:1.0 | 4.5:1.0 |
| 06/30/2011 | 3.0:1.0 | 4.5:1.0 |
| 12/31/2011 | 3.0:1.0 | 4.5:1.0 |

The aggregates used to calculated the ratios as defined in the syndicated credit line are as follows:

- consolidated net indebtedness: aggregate of non-current borrowings, current borrowings and guarantees given with respect to financial indebtedness of third parties or joint-ventures or unconsolidated subsidiaries minus the aggregate of cash and cash equivalents and other current financial assets;
- recurring EBITDA: operating profit/loss plus depreciation, amortisation and impairment plus restructuring costs plus other operating expenses and income;
- adjusted recurring EBITDA: is defined as the Group's recurring EBITDA plus the recurring EBITDA, pro rata to the percentage held by the Group, of non-consolidated entities whose borrowings are secured by the Group;
- net financial expenses: interest on non-current borrowings, current borrowings, after capitalisation of financial expenses related to the financing of certain assets and incorporated in the purchase cost of such assets minus interest income on cash and cash equivalents and other current financial assets;
- adjusted recurring EBITDA is defined as the Group's recurring EBITDA plus the recurring EBITDA, pro rata to the percentage held by the Group, of non-consolidated entities whose borrowings are secured by the Group.

At and prior to December 31, 2008, Rhodia has complied with all applicable financial covenants.

In 2008, the RCF syndicated credit facility was only drawn down for bank guarantees. The amount not drawn down at December 31, 2008 was €534 million.

**Asset securitization programs**

Rhodia has another financing source by which it sells certain of its uncollected trade receivables on a monthly or quarterly basis, in the frame of two securitization programs respectively in Europe and in the North America.

The available financing under these securitization programs totaled €235 million, plus £15 million for the Pan-European program and $100 million for the North American program.

These two European and North American securitization programs do not carry covenants based on Rhodia's financial performance, which if not met would trigger early repayment. They do, however, contain a cross-accelerated repayment clause in the event of early repayment being demanded under the RCF facility or any other Rhodia S.A. financing arrangement in an amount in excess of €10 million.

The pan-European program also includes a cross-accelerated repayment clause in the event of the settlement of collateral security provided by Rhodia S.A. as guarantees for the RCF or any other financing arrangement in an amount in excess of €10 million.

At December 31, 2008, the financing provided by the securitization programs amounts €37 million.

## NOTE 25 Fair value of financial instruments and accounting categories

| | At December 31, 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets/liabilities at fair value through profit or loss | | | | | | | Fair value of which | |
| *(in millions of euros)* | Trading | Fair value option | Available-for-sale assets | Loans and receiva-bles | Liabilities at amortized cost | Hedging derivatives | Total net carrying amount | Model | Quote |
| **Financial assets** | 110 | 510 | 15 | 677 | - | 38 | **1,350** | 831 | 519 |
| **Non-current financial assets** [(1)] | - | - | 9 | 82 | - | - | **91** | 91 | - |
| Other current financial assets | - | 18 | 6 | 4 | - | - | **28** | 4 | 24 |
| Trade receivables | - | - | - | 591 | - | - | **591** | 591 | - |
| Derivative financial instruments | 110 | - | - | - | - | 38 | **148** | 145 | 3 |
| Cash and cash equivalents | - | 492 | - | - | - | - | **492** | - | 492 |
| **Current financial assets** | 110 | 510 | 6 | 595 | 0 | 38 | **1,259** | 740 | 519 |
| **Financial liabilities** | 46 | - | - | - | 2,572 | 77 | **2,695** | 1,133 | 845 |
| Borrowings | - | - | - | - | 1,612 | - | **1,612** | 50 | 845 |
| **Non-current financial liabilities** | - | - | - | - | 1,612 | - | **1,612** | 50 | 845 |
| Borrowings | - | - | - | - | 219 | - | **219** | 219 | - |
| Derivative financial instruments | 46 | - | - | - | - | 77 | **123** | 123 | - |
| Trade payables | - | - | - | - | 741 | - | **741** | 741 | - |
| **Current financial liabilities** | 46 | - | - | - | 960 | 77 | **1,083** | 1,083 | - |

*(1) Excluding pension surplus in the amount of €1 million.*

| | At December 31, 2007 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets/liabilities at fair value through profit or loss | | | | | | | Fair value of which | |
| *(in millions of euros)* | Trading | Fair value option | Available-for-sale assets | Loans and receiva-bles | Liabilities at amortized cost | Hedging derivatives | Total net carrying amount | Model | Quote |
| **Financial assets** | 66 | 427 | 14 | 841 | - | 30 | **1,378** | 947 | 431 |
| **Non-current financial assets** | - | - | 11 | 102 | - | - | **113** | 113 | - |
| Other current financial assets | - | 12 | 3 | 4 | - | - | **19** | 4 | 15 |
| Trade receivables | - | - | - | 735 | - | - | **735** | 735 | - |
| Derivative financial instruments | 66 | - | - | - | - | 30 | **96** | 95 | 1 |
| Cash and cash equivalents | - | 415 | - | - | - | - | **415** | - | 415 |
| **Current financial assets** | 66 | 427 | 3 | 739 | - | 30 | **1,265** | 834 | 431 |
| **Financial liabilities** | 43 | - | - | - | 2,698 | 25 | **2,766** | 1,202 | 1,607 |
| Borrowings | - | - | - | - | 1,675 | - | **1,675** | 111 | 1,607 |
| **Non-current financial liabilities** | - | - | - | - | 1,675 | - | **1,675** | 111 | 1,607 |
| Borrowings | - | - | - | - | 243 | - | **243** | 243 | - |
| Derivative financial instruments | 43 | - | - | - | - | 25 | **68** | 68 | |
| Trade payables | - | - | - | - | 780 | - | **780** | 780 | - |
| **Current financial liabilities** | 43 | - | - | - | 1,023 | 25 | **1,091** | 1,091 | - |

The best indication of the fair value of a contract is the price which would be agreed to between a willing seller and buyer in an arm's length transaction. At the trade date, it is generally the transaction price. Subsequently, the measurement of the contract should be based on observable market data which provide the most reliable indication of the fair value of a financial instrument.

The fair value of derivatives is determined as follows:

- interest rate swaps are measured by discounting contractual flows;
- options are measured based on valuation models (such as Black & Scholes) using quotes published on active markets and/or by obtaining quotations from third party financial institutions;
- forward exchange contracts are measured by discounting net future cash flows;
- carbon derivatives (CER and EUA) and commodity-based derivatives are measured as follows:
  - products traded on organized markets (futures): use of market quotes,
  - products traded over-the-counter (swaps, forwards): discounting of future flows,
  - optional products: use of mathematical models.

The fair value of the notes corresponds to the most recent market quote. For other borrowings, the redemption price was adopted.

The fair value of trade payables and trade receivables corresponds to their carrying amount. The discounting of cash flows arising from "Trade payables" and "Trade receivables" had an immaterial impact on fair value due to the short settlement periods applied.

## NOTE 26 Financial risk management and derivatives

Rhodia is exposed to market risks as a result of its commercial and business transactions. This exposure is mainly related to fluctuations in exchange and interest rates, commodity and carbon instrument prices.

### *26.1 Derivative financial instruments*

At December 31, 2008, Rhodia held derivatives, some of which are designated as cash flow hedges, as well as non-hedging derivatives. Derivatives are recognized in the balance sheet at their fair value in the following amounts:

| | | At December 31, 2008 | | At December 31, 2007 | |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Notes** | **Current assets** | **Current liabilities** | **Current assets** | **Current liabilities** |
| Interest rate instruments | 26.2 | 1 | 11 | 13 | - |
| Foreign exchange instruments | 26.3 | 89 | 70 | 24 | 4 |
| Oil-based commodities instruments | 26.4 | 6 | 14 | - | 9 |
| Carbon instruments | 26.5 | 52 | 28 | 59 | 55 |
| **TOTAL** | | **148** | **123** | **96** | **68** |

### *26.2 Interest rate risk management*

Rhodia's exposure to interest rate risk mainly relates to its net indebtedness and to its interest rate derivatives portfolio.

The Group monitors its exposure to interest rate risk on a monthly basis and specifically hedges the main floating-rate borrowings using interest rate swaps or caps.

### Management of fixed and floating rates

The breakdown of net debt as defined by the Group between fixed and floating rates, and excluding its derivative portfolio, is as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Floating rate | 1,208 | 1,301 |
| Fixed rate | 596 | 594 |
| **Borrowings excluding accrued interest payable** | **1,804** | **1,895** |
| Cash and cash equivalents | (492) | (415) |
| Other current financial assets | (28) | (19) |
| Accrued interest payable | 27 | 23 |
| **Net indebtedness** | **1,311** | **1,484** |

In 2006, in order to hedge interest rate increases on its floating-rate debt, Rhodia purchased caps and interest rate swaps totaling €1,100 million, for which the residual amount at December 31, 2008 was €1,067 million. These derivatives were recognized under cash flow hedge accounting.

The breakdown of the Group's debt between fixed and floating rates, taking into account its hedging derivatives, is as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Floating rate | 160 | 224 |
| Capped floating rate | 350 | 350 |
| Fixed rate | 1,294 | 1,321 |
| **Borrowings excluding accrued interest payable** | **1,804** | **1,895** |

At December 31, 2008, the average rate of the fixed-rate debt was around 6.5%, compared to 6.6% as of December 31, 2007.

### Analysis of interest rate sensitivity

Interest rate sensitivity for floating-rate instruments was analyzed taking into account all the variable cash flows of non-derivative and derivative instruments. The analysis is performed assuming that the amounts of debt and financial instruments shown in the balance sheet as of December 31, 2008 and 2007 remain constant during the year. For the purposes of this analysis, all the other variables, particularly exchange rates, are considered to be constant.

An interest rate fluctuation by 100 basis points at the year-end would result in an increase (decrease) in equity and profit or loss (prior to the tax impact) by the amounts detailed in the table below:

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Net profit/(loss) | | Hedging reserves * | | Net profit/(loss) | | Hedging reserves * | |
| *(in millions of euros, excluding taxes)* | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| Floating-rate debt | (12) | 12 | - | - | (13) | 13 | - | - |
| Derivatives designated as cash flow hedges | 7 | (7) | 14 | (13) | 11 | (10) | 20 | (14) |
| Cash equivalents | 5 | (5) | - | - | 4 | (4) | - | - |
| **TOTAL** | **-** | **-** | **14** | **(13)** | **2** | **(1)** | **20** | **(14)** |

* *Corresponds to the change in fair value of derivatives designated as cash flow hedges following a sudden fluctuation in interest rates.*

### Analysis of interest rate hedges

**Derivatives designated as cash flow hedges**

As of December 31, 2008, interest rate swaps and options (caps) hedge the floating-rate bonds issued in October 2006. The notional amounts of these contracts and their fair value are detailed in the table below:

| *(in millions of euros)* | | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | **Currency EUR** | **< 1 year** | **1 to 5 years** | **> 5 years** | **Total** | **Fair Value** | **Nominal Value** | **Fair Value** |
| Interest rate swaps | Lender Floating rate | 317 | 400 | - | 717 | (11) | 750 | 9 |
| Cap | Purchase | 350 | - | - | 350 | 1 | 350 | 3 |
| **TOTAL** | | **667** | **400** | **-** | **1,067** | **(10)** | **1,100** | **12** |

The changes in fair value of hedging derivatives considered as effective are recognized in equity under the heading "Cash flow hedge reserve". For interest rate options (caps), only the intrinsic value of the option is considered as an effective hedge. The time value is considered as ineffective on inception of the hedge.

The ineffective portion of cash flow hedges which impacts profit or loss was immaterial in 2008 and 2007.

The contractual flows related to interest rate swaps are paid at the same time as the contractual flows of floating-rate borrowings and the amount deferred in equity is recognized in profit or loss for the period in which the fluctuations in the debt's interest rate impact profit or loss.

Changes in the hedging reserve for interest rate derivatives in fiscal 2007 and 2008 are shown in the following table:

| *(in millions of euros, excluding taxes)* | **2008** | **2007** |
|---|---|---|
| Carrying amount as of January 1, | 12 | 1 |
| Amount transferred to profit or loss (1) | (11) | 3 |
| Amount recorded directly in the hedging reserve | (14) | 8 |
| Carrying amount as of December 31, | (13) | 12 |

*(1) The profit and loss entry impacts "Gross interest expense on borrowings".*

**Derivatives not designated as hedges**

As of December 31, 2008, Rhodia had entered into the following interest rate swaps not designated for hedging purposes:

| *(in millions of euros)* | | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | **Currency EUR** | **< 1 year** | **1 to 5 years** | **> 5 years** | **Total** | **Fair Value** | **Nominal Value** | **Fair Value** |
| Interest rate swaps | Lender Floating rate | - | 10 | - | 10 | - | - | - |
| Floors | Purchase | - | - | - | - | - | 750 | 1 |
| **TOTAL** | | **-** | **10** | **-** | **10** | **-** | **750** | **1** |

These derivatives not designated for hedging generated a financial gain of €2 million in 2008.

**Sensitivity analysis of the portfolio of interest rate derivatives not designated as hedges**

A sudden 100 basis point fluctuation in interest rates at the year-end would have no material impact in profit or loss by the above amounts. For the purposes of this analysis, all the other variables are considered to be constant.

## *26.3 Foreign exchange risk management*

A significant portion of Rhodia's assets, liabilities, expenses and income is denominated in currencies other than the euro, mainly the US dollar, Brazilian real and, to a lesser extent, the British pound. Changes in these currencies compared with the euro may have a material impact on the financial position and results of Rhodia.

Rhodia's policy consists in limiting its exposure to short-term fluctuations in exchange rates by calculating on a daily basis its net exposure to foreign currencies in its transactions, including both sales and purchases, and by using derivatives to reduce such exposure. The main derivatives used by Rhodia are forward foreign exchange contracts with terms of less than one year.

The financial instruments held by Rhodia, sensitive to changes in exchange rates, include financial instruments (receivables and payables) denominated in foreign currencies and foreign exchange derivatives not designated for hedging.

Following the redemption of virtually all US dollar borrowings in 2007, Rhodia's foreign exchange risk exposure is immaterial.

As of December 31, 2008, Rhodia's foreign exchange risk (excluding foreign exchange derivatives designated as hedges) by main currency breaks down as follows:

| *(in millions of euros)* | At December 31, 2008 | | | | At December 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **Currency** | **USD** | **GBP** | **EUR*** | **JPY** | **USD** | **GBP** | **EUR*** | **JPY** |
| Borrowings | (14) | 222 | (57) | 7 | 41 | 255 | (53) | 4 |
| Trade receivables and payables | 150 | (10) | (8) | 16 | 151 | 3 | (13) | 10 |
| Foreign exchange contracts | (144) | (209) | 53 | (23) | (203) | (266) | 58 | (11) |
| Net exposure | (8) | 3 | (12) | 0 | (11) | (8) | (8) | 3 |

* *Foreign exchange exposure in euros of entities whose functional currency is different from the euro.*

### Analysis of foreign exchange risk sensitivity

As of December 31, 2008, a sudden 10% fluctuation of the euro against the foreign currencies would have, in proportion of the assets and liabilities recorded in the balance sheet, an immaterial impact on foreign exchange gains or losses. For the purposes of this analysis, all the other variables, particularly interest rates, are considered to be constant.

| *(in millions of euros)* | At December 31, 2008 | | | | At December 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **Currency** | **USD** | **GBP** | **EUR** | **JPY** | **USD** | **GBP** | **EUR** | **JPY** |
| 10% increase in the euro against the foreign currency | 1 | - | (1) | - | 1 | 1 | (1) | - |
| 10% decrease in the euro against the foreign currency | (1) | - | 1 | - | (1) | (1) | 1 | - |

#### Portfolio of foreign exchange derivatives not designated as hedges

The nominal amounts as well as the fair values of forward purchase and sale contracts in currencies other than the euro and foreign exchange options are detailed below:

| *(in millions of euros)* | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal** | **Fair Value** | **Nominal** | **Fair Value** |
| Forward purchases | USD | 79 | (2) | 169 | - |
| | GBP | 52 | (9) | 43 | - |
| | JPY | 48 | 5 | 12 | - |
| | BRL | 10 | - | 205 | - |
| | Other | 110 | (1) | 10 | - |
| | Total | **299** | **(7)** | **439** | **-** |
| Forward sales | USD | 223 | 3 | 372 | - |
| | GBP | 261 | 61 | 309 | 7 |
| | JPY | 71 | (5) | 22 | - |
| | BRL | 76 | - | 109 | - |
| | Other | 106 | 11 | 91 | 1 |
| | Total | **737** | **70** | **903** | **8** |
| Call purchases | USD | - | - | 31 | - |
| | Other | - | - | - | - |
| | Total | - | - | **31** | **-** |
| **TOTAL** | | **1,036** | **63** | **1,373** | **8** |

Forward currency purchase and sale contracts are entered into by Rhodia S.A. to hedge its inter-company loans and borrowings and operating cash flows denominated in foreign currencies.

The changes in fair value of foreign exchange instruments not designated as hedges are recorded in foreign exchange gains or losses.

#### Portfolio of foreign exchange derivatives designated as cash flow hedges

The nominal amounts as well as the fair values of forward currency purchase and sale contracts designated as cash flow hedges are detailed below:

| *(in million of euros)* | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal** | **Fair Value** | **Nominal** | **Fair Value** |
| Forward Purchase | USD | 17 | 1 | 13 | - |
| | BRL | 113 | - | 13 | - |
| Forward Sales | USD | 263 | (22) | 161 | 12 |
| | JPY | 165 | (23) | - | - |
| | Total | **558** | **(44)** | **187** | **12** |
| Call Purchases | USD | - | - | 15 | - |
| **TOTAL** | | **558** | **(44)** | **202** | **12** |

In connection with the hedging of Rhodia's ordinary business transactions, future transaction exchange hedges are regularly set up. At December 31, 2008, the changes in fair value of these forward exchange contracts considered as effective were recognized in equity under the "Cash flow hedge reserve" heading in an amount of €(44) million.

Changes in the hedging reserve for foreign exchange derivatives in fiscal 2007 and 2008 are shown in the following table:

| *(in millions of euros, excluding taxes)* | 2008 | 2007 |
|---|---|---|
| Carrying amount as of January 1 | 13 | 1 |
| Amount transferred to profit or loss (1) | (1) | (9) |
| Amount recorded directly in the hedging reserve | (56) | 21 |
| Carrying amount as of December 31 | (44) | 13 |

*(1) Amount recognized in Net sales and other operating income and expenses.*

In fiscal year 2008, part of the hedges on future revenues have been discontinued prospectively generating a €(4) million expense.

The ineffective portion of cash flow hedges generated a financial gain of €4 million in 2008. The amount was immaterial in 2007.

The contractual flows related to forward currency sales and the flows arising from the future sales transactions are simultaneous; the hedging amount recorded in equity is transferred to profit or loss on the date the sales transaction is recognized in the income statement.

#### Sensitivity analysis of foreign exchange derivatives qualified as cash flow hedges

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in the US dollar against the euro.

| | 10% decrease in the euro | | 10% increase in the euro | |
|---|---|---|---|---|
| *(in millions of euros, excluding taxes)* | Hedging reserve increase (decrease) | Net Profit/(loss) | Hedging reserve increase (decrease) | Net Profit/(loss) |
| 12/31/2008 | (32) | - | 26 | - |
| 12/31/2007 | (11) | - | 9 | - |

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in the Brazilian real against the US dollar.

| | 10% decrease in the euro | | 10% increase in the euro | |
|---|---|---|---|---|
| *(in millions of euros, excluding taxes)* | Hedging reserve increase (decrease) | Net Profit/(loss) | Hedging reserve increase (decrease) | Net Profit/(loss) |
| 12/31/2008 | (14) | - | 11 | - |
| 12/31/2007 | - | - | - | - |

### 26.4 Management of risk related to fluctuations in the price of oil-based commodities

Rhodia's exposure to the risks related to fluctuations in the price of oil-based commodities relates mainly to its purchases of petrochemicals and natural gas.

Rhodia may hedge these risks by using (firm or indexed) swaps, options or futures and forward contracts depending on its identification of market conditions and the expected trend in its contractual purchase prices.

At December 31, 2008, Rhodia held derivatives designated as cash flow hedges, whose fair value is recognized under assets for €6 million and for €14 million under liabilities in the Rhodia balance sheet (€9 million under liabilities as of December 31, 2007).

Changes in the hedging reserve for oil commodity derivatives in fiscal 2006 and 2007 are shown in the following table:

| *(in millions of euros, excluding taxes)* | 2008 | 2007 |
|---|---|---|
| **Carrying amount as of January 1** | **(9)** | **-** |
| Amount transferred to profit or loss | 24 | - |
| Amount recorded directly in the hedging reserve | (29) | (9) |
| **Carrying amount as of December 31** | **(14)** | **(9)** |

**Sensitivity analysis of derivative instruments**

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in oil commodity prices.

| | 10% price increase | | 10% price decrease | |
|---|---|---|---|---|
| *(in millions of euros, excluding taxes)* | Hedging reserve increase (decrease) | Net Profit/(loss) | Hedging reserve increase (decrease) | Net Profit/(loss) |
| 12/31/2008 | (1) | - | 1 | - |
| 12/31/2007 | 5 | - | (5) | - |

## 26.5 *Carbon instrument risk management (EUA/CER)*

**CER future sale hedges**

Rhodia hedges against fluctuations in the future sale prices of CERs (certificates for the reduction of $CO_2$ emissions) mainly through forward CER sales and, to a lesser extent, forward EUA2 sales, via **orbeo** which is 50% owned in partnership with Société Générale.

At December 31, 2008, Rhodia, through **orbeo**, sold forward CERs with delivery guarantees in a notional amount of around €177 million (€162 million at December 31, 2007). These derivatives were recognized under cash flow hedge accounting.

The fair value of these forward CER sales was recognized in the Rhodia balance sheet under assets in the amount of €28 million (€6 million as of December 31, 2007) and under liabilities in the amount of €7 million (€16 million as of December 31, 2007).

Changes in the hedging reserve for carbon derivatives in fiscal 2007 and 2008 are shown in the following table:

| *(in millions of euros, excluding taxes)* | 2008 | 2007 |
|---|---|---|
| **Carrying amount as of January 1** | **(13)** | **1** |
| Amount transferred to profit or loss (1) | 9 | 14 |
| Amount recognized directly in the hedging reserve | 26 | (28) |
| **Carrying amount as of December 31** | **22** | **(13)** |

*(1) Amount recognized in Net sales.*

**Other activities of orbeo**

**Orbeo** also performs proprietary trading and arbitrage transactions. At December 31, 2008, the fair values of the derivatives contracted by **orbeo** were recognized in Rhodia's assets for €24 million and in its liabilities for €21 million.

**Sensitivity analysis of EUA/CER derivative instruments**

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in carbon instrument prices:

| | 10% price increase | | 10% price decrease | |
|---|---|---|---|---|
| *(in millions of euros, excluding taxes)* | Hedging reserve increase (decrease) | Net Profit/(loss) | Hedging reserve increase (decrease) | Net Profit/(loss) |
| 12/31/2008 | (7) | 3 | 7 | (3) |
| 12/31/2007 | (16) | - | 16 | - |

## 26.6 Credit risk

The financial assets that may potentially expose Rhodia to credit risk are as follows:

- short-term investments;
- derivatives;
- trade receivables;
- loans granted.

The maximum exposure of financial assets to credit risk corresponds to their net carrying amount (see note 25).

### Cash investments and derivatives

Rhodia mainly invests its short-term investments and enters into interest rate and currency contracts with banks or financial institutions with S&P and Moody's ratings which are equal to or greater than AA- and Aa3, respectively (December 31, 2008 ratings).

Interest rate and currency contracts are carried out with banks or financial institutions with S&P and Moody's ratings belong to the Investment Grade category. In addition, most of these transactions as well as those with a maturity of more than one year are carried out with counterparties which have ratings from these agencies that are equal or greater than A- and A2 respectively.

### Trade receivables

Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customer default risk and country risk.

Rhodia's customer portfolio is much diversified with more than 10,000 customers, with a limited concentration (the 30 largest customers represent less than 30% of Group net sales).

Rhodia sells exclusively to industrial firms or distributors and does not deal with retailers or final customers. The vast majority of these customers are from the private sector.

Rhodia's customers are regular and well-known customers, and net sales with new customers only represent around 5%.

Rhodia financial management set up customer risk management organization and procedures. In each country where Rhodia is located, a financial team (credit management) is responsible for analyzing and preventing customer credit risk as well as recovery.

Customer risk management procedures were set up at Group level:

**a) Risk categories and credit lines:**

A risk category and credit line are allocated to each customer:

- the risk category is determined using a scoring method for which the criteria are the customer's size, profitability and indebtedness;
- the credit line is assessed by credit management, according to the customer's risk category, a financial analysis of the customer and/or an external rating.

**b) Credit line guarantees:**

Rhodia partially guarantees net sales using credit insurance (COFACE), particularly to hedge the export sales of Group subsidiaries.

- the authorizations granted by the credit insurer fully or partially guarantees the credit lines defined by credit management.
- when exports sales cannot be insured, the credit management can decide whether they should be guaranteed using documentary credit or letters of credit.
- Rhodia's general terms and conditions of sale contain a reservation of ownership clause, so that the Group is guaranteed in the event of default.

**c) Management of exceeded credit lines and outstanding receivables:**

- the IT systems are configured so as to systematically report an exceeded credit line or an outstanding receivable;
- an exceeded credit line or outstanding receivable systematically blocks any new customer orders in the IT systems;

- only credit management is authorized to accept the confirmation of a new order from a customer with an exceeded credit line or outstanding receivable.

Trade receivables are impaired individually if it is highly probable that they will not be partially or fully recovered.

#### Trade receivables aging report

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| Not due | 532 | 694 |
| Overdue: | 108 | 114 |
| *less than 30 days* | *52* | *27* |
| *between 30 and 180 days* | *17* | *8* |
| *more than 180 days* | *39* | *79* |
| Allowance | (49) | (73) |
| **TOTAL** | **591** | **735** |

#### Other receivables

The financial assets under the "French State and local authorities" heading do not present any major credit risk.

The other headings mainly relate to non-recurring transactions monitored on an individual basis.

### 26.7 *Liquidity risk*

#### Cash flows arising from financial liabilities by maturity date

The table below shows the contractual cash flows arising from financial liabilities including interest rate flows:

| *(in millions of euros)* | Carrying amount | Contractual cash flows | 12 months or less | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | 2,572 | 3,132 | 1,054 | 88 | 1,307 | 683 |
| *Non-secured bonds* | *1,069* | *1,422* | *70* | *75* | *1,277* | - |
| *OCEANE (1)* | *509* | *692* | *3* | *3* | *9* | *677* |
| *Securitization of receivables* | *37* | *48* | *48* | - | - | - |
| *Bilateral credit facilities* | *162* | *174* | *151* | *8* | *15* | - |
| *Finance leases debts* | *8* | *9* | *4* | *1* | *3* | *1* |
| *Accrued interest payable* | *27* | *27* | *27* | - | - | - |
| *Trade payables* | *741* | *741* | *741* | - | - | - |
| *Other debts* | *19* | *19* | *10* | *1* | *3* | *5* |
| Derivative financial liabilities | 123 | 125 | 87 | 11 | 27 | - |
| *Of which foreign exchange derivatives* | *71* | *71* | *52* | *4* | *14* | - |
| *Disbursements* | *71* | *71* | *52* | *4* | *14* | - |
| *Collections* | - | - | - | - | - | - |
| **Total financial liabilities** | **2,695** | **3,257** | **1,141** | **99** | **1,334** | **683** |

*(1) Assuming the OCEANE bonds are not converted.*

#### Liquidity risk management

Rhodia regularly monitors its liquidity and uses levers to meet any major financial requirements.

At December 31, 2008 and 2007, the liquidity position breaks down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Other liquid current financial assets | 10 | 7 |
| Non-utilized credit facilities | 534 | 537 |
| Cash and cash equivalents | 492 | 415 |
| **Liquidity position** | **1,036** | **959** |

At December 31, 2008, Rhodia has, via its syndicated credit facility ("RCF"), an undrawn and immediately available credit line of €534 million.

Finally, the fact that Rhodia can grant collateral and financial guarantees means that it is always able to raise new financing if need be and if the market conditions allow it.

### *26.8 Capital management*

To maintain a satisfactory financial structure and manage its indebtedness compared to the profitability of its operations, Rhodia uses net debt/recurring EBITDA ratio.

Net debt is defined as the sum of long-term borrowings, short-term borrowings and the current portion of long-term borrowings less cash and cash equivalents and other current assets.

## NOTE 27 Retirement benefits and similar obligations

The obligations recognized in the balance sheet break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Obligations recognized in liabilities: | | |
| Retirement benefits | 1,168 | 1,161 |
| Other employee benefits | 80 | 85 |
| **Total** | **1,248** | **1,246** |
| Of which: | | |
| Non-current | 1,155 | 1,154 |
| Current | 93 | 92 |
| Expenses recognized in profit or loss: | | |
| Retirement benefits | 68 | 56 |
| Other employee benefits | 8 | 9 |
| **Total** | **76** | **65** |

### Actuarial assumptions

The main actuarial assumptions used to measure defined benefit plan obligations are as follows:

| | **2008** | | | **2007** | | |
|---|---|---|---|---|---|---|
| | **France** | **United States** | **United Kingdom** | **France** | **United States** | **United Kingdom** |
| Discount rate | 5.25% | 6.50% | 6.40% | 5.25% | 6.00% | 5.70% |
| Salary increase rate | 4.00% | 3.00% | 2.95% | 4.00% | 3.50% | 3.75% |
| Retirement pension increase rate | 2.00% | n/a | 2.45% | 2.00% | n/a | 3.25% |
| Mortality table | TGH 05 and TGF 05 (Insee 2002) | RP 2000 Combined | 114% PLA00 104% PLA00 | TGH 05 et TGF 05 (Insee 2002) | RP 2000 Combined | PA92 |

Assumptions relating to mortality tables are based on published statistical and historical data for each country.

The probability assumptions regarding the retention of employees in the Group, future salary increases and a retirement age of between 60 and 67 years old are determined according to the countries and applicable laws.

**Sensitivity of obligations to the actuarial assumptions**

In the event of increases or decreases in the discount rates, the present value of the obligations at December 31, 2008 and cost of services rendered in 2009 would be as follows:

| *(in millions of euros)* | December 31, 2008 discount rate | - 50 basis points | + 50 basis point |
|---|---|---|---|
| Present value of the obligations | 2,182 | 2,311 | 2,063 |
| Cost of services rendered | 20 | 22 | 19 |

A 100 basis point change in the presumed medical cost rates would have a negligible impact on the profit or loss components (cost of services rendered and interest cost) and the cumulative obligation in respect of post-employment benefits relating to medical costs (€2 million).

The medical cost rates totaled 8.5% in the US and 7% in the UK.

**Rate of return on plan assets**

Plan assets are comprised of the following:

| *(in percentage)* | 2008 | 2007 |
|---|---|---|
| Shares | 33% | 44% |
| Bonds | 35% | 38% |
| Liabilities driven investments * | 31% | 16% |
| Other | 1% | 2% |

* *Assets portfolio (mainly floating rate bonds) with interest and inflation rate swaps, structured to replicate the exposure of retirement obligations to fluctuations in these rates, in order to reduce the volatility of the deficit.*

Plan assets do not include any financial instruments specific to Rhodia.

The expected rates of return are determined based on the allocation of assets and expected yield projections given past trends.

| | At December 31, 2008 | | | At December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | France | United States | United Kingdom | France | United States | United Kingdom |
| Expected return on pension plan assets | n/a | 7.00% | 5.70% | n/a | 7.50% | 7.00% |

In France, retirement benefit obligations are not hedged through dedicated funds. Rhodia is totally responsible for making these payments.

## 27.1 Retirement benefits

**Description of obligations in connection with defined benefit plans**

Retirement obligations include retirement and other post-employment benefits, including termination benefits. The corresponding obligations mainly concern employees working in the United States, the United Kingdom and France. These three countries represent 88% of the Group's total obligations.

In France, these obligations mainly include termination benefits, a closed "IRP RP" defined benefit plan, and an "ARS" supplementary retirement plan. The main characteristic of these plans are as follows:

- the "IRP RP" plan is for all current and retired employees who contributed to the plan prior to its closure. It offers a full benefit guarantee compared with the end-of-career salary, and has no longer applied since the 1970s;
- the "ARS" plan is for executives. It sets a level of benefits independently of the change in mandatory plan benefits. It is subject to conditions, end-of-career salary, retirement age and seniority in the Group. This plan is supplemented for executive managers depending on the potential rights arising from the plans specific to this category.

In the US, they are mainly related to the following plans:

- the "Pension Equity Plan" enabling the acquisition of increasing capital according to age brackets. This plan was closed in 2003 and replaced by a defined contribution plan;
- the "Hourly Plan" providing for the acquisition of a percentage of salary by year of service (resulting from negotiations with trade unions);
- the "Restoration Plan" and "Senior Executive Retirement Plan" covering the portion of salary exceeding the limits of the "Pension Equity Plan" or granting specific guarantees to a very small group of senior executives.

In the United Kingdom, there is mainly a defined benefit plan with entitlement to a salary percentage acquisition rate per year of service. This plan was closed in 2003 and replaced by a defined contribution plan. This plan provides for a contribution rate according to age brackets.

An actuarial valuation of defined benefit obligations is performed at least once a year at the balance sheet date by independent actuaries.

### Obligations recognized in the balance sheet

The obligations recognized in the balance sheet break down as follows:

| *(in millions of euros)* | **At December 31, 2008** | **At December 31, 2007** | **At December 31, 2006** | **At December 31, 2005** | **At December 31, 2004** |
|---|---|---|---|---|---|
| Present value of unfunded obligations | 1,005 | 975 | 969 | 928 | 816 |
| Present value of funded obligations | 1,092 | 1,423 | 1,551 | 1,639 | 1,368 |
| **Present value of total obligations** | **2,097** | **2,398** | **2,520** | **2,567** | **2,184** |
| Fair value of plan assets | (946) | (1,234) | (1,287) | (1,327) | (1,186) |
| **Net value of obligations** | **1,151** | **1,164** | **1,233** | **1,240** | **998** |
| Unrecognized past service cost | - | (3) | (4) | (5) | - |
| Assets not recognized in accordance with asset ceiling rules | 16 | - | 3 | - | - |
| **Net present value of recognized obligations** | **1,167** | **1,161** | **1,232** | **1,235** | **998** |
| **Balance sheet amounts:** | | | | | |
| Assets | 1 | - | 1 | 6 | - |
| Liabilities | 1,168 | 1,161 | 1,233 | 1,241 | 998 |

During fiscal year 2005, the French termination benefits plan was amended for certain employees as a result of the classification of the Pont de Claix site as being eligible for the early retirement benefits paid to asbestos workers.

Past service costs not yet amortized relating to the amendment of this plan amounted to €3 million at December 31, 2007. They have been fully amortized in 2008 following the transfer of employees from the Pont de Claix site following the disposal of the Isocyanates business at September 1, 2008.

In Brazil, the plan surplus of €16 million was not recognized following the asset ceiling rules.

### Analysis of the present value of the recognized obligation

The present value of the obligations and the fair value of the assets break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| **Present value of obligations at the beginning of the period** | **2,398** | **2,520** |
| Cost of services rendered | 17 | 19 |
| Interest cost | 129 | 126 |
| Benefits paid | (150) | (157) |
| Employee contributions | 1 | 2 |
| Past service cost | - | (1) |
| Actuarial gains and losses | (60) | 5 |
| Currency translation differences | (234) | (119) |
| Changes in the consolidation scope (1) | (10) | (3) |
| Curtailments and settlements (2) | 6 | 6 |
| **Present value of obligations at the end of the period** | **2,097** | **2,398** |
| **Fair value of plan assets at the beginning of the period** | **1,234** | **1,287** |
| Expected return on assets | 87 | 94 |
| Actuarial gains and losses on return on asset | (109) | (2) |
| Employer contributions | 41 | 45 |
| Employee contributions | 1 | 2 |
| Benefits paid | (89) | (97) |
| Currency translation differences | (219) | (95) |
| **Fair value of plan assets at the end of the period** | **946** | **1,234** |
| **Present value of the obligation** | **1,151** | **1,164** |
| Unrecognized past service cost | - | (3) |
| Assets not recognized in accordance with asset ceiling rules | 16 | - |
| **Present value of the recognized obligation** | **1,167** | **1,161** |

*(1) Disposal of the Isocyanates business.*
*(2) Including termination benefits allocated to employees who retired prior to normal retirement age.*

The present value of the obligation corresponds to the difference between the present value of the obligations and the fair value of the plan assets.

The breakdown of obligations and assets by geographical area is as follows:

| *(in millions of euros)* | **At December 31, 2008** | | | **At December 31, 2007** | | |
|---|---|---|---|---|---|---|
| | **France** | **Other countries** | **Total** | **France** | **Other countries** | **Total** |
| Present value of the obligation | 856 | 1,241 | 2,097 | 825 | 1,573 | 2,398 |
| Fair value of plan assets | - | (946) | (946) | - | (1,234) | (1,234) |
| **TOTAL** | **856** | **295** | **1,151** | **825** | **339** | **1,164** |

The actual rate of return on plan assets amounted to €92 million in 2007 and €(22) million in 2008. The expected rate of return was €94 million for 2007, €87 million for 2008. Actuarial gains and losses were recognized to account for the difference between these two amounts, i.e. a €(2) million gain for 2007 and a €(109) million loss for 2008.

The amount disbursed by the Group with respect to defined benefit plans corresponds to benefits paid to employees (€150 million in 2008, €157 million in 2007) and Rhodia's contributions to funds (€41 million in 2008, €45 million in 2007), less the benefits paid directly by these funds (€89 million in 2008, €97 million in 2007). This amount totaled €102 million in 2008 and €105 million in 2007 and is estimated at around €100 million with respect to 2009.

**Expense for the year**

The expense relating to retirement benefit obligations breaks down as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Cost of services rendered | 17 | 19 |
| Interest cost | 129 | 126 |
| Expected return on plan assets | (87) | (94) |
| Amortization of past service cost | 3 | (1) |
| Curtailments and settlements [(1)] | 6 | 6 |
| **Total expense recognized on profit or loss** | **68** | **56** |

*(1) Including specific termination benefits for €7 million in 2008 and €8 million in 2007, recorded under Restructuring costs.*

The cost of services rendered is recognized in operating profit or loss by destination. The interest cost and the expected return on plan assets have been recognized respectively in finance costs and finance income.

The actuarial gains and losses relating to retirement benefit obligations recognized in the statement of recognized income and expense are as follows:

| *(in millions of euros)* | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Actuarial gains and losses (1) | 49 | 7 | 41 | 247 | 1 |
| Application of asset ceiling rules | 16 | (3) | 11 | - | - |
| **TOTAL** | **65** | **4** | **52** | **247** | **1** |
| (1) Of which: | | | | | |
| Experience adjustments on measurement of obligations – loss/(gain) | 62 | 28 | 3 | 39 | (48) |
| Experience adjustments on measurement of plan assets – loss/(gain) | 109 | 1 | (41) | (50) | (15) |

## 27.2 *Other employee benefits*

**Description of obligations and actuarial assumptions**

Other benefits granted to employees are mainly comprised of bonuses related to employee seniority in addition to other post-employment benefits in France, the US and the UK. The resulting obligations of defined benefit plans have been measured according to the same methods, assumptions and calculation rates as those used for retirement plans.

**Obligations recognized in the balance sheet**

The net obligation recognized under liabilities in the balance sheet breaks down as follows:

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 | At December 31, 2005 | At December 31, 2004 |
|---|---|---|---|---|---|
| Net value of the unfunded obligations | 80 | 85 | 90 | 107 | 111 |
| Present value of funded obligations | 5 | 7 | 8 | 7 | 7 |
| **Present value of the obligation** | **85** | **92** | **98** | **114** | **118** |
| Fair value of plan assets | (5) | (7) | (6) | (5) | (4) |
| **Obligations recognized in liabilities** | **80** | **85** | **92** | **109** | **114** |

### Analysis of the present value of the obligation recognized under liabilities in the balance sheet

The net obligation recognized under liabilities breaks down as follows:

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| Present value of obligations at the beginning of the period | 92 | 98 |
| Cost of services rendered | 5 | 6 |
| Interest cost | 5 | 5 |
| Benefits paid | (9) | (10) |
| Actuarial gains and losses | (1) | (1) |
| Currency translation differences | (3) | (4) |
| Changes in the consolidation scope | (4) | (2) |
| Present value of obligations at the end of the period | 85 | 92 |
| Fair value of plan assets at the beginning of the period | 7 | 6 |
| Employer contributions | 1 | 2 |
| Expected return on assets | 1 | 1 |
| Benefits paid | (2) | (1) |
| Currency translation differences | (2) | (1) |
| Fair value of plan assets at the end of the period | 5 | 7 |
| **Present value of the obligation recognized under liabilities in the balance sheet** | **80** | **85** |

The amount disbursed by the Group totaled €8 million in 2008, (€11 million in 2007), and is estimated at €10 million for 2009.

### Expense for the year

The expense recognized in profit or loss breaks down as follows:

| *(in millions of euros)* | 2008 | 2007 |
|---|---|---|
| Cost of services rendered | 5 | 6 |
| Interest cost | 5 | 5 |
| Expected return on assets | (1) | (1) |
| Actuarial gains and losses | (1) | (1) |
| **Expense/(income) recognized in the income statement** | **8** | **9** |

## NOTE 28 Provisions

### 28.1 Analysis by type

| | At December 31, 2008 | | | At December 31, 2007 | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | More than one year | Less than one year | Total | More than one year | Less than one year | Total |
| Restructuring | 26 | 34 | **60** | 15 | 53 | **68** |
| Environmental | 165 | 31 | **196** | 170 | 33 | **203** |
| Other provisions for contingencies and losses | 88 | 72 | **160** | 133 | 52 | **185** |
| **TOTAL** | **279** | **137** | **416** | **318** | **138** | **456** |

### 28.2 Movements over the year

| (in millions of euros) | January 1, 2008 | Net Charge | Utilization | Changes in consolidation scope | Currency translation differences | Other movements | At December 31, 2008 |
|---|---|---|---|---|---|---|---|
| Restructuring | 68 | 35 | (30) | (1) | (3) | (9) | 60 |
| Environmental | 203 | 41 | (27) | (1) | (20) | - | 196 |
| Other provisions for contingencies and losses | 185 | 21 | (31) | - | (21) | 6 | 160 |
| **TOTAL** | **456** | **97** | **(88)** | **(2)** | **(44)** | **(3)** | **416** |

### 28.3 Restructuring

Restructuring provisions cover the following costs:

| (in millions of euros) | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| Employee expenses | 38 | 36 |
| Site closure costs | 22 | 32 |
| **TOTAL** | **60** | **68** |

Employee expenses include costs resulting from miscellaneous departure measures, including early retirement plans. The plans set up include voluntary, i.e. proposed by the employer and accepted by the employee, or involuntary, i.e. at the employer's sole discretion, departure measures. The provisions relating to involuntary measures are recognized as soon as they are officially announced by executive management to the employee representative bodies of the employees concerned by the detailed implementation plan.

#### Changes in fiscal year 2008

New measures represent a total estimated cost of €30 million and mainly concern the Italian closure site of Ceriano (Polyamide Entreprise) and productivity measures on support functions in France, in the United-Kingdom and in the United States.

Changes in estimates of previous plans result in an additional net charge in 2008 of €5 million mainly relating to termination benefits allocated to employees who retired prior to normal retirement age in the United Kingdom.

Utilizations of provisions relating to employee expenses and site closures represent €(30) million and mainly correspond to the closure of industrial activities on Mulhouse, Lille, Roussillon, Avonmouth and Oldbury sites, as well as productivity improvement plans on Freibourg site and support function in Europe.

#### Changes in fiscal year 2007

New measures represent a total estimated cost of €51 million and mainly concern Organics and Acetow as well as Corporate and Other.

They mainly correspond to the following transactions:

**In France**

Charges for new measures represented €21 million corresponding mainly to the following plans of Organics:

- closure of the production of chlorophenols at the Pont de Claix site, announced on January 12, 2007;
- plan to discontinue business at the Mulhouse Dornach, announced on March 23, 2007 and effective as of December 31, 2007;
- closure of production of nitrophenols at the Roussillon site, announced on May 4, 2007;
- plan to discontinue the paracetamol business at the Roussillon site, announced on October 26, 2007.

**Foreign operations**

The new measures represent a cost of €30 million corresponding mainly to industrial productivity measures undertaken in various countries The most significant measure involves the plan to cease activities at the Avonmouth site in the United Kingdom (Corporate & Other) and the plans to improve productivity at the Freibourg site in Germany (Acetow) and the Oldbury site in the United Kingdom (Novecare). These action plans also concern the support functions located at these sites.

Changes in estimates of previous plans result in an additional net charge in 2007 of €2 million mainly relating to the Lille site.

Utilizations of provisions relating to employee expenses and site closures represent €(38) million and break down as follows:

- €(25) million in France, mainly corresponding to the closure of workshops or sites within Organics for €(15) million, industrial restructuring measures in Polyamide for €(4) million and the support functions plan initiated at the end of 2003 for €(5) million;
- €(13) million excluding France, of which €(6) million in the United Kingdom mainly corresponding to the costs relating to the discontinuation of certain activities at the Avonmouth site, in addition to head office closure costs, and €(7) million mainly for the United States, Brazil and Europe, relating to the streamlining of administrative structures.

## *28.4 Environment*

Rhodia periodically assesses its environmental liabilities and future possible remediation measures.

As indicated in note 2.19, the provision is estimated by taking into account future discounted cash flows.

The discount rates used at December 31, 2008 are set up by geographical area based on inflation and risk-free interest rates (government bonds) over the probable term of the remediation obligations related to the sites.

| | 5 years | 10 years | 20 years |
|---|---|---|---|
| France | - | 1.40% | - |
| Europe (except United Kingdom and France) | - | 0.90% | - |
| United Kingdom | 0.40% | - | 1.90% |
| United States | 0.00% | 0.00% | - |
| Brazil | - | 7.60% | 7.60% |

At December 31, 2008, provisions related to environmental risks totaled €196 million, compared with €203 million at December 31, 2007.

The main provisions by geographical area are as follows:

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| South America | 63 | 89 |
| France | 73 | 54 |
| North America | 39 | 39 |
| United Kingdom | 19 | 21 |
| Europe (except United Kingdom and France) | 2 | - |
| **Total environmental provisions** | **196** | **203** |

The South American area mainly covers sites located in Brazil, in particular the Cubatao site.

In France, these provisions include the La Rochelle, Thann, Wattrelos, Mulhouse, Pont de Claix and Lille sites and several former mining sites.

The North American area principally covers the sites located in the US, notably the Silver Bow, New Brunswick, Dalton, Charleston and Morrisville sites.

In the UK, they mainly cover the Staveley, Whitehaven and Oldbury Rattlechain sites.

The provisions mostly relate to sites or activities which have been shut down, some of them even before the creation of Rhodia.

**Changes in fiscal year 2008**

A net charge of €41 million was recognized and breaks down as follows:

- €36 million corresponding to additional provisions, mainly €19 million for the La Rochelle site in France essentially relating to the revision of costs of research into the future ANDRA (French National Agency for the Management of Radioactive Waste) center, according to the latest available data provided by the agency, as well as the revision of costs for the storage of radioactive waste at the future center, €6 million for the Pont de Claix site in France, and €4 million for the Cubatao site in Brazil;
- €(1) million corresponding to the net reversal of provisions set aside for changes in the discount rate, of which €(9) million

in provisions reversals relating to the discount rate increase in Brazil and €8 million in respect of the decline in discount rates in Europe and North America;

- and €6 million in charges linked to financial discounting.

Utilizations of provisions amounted to €(27) million and mainly concern the sites of:

- Cubatao in Brazil for €(9) million;
- La Rochelle, Wattrelos, Pont de Claix and Roussillon in France for €(2) million, €(2) million, €(1) million and €(1) million respectively;
- Silverbow and New Brunswick in the United States for €(1.5) million and €(1) million respectively.

**Changes in fiscal year 2007**

A net charge of €21 million was recognized and breaks down as follows:

- €16 million corresponding to additional provisions, mainly €4 million for the Cubatao site in Brazil, €3 million for the La Rochelle site in France and €2 million for the Charleston site in the United States;
- €1 million corresponding to the decline of the discount rate mainly impacting Silverbow in the United States;
- €3 million corresponding to provision reversals, including €2 million with respect to various remediation plan re-estimates, and the remainder with respect to the increase in the discount rate mainly at the La Rochelle site;
- and €7 million corresponding to charges linked to financial discounting.

Utilizations of provisions amounted to €(26) million and mainly concern the sites of:

- Cubatao in Brazil for €(9) million;
- Whitehaven in United Kingdom for €(1) million;
- Silverbow and New Brunswick for €(1) and €(0.5) million, respectively;
- La Rochelle, Roussillon and Wattrelos in France for €(1), €(1) and €(2) million, respectively.

**Contingent environmental liabilities and re-estimates**

Based on current information, Rhodia's management estimates that it does not have probable liabilities for environmental matters other than those provided for at December 31, 2008. However, Rhodia may need to incur additional expenditure if there are changes to existing laws, regulations or their interpretations.

Estimated contingent liabilities before discounting amounting to around €158 million at December 31, 2007 were increased to around €183 million at December 31, 2008, mainly relating to the La Rochelle site in France for the re-estimated forecast cost of introducing waste or materials in a future storage center designed for radioactive products and graphites. Excluding the impact of this site, contingent liabilities have not significantly changed since December 31, 2007. They mainly relate to the Pont de Claix site in France for the possible containment of an internal landfill and the possible treatment of pollution areas, as well as the SilverBow site (Montana, United States) and the Cubatao site (Brazil) for the possible obligation to incinerate waste off site. No provision has been recognized at December 31, 2008 to cover these contingent liabilities in the absence of any obligation as of this date.

### *28.5 Other provisions*

Other provisions mainly concern tax litigation and the provided risks and costs relating to operations sold or being sold.

## NOTE 29 Trade and other payables

| *(in millions of euros)* | **At December 31, 2008** | **At December 31, 2007** |
|---|---|---|
| Operating goods and services payables | 695 | 733 |
| Capital expenditure payables | 46 | 47 |
| Employees and social security | 118 | 163 |
| French State and local authorities [(1)] | 72 | 68 |
| Accrued expenses | 6 | 27 |
| Other | 35 | 33 |
| **TOTAL** | **972** | **1,071** |

*(1) At the end of December 2008, the heading "French State and local authorities" includes a liability with respect to $CO_2$ allowances to be delivered for €25 million (€9 million at the end of December 2007).*

## NOTE 30 Leases

### 30.1 Operating leases

The income and expenses relating to operating leases in 2008 and 2007 break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Minimum lease payments | (39) | (27) |
| Conditional lease payments | 2 | 2 |
| **TOTAL** | **(37)** | **(25)** |

Minimum future payments related to operating leases can be analyzed as follows:

| *(in millions of euros)* | **At December 31, 2008** | **At December 31, 2007** |
|---|---|---|
| Less than one year | 36 | 40 |
| From one to five years | 78 | 86 |
| More than five years | 38 | 47 |
| **TOTAL** | **152** | **173** |

### 30.2 Finance leases

The reconciliation between future finance lease payments and their present value is as follows:

| *(in millions of euros)* | **Less than one year** | **From one to five years** | **More than five years** | **Total** |
|---|---|---|---|---|
| At December 31, 2008 | | | | |
| Minimum future lease payments | 4 | 4 | 1 | 9 |
| Interest | - | (1) | - | (1) |
| **Minimum future lease payments excluding interest** | **4** | **3** | **1** | **8** |

| *(in millions of euros)* | **Less than one year** | **From one to five years** | **More than five years** | **Total** |
|---|---|---|---|---|
| At December 31, 2007 | | | | |
| Minimum future lease payments | 4 | 8 | 3 | 15 |
| Interest | (1) | (1) | - | (2) |
| **Minimum future lease payments excluding interest** | **3** | **7** | **3** | **13** |

## NOTE 31 Off-balance sheet commitments and contractual obligations

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| Commitments to purchase | | |
| Firm orders for the acquisition of industrial assets | 55 | 60 |
| Commitments for the purchase of goods and services: | | |
| Commitment for the acquisition of goods | 2,122 | 2,206 |
| Commitment for the acquisition of energy | 880 | 973 |
| Guarantees and liens granted | | |
| Guarantees given to unconsolidated entities to guarantee their debt | 1 | 6 |
| Liens granted | 110 | 122 |
| **Total commitments and guarantees given** | **3,168** | **3,367** |

Assets pledged can be analyzed as follows:

| *(in millions of euros)* | At December 31, 2008 | At December 31, 2007 |
|---|---|---|
| Property, plant and equipment | 68 | 66 |
| Financial assets | 42 | 56 |
| **TOTAL** | **110** | **122** |

## NOTE 32 Litigation

### 32.1 *Legal proceedings*

In the ordinary course of its business, Rhodia is involved in a certain number of judicial, arbitral and administrative proceedings. These proceedings are mainly initiated by buyers of businesses sold by Rhodia or involve environmental or civil liability compensation claims related to marketed chemicals. Rhodia is also subject to certain claims and lawsuits which fall outside the scope of the ordinary course of its business, the most significant of which are summarized below in this section.

Provisions for the charges that could result from these procedures are not recognized until they are probable and their amount can be reasonably estimated. The amount of provisions made is based on Rhodia's assessment of the level of risk on a case-by-case basis and depends on its assessment of the basis for the claims, the stage of the proceedings and the arguments in its defense, it being specified that the occurrence of events during proceedings may lead to a reappraisal of the risk at any moment.

In addition, certain of the Group's US subsidiaries have potential liabilities under US Federal Superfund legislation and environmental regulations. Given the nature of the proceedings, the number of plaintiffs, the volume of waste at issue and the provisions that have already been recognized for these cases, Rhodia estimates that these claims will not result in significant costs for the Group and will not give rise to significant additional provisions.

Finally, Rhodia believes that there is no litigation or exceptional issues that, taken individually or as a whole, could have a material negative impact on its business, financial position or results, other than those detailed below.

#### AMF administrative proceedings

On June 21, 2007, on completion of the administrative proceedings involving, *inter alia*, Rhodia and relating to facts dating back to the years 2001-2003, the AMF Enforcement Committee made its decision public. The Company was fined € 750,000. Rhodia lodged an appeal on August 20, 2007. In a ruling dated May 20, 2008, the Paris Court of Appeal confirmed the decision rendered by the AMF Enforcement Committee. Rhodia has appealed to the Court of Cassation, France's highest civil court.

#### Litigation with shareholders

Two proceeedings brought in January 2004 before the Paris Commercial Court by certain shareholders were stayed:

- an individually brought ("*ut singuli*") action challenges Sanofi-Aventis (formerly Aventis) and certain individuals who were members of the Board of Directors of the Company at the time of the alleged facts. This action disputes the terms and conditions of the acquisition of Albright & Wilson by Rhodia. The plaintiffs demand that the defendants be ordered to pay the Company €925 million as compensation for the alleged harm the Company suffered. These proceedings were stayed on January 27, 2006;
- the other suit challenges Sanofi-Aventis (formerly Aventis), certain individuals who were members of the Board of Directors of the Company and the statutory auditors at the time of the alleged facts, as well as the Company on a subsidiary basis. This action alleges that the information on environmental risks and deferred tax assets made public by the Company in 2001 and until January 29, 2002, in respect of the acquisition by Rhodia of Albright & Wilson and then Chirex, were inaccurate and misleading. Both plaintiffs demand that the defendants be ordered to pay €131.8 million as a compensation for damages. These proceedings were stayed on February 10, 2006.

Both proceedings were stayed due to the existence of a criminal investigation conducted by examining magistrates of the financial division of the Paris Court of First Instance concerning the same facts and pursuant to three criminal complaints filedin 2003 and 2004 against an unspecified defendant by the same shareholders for misuse of company assets, insider dealings, publication of false or misleading information, fraudulent balance sheet and disclosure of inaccurate accounts. Rhodia joined the criminal investigation as a civil plaintiff ("partie civile") on January 25, 2006. The investigation was still in progress as of December 31, 2008.

Since April 7, 2005, various complaints have been filed by shareholders in United States against Rhodia as well as certain of its Directors and senior management. The plaintiffs have generally alleged that between April 26, 2001 and March 23, 2004 or March 24, 2005, depending on the plaintiff, certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 were violated, notably in terms of financial communication. Some of these "Erisa" type complaints were filed by participants in the Company's US pension schemes. In this context, the parties entered into an out-of-court settlement (of approximately $2.4 million, fully assumed by the Company's insurers) that was approved by the Court, thus terminating these proceedings. In respect of the other complaints, the U.S. District Court for the Southern District of New York ruled, in its September 26 and December 12, 2007 rulings, to dismiss all the plaintiffs' claims brought as part of class action suit. In the absence of appeal against these decisions, these proceedings are definitely closed.

## Trade litigation

### Innophos litigation

On November 8, 2004, Rhodia received from Innophos, a subsidiary of Bain Capital, a complaint originating from Mexico's National Water Commission relating to water use at the Coatzacoalcos site during the period from 1998 to 2002. The total claim amounts to approximately 1.5 billion Mexican pesos (around €100 million), including user fees, interest and penalties. The Coatzacoalcos site was part of the speciality phosphates business that was sold in August 2004 to Bain Capital, giving rise to the creation of a new company, Innophos. To best protect its interests, Rhodia then informed Bain that it was willing to assume direct responsibility, subject to certain legal reservations, for resolving this matter with the Mexico National Water Commission. Since then, Rhodia has worked closely with Innophos to prepare a response, which was filed in Innophos' name on January 17, 2005. The amount of the initial claim was lowered following the application made by Rhodia to the administrative authority to reconsider and materialized by a decision rendered on August 29, 2005. The total amount of the revised claim was approximately €16.5 million. The Mexican Federal Administrative and Fiscal Court subsequently rejected all claims from the Mexican Water Commission. The decision was appealed by the latter on September 23, 2008. The Circuit Court rendered a decision on January 2009, definitively rejecting some of the claims made by the Mexican Water Commission (which therefore reduced the claim amount to around €9.5 million) while invalidating the decision of the Mexican Federal Administrative and Fiscal Court for the remainder. On February 5, 2009, this court rendered a new decision, again rejecting all the claims of the Mexican Water Commission. The Commission can appeal this decision. Should the case be decided against Innophos, the New York court has ruled that Rhodia should fully indemnify Innophos. Rhodia did not consider it necessary to record a provision in respect of this claim.

### City of Metz litigation

At the request of the City of Metz, an expert was appointed by the Administrative Court of Nancy in 2002 in order to review the regulatory compliance of chloride disposals involving Solvay Carbonate France and Novacarb (Rhodia Chemicals acting as guarantor for Novacarb in connection with Rhodia's sale to Bain Capital in 2002 of certain European industrial and commercial activities relating to itst basic chemicals business as well as the financial loss which, according to the City of Metz, this chloride waste caused by requiring it to make, in particular, investments for the supply and distribution of drinking water in the early 1970s. The expert submitted his report on February 14, 2008. The report confirmed the waste chloride's compliance with the prefect orders for installations. The expert also concluded that the current installations for the production of drinking water could supply drinking water to the greater Metz region and that, accordingly, the use of new units, and particularly treatment units, was not necessary, except potentially as a back-up system. The expert did not decide conclusively on the correlation between the City's investments to supply drinking water in the early 1970s and the chloride disposals at the time, or on the evaluation of the loss invoked. As his expertise was of a technical nature, he did not conclude further on whether the actions of the City of Metz were time-barred. By writ of summons dated December 30, 2008, the City of Metz nevertheless referred to the trial court of Metz seeking joint and several damages and interest of €51.5 million from Solvay Carbonate France and Novacarb to compensate for its alleged loss. Rhodia did not believe that it was necessary to record a provision.

## Other proceedings

### Securities and Exchange Board of India

Rhodia S.A. is involved in proceedings in India initiated by the Securities and Exchange Board of India ("SEBI"), which is seeking to require Rhodia to initiate a public tender offer for 20% of the shares of Albright & Wilson Chemicals India Limited ("AWCIL"), a listed subsidiary of the group formerly known as Albright & Wilson, which Rhodia acquired in 2000 and of which it now owns 72.79%. These shares would be acquired at a price of 278 rupees per share, based on the value of those shares at the time of our acquisition of Albright & Wilson, and increased by interest accrued since 2000. Such a decision by the SEBI would increase Rhodia's holding of AWCIL from 72.79% to 92.79%. As its shareholding would exceed 90%, Rhodia would then be required to initiate a mandatory public tender offer (or "squeeze out") for the remaining 7.21% of outstanding shares for the same price. In this case, all the shares not yet held by Rhodia (27.21%) would be acquired for €7.2 million. Rhodia is challenging the merits of SEBI's claim but this risk is provided for in the financial statements. The High Court of Mumbai, which is hearing the case on Rhodia's appeal following an initial unfavorable judgment, had yet to make a final decision as of the date hereof.

**Significant proceedings entered into by the Company**

The Company is pursuing various proceedings initiated in 2004 and 2005 in France, in Brazil and in the United States against Sanofi-Aventis (Rhône-Poulenc's successor) in respect of environmental and other employee pension liabilities inherited from its former parent company.

**Other**

**Valauret litigation**

On March 19, 2005, Valauret SA, a shareholder, brought a suit (in an "ut singuli" proceeding) against the Chairman of the Board of Directors and Chief Executive Officer before the Nanterre Commercial Court alleging personal mismanagement, in an attempt to have them repay Rhodia the amounts paid to Mr. Jean-Pierre Tirouflet upon his departure in October 2003 (severance payment of €2.1 million and, if applicable, payments made under a supplementary retirement plan for which no sums have been paid to date). On November 21, 2007, when the case was ready to be tried, the plaintiff requested a stay in the proceedings on the grounds that a non-peremptory charge had been brought by the Paris Prosecutor's office. The defendants and the Company dispute the merits of such demands. On February 13, 2008, the Nanterre Commercial Court declared itself to be the competent authority and did not announce a stay in the proceedings. On December 3, 2008, it rendered a non-enforceable decision jointly ordering Messrs. Jean-Pierre Clamadieu and Yves René Nanot to pay Rhodia the amount of €2.1 million in damages. They were blamed for not having challenged at the time the payment to Mr. Jean-Pierre Tirouflet of the compensation stipulated in his employment contract upon his departure from the company in 2004. Messrs. Clamadieu and Nanot have filed an appeal against this decision.

### 32.2 Commitments relating to disposals

In connection with disposals made in 2008 and prior years, Rhodia provided customary warranties related to accounting, tax, employee and environmental matters.

No warranties granted as part of the disposals were triggered between January 1 and December 31, 2008.

## NOTE 33 Related party transactions

### 33.1 Transactions with joint ventures, associates and non-consolidated subsidiaries

Transactions with joint ventures, associates and non-consolidated subsidiaries are performed under normal market conditions and break down in the income statement as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| **Revenue** (1) | **160** | **141** |
| Non-consolidated subsidiaries | 9 | 14 |
| Associates | 10 | 9 |
| Joint ventures | 141 | 118 |
| **Cost of sales** (1) | **51** | **52** |
| Non-consolidated subsidiaries | 3 | 7 |
| Associates | 2 | 1 |
| Joint ventures | 46 | 44 |

*(1) Including transactions with related parties which were only related parties for a certain period during the year up to the date of their disposal or liquidation.*

The assets and liabilities recognized in Rhodia's balance sheet in respect of related parties are as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Trade and other receivables | 20 | 39 |
| Non-consolidated subsidiaries | - | 5 |
| Associates | 2 | 2 |
| Joint ventures | 18 | 32 |
| Trade and other payables | 16 | 9 |
| Non-consolidated subsidiaries | - | 1 |
| Associates | 1 | - |
| Joint ventures | 15 | 8 |
| Net cash (borrowings) | 1 | 1 |
| Non-consolidated subsidiaries | 1 | - |
| Associates | - | - |
| Joint ventures | - | 1 |

## 33.2 Compensation and benefits paid to key Group executives

Key Group executives are defined as being company officers or are either Directors of the Rhodia Group or members of the Executive Committee.

Amounts due in respect of the year (salary) or obligations existing at the end of the year (other elements):

| *(in thousands of euros, except for subscription options and free shares)* | **2008** | **2007** |
|---|---|---|
| Wages, charges and short-term benefits | 4,395 | 6,035 |
| Accumulated retirement and other post-employment benefits | 18,461 | 16,074 |
| Severance payments [(1)] | 8,508 | 6,009 |
| Total stock subscription options and free shares granted | 497,748 | 516,082 |

*(1) Severance payments acquired correspond to the commitments undertaken by Rhodia for the Group's key executives in the event of employment contract termination.*

Amounts paid during the year:

| *(in thousands of euros, except for subscription options and free shares)* | **2008** | **2007** |
|---|---|---|
| Wages, charges and short-term benefits | 5,903 | 5,900 |
| Severance payments | - | 696 |
| Total stock subscription options and free shares granted | 129,500 | 168,424 |

## 33.3 Loans granted to key Group executives

As of December 31, 2008, no loans had been granted to any key Group executives.

## NOTE 34 Share-based payment

The principal changes in the stock subscription option and free share plans occurring during the year are as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Options** | **Free shares** | **Total** | **Options** | **Free shares** | **Total** |
| **Outstanding at the beginning of the year** | **2,072,536** | **1,628,651** | **3,701,187** | **2,141,278** | **733,279** | **2,874,557** |
| Adjustment for reverse share split | - | - | - | 931 | 506 | 1,437 |
| Granted | - | 1,023,960 | 1,023,960 | - | 923,360 | 923,360 |
| Cancelled | (38,743) | (621,857) | (660,600) | (50,689) | (28,494) | (79,183) |
| Exercised | (1,111) | (718,126) | (719,237) | (18,984) | - | (18,984) |
| **Outstanding at year-end** | **2,032,682** | **1,312,628** | **3,345,310** | **2,072,536** | **1,628,651** | **3,701,187** |

### 34.1 *Share capital increase reserved for employees*

Rhodia did not perform any capital increases reserved for employees in 2008 and 2007.

### 34.2 *Stock option plans*

Rhodia S.A. has granted stock subscription options to certain of its executive managers and employees. All of these option plans are payable in shares over the vesting periods mentioned below. The exercise of the stock subscription options is subordinated to the beneficiary's continued employment within the Group on the date of said fiscal year, with certain exceptions (such as retirement). The options vested may be exercised over a period limited in time. The exercise period varies according to the reason for leaving the Group.

#### Current stock option plans

During 2007 and 2008, the Board of Directors did not grant any new stock option plans.

Options granted under the 2004 plans are exercisable over a eight-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options granted under the 2001, 2002 and 2003 plans are exercisable over a twelve-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options issued under the 1999 and 2000 plans are exercisable over a ten-year period, with a holding period of five years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

In accordance with IFRS 2, only the plans granted after November 7, 2002 that were not yet vested at January 1, 2005 were measured and recognized under this standard.

Main changes in stock option plans outstanding at December 31, 2008:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** *(in €)* | **Options** | **Weighted average exercise price** *(in €)* |
| **Options outstanding at the beginning of the period** | **2,072,536** | **61.73** | **2,141,278** | **61.34** |
| Adjustment for reverse share split | - | - | 931 | - |
| Options forfeited (1) | (38,743) | 48.79 | (50,689) | 59.88 |
| Options exercised | (1,111) | 15.12 | (18,984) | 23.28 |
| **Options outstanding at the end of the period** | **2,032,682** | **62.00** | **2,072,536** | **61.73** |

*(1) Stock subscription options forfeited during the year.*

The weighted average remaining contractual life of the stock subscription options outstanding as of December 31, 2008 is 3 years (4 years as of December 2007).

In 2008, of all plans granted by the Rhodia Board of Directors, 1,111 options have been exercised on the 2004 A plan.

## Main features of the stock option plans outstanding at December 31, 2008:

| Stock subscription option plan | 1998 Plan | 1999/1 Plan | 1999/2 Plan | 2000/1 Plan | 2000/2 Plan | 2001 Plan | 2002 Plan | 2003 Plan | 2004 A Plan | 2004 B Plan |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 05/13/1998 | 05/13/1998 | 05/13/1998 | 05/13/1998 | 04/18/2000 | 04/18/2000 | 04/18/2000 | 05/21/2002 | 05/21/2002 | 05/21/2002 |
| Date of grant as approved by the Board of Directors | 06/24/1998 | 02/23/1999 | 02/23/1999 | 03/30/2000 | 09/27/2000 | 03/16/2001 | 03/20/2002 | 05/28/2003 | 06/17/2004 | 06/17/2004 |
| Exercise period (a) | 7 years from 06/24/01 | 7 years from 02/23/02 | 7 years from 03/01/02 | 7 years from 03/30/03 | 7 years from 09/27/03 | 9 years from 03/16/04 | 9 years from 03/20/05 | 9 years from 05/28/06 | 5 years from 06/17/2007 | 5 years from 06/17/07 |
| Options granted at inception | 133,333 | 131,667 | 100,000 | 175,000 | 12,500 | 215,022 | 166,667 | 109,412 | 225,125 | 114,375 |
| Of which granted to the Board of Directors and Executive Committee (b) | 6,667 | 7,792 | 5,000 | 17,250 | - | 19,750 | 14,837 | 8,542 | 29,500 | 46,250 |
| Fair value of the option | - | - | - | - | - | - | - | 6,30 | 2,68 | 2,76 |
| Original exercise price (in €) | 256.08 | 180.00 | 180.00 | 205.68 | 195.12 | 188.40 | 144.48(e) | 66.00(e) | 18.00 | 18.00 |
| Maximum term (years) | 10 | 10 | 10 | 10 | 10 | 12 | 12 | 12 | 8 | 8 |
| Weighted-average remaining contractual life at December 31, 2008 (years) | - | 0.2 | 0.2 | 1.2 | - | 4.2 | 5.2 | 6.4 | 3.5 | 3.5 |
| Adjusted exercise price (c) | - | 76.56 | 76.56 | 87.48 | - | 80.16 | 61.44(e) | 28.08(e) | 15.12 | 15.12 |
| Weighted average exercise price | - | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 |
| Weighted average exercise price of exercisable options | - | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 |
| Options outstanding at December 31, 2007 | 2,618 | 263,058 | 196,249 | 328,195 | - | 408,012 | 326,224 | 210,658 | 216,415 | 121,107 |
| Options forfeited between January 1 and December 31, 2008 | (2,618) | (1,176) | (1,178) | (3,430) | - | (4,905) | (6,292) | (4,292) | (10,481) | (4,371) |
| Options exercised between January 1 and December 31, 2008 | - | - | - | - | - | - | - | - | (1,111) | - |
| Options exercisable at December 31, 2008 | - | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 |
| Of which granted to the Board of Directors and Executive Committee (d) | - | 12,828 | 7,345 | 35,642 | - | 40,537 | 30,167 | 11,066 | 31,918 | 50,336 |
| Options outstanding at December 31, 2008 | - | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 |
| Of which granted to the Board of Directors and Executive Committee (d) | - | 12,828 | 7,345 | 35,642 | - | 40,537 | 30,167 | 11,066 | 31,918 | 50,336 |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | 2,938 | 1,469 | 2,938 | - | 3,917 | 6,756 | 3,721 | 9,977 | 14,891 |
| • Jacques Khéliff | - | - | - | - | - | - | - | 392 | 844 | 795 |
| • Yves René Nanot | - | - | - | - | - | - | - | - | 9,977 | 19,855 |
| Number of beneficiaries at December 31, 2008 | - | 275 | 270 | 372 | - | 559 | 390 | 408 | 238 | 65 |

*(a) Without taking into account the tax holding period for tax residents in France of 4 years as from 2001 and 5 years previously.*
*(b) As made up on the stock subscription option grant date.*
*(c) After the capital increases which took place on May 7, 2004 and December 20, 2005, the Board of Directors adjusted the exercise price and the number of options outstanding in accordance with the French Commercial Code and applicable regulations to stock option plans.*
*(d) Actual data.*
*(e) Due to a personal commitment, Mr. Tirouflet accepted that the exercise price of his options would be set at €15 (after the 2004 and 2005 adjustments, this price was reduced to €6.38 before the reverse share split or €76.56 after the reverse share split).*

The expense incurred during the period relating to services compensated by equity-based instruments (stock options) totaled less than €1 million at December 31, 2007 and nil at December 31, 2008.

## 34.3 Free shares plan

Under the 2005 French Finance Act, French companies are entitled to grant free shares to their executives and employees as from January 1, 2005.

**2008 A and B plans**

On March 17, 2008, the Rhodia Board of Directors approved a new free shares plan for 342 beneficiaries (2 x 511,980 shares) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries.

The terms and conditions of these plans are as follows:

| | A Plans | | B Plans | |
|---|---|---|---|---|
| | **"2+2"** | **"4+0"** | **"2+2"** | **"4+0"** |
| Number of shares | 355,000 | 156,980 | 355,000 | 156,980 |
| Number of beneficiaries | 189 | 153 | 189 | 153 |
| Grant date | March 17, 2008 | March 17, 2008 | March 17, 2008 | March 17, 2008 |
| Vesting date | March 18, 2010 | March 20, 2012 | March 18, 2010 | March 20, 2012 |
| Holding period | Minimum March 18, 2012 | - | Minimum March 18, 2012 | - |
| Performance criteria | Level of CFROI (Cash Flow Return On Investments), as presented in the consolidated financial statements of the Company for the year ended December 31, 2008 | | Recurring EBITDA/net sales ratio (including CER activities), as presented in the consolidated financial statements of the Company for the year ended December 31, 2008, exceeding by 2 points the average ratio of a panel of competitors | |
| Validation of vesting conditions | Board of Directors | | Board of Directors | |

The performance criteria of the 2008 A plans were not met at the 2008 year-end.

**Expense recognized**

The expense recognized with respect to all free shares plans totaled €15 million for the year ended December 31, 2008 (€18 million in 2007). It includes €2 million for B plans granted during the year.

Major changes in the free shares plans during fiscal year 2008:

| Free shares plans | Plan 2006 A (c) | Plan 2006 B (c) | Plan 2007 A (d) (e) | Plan 2007 B (d) (e) | Plan 2007 "2+2" | Plan 2007 "4+0" | Plan 2008 A "2+2" (f) | Plan 2008 A "4+0" (f) | Plan 2008 B "2+2" (f) | Plan 2008 B "4+0" (f) |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 06/23/2005 | 06/23/2005 | 06/23/2005 | 06/23/2005 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 01/13/2006 | 01/13/2006 | 01/15/2007 | 01/15/2007 | 07/30/2007 | 07/30/2007 | 03/17/2008 | 03/17/2008 | 03/17/2008 | 03/17/2008 |
| Vesting date | 01/14/2008 | 01/14/2008 | 01/16/2009 | 01/16/2009 | 07/31/2009 | 07/31/2011 | 03/18/2010 | 03/20/2012 | 03/18/2010 | 03/20/2012 |
| Free shares granted at inception | 387,760 | 387,760 | 344,308 | 344,308 | 92,355 | 142,755 | 355,000 | 156,980 | 355,000 | 156,980 |
| Of which granted to the Board of Directors and Executive Committee (a) | 83,917 | 83,917 | 84,167 | 84,167 | 90 | - | 117,000 | - | 117,000 | - |
| Fair value of the share | 21.99 | 21.99 | 30.44 | 30.44 | 33.03 | 34.08 | 10.94 | 11.30 | 10.94 | 11.30 |
| Period of non-transferability | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | - | 2 years after the vesting period | - | 2 years after the vesting period | - |
| Number of free shares outstanding at December 31, 2007 | 359,313 | 359,313 | 339,490 | 339,490 | 91,695 | 139,350 | - | - | - | - |
| Free shares granted between January 1 and December 31, 2008 | - | - | - | - | - | - | 355,000 | 156,980 | 355,000 | 156,980 |
| Free shares forfeited between January 1 and December 31, 2008 | (250) | (250) | (50,066) | (50,066) | (1,410) | (4,035) | (355,000) | (156,980) | (2,800) | (1,000) |
| Number of free shares vested at December 31, 2008 | (359,063) | (359,063) | - | - | - | - | - | - | - | - |
| Number of free shares outstanding at December 31, 2008 | - | - | 289,424 | 289,424 | 90,285 | 135,315 | - | - | 352,200 | 155,980 |
| Of which granted to the Board of Directors and Executive Committee (b) | - | - | 74,167 | 74,167 | 75 | - | - | - | 129,500 | - |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | 25,000 | 25,000 | - | - | - | - | 37,000 | - |
| • Jacques Khéliff | - | - | 4,167 | 4,167 | 15 | - | - | - | 7,500 | - |
| Number of beneficiaries at December 31, 2008 | - | - | 341 | 341 | 6,019 | 9,021 | - | - | 186 | 151 |

*(a) As made up on the grant date.*
*(b) Actual data.*
*(c) The performance criteria were met as of December 31, 2006.*
*(d) The performance criteria were met as of December 31, 2007.*
*(e) The free shares forfeited in 2008 were mostly exchanged for the right to receive cash based on the share price at the vesting date.*
*(f) The performance criteria were met for B plans but not for the A plans as of December 31, 2008.*

## NOTE 35 Statutory auditors' fees for 2007 and 2008

| | PricewaterhouseCoopers Audit | | | | KPMG Audit | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (excluding tax) | | % | | Amount (excluding tax) | | % | |
| *(in millions of euros)* | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Audit | | | | | | | | |
| Statutory auditors, certification; examination of individual and consolidated financial statements | 1.9 | 3.5 | 90 | 88 | 1.9 | 1.3 | 100 | 86 |
| Issuer | 0.5 | 0.9 | 23 | 23 | 0.4 | 0.4 | 21 | 26 |
| Consolidated subsidiaries | 1.4 | 2.6 | 67 | 65 | 1.5 | 0.9 | 79 | 60 |
| Other tasks and services directly related to the statutory auditor's mission | 0.1 | 0.4 | 5 | 10 | - | 0.1 | - | 7 |
| Issuer | - | 0.2 | - | 5 | - | 0.1 | - | 7 |
| Consolidated subsidiaries | 0.1 | 0.2 | 5 | 5 | - | - | - | - |
| Sub-total | 2.0 | 3.9 | 95 | 98 | 1.9 | 1.4 | 100 | 93 |
| **Other services provided to by consolidated subsidiaries** | | | | | | | | |
| Legal, tax, labor | 0.1 | 0.1 | 5 | 2 | - | 0.1 | - | 7 |
| Other (to be given in detail if it is more than 10% of the audit fees) | - | - | - | - | - | - | - | - |
| Sub-total | 0.1 | 0.1 | 5 | 2 | - | 0.1 | - | 7 |
| **TOTAL** | **2.1** | **4.04** | **100** | **100** | **1.9** | **1.5** | **100** | **100** |

The amounts shown include, for the share of costs borne by Rhodia, the fees relating to proportionately consolidated entities.

## NOTE 36 Subsequent events

On February 27, 2009, Rhodia signed an agreement to purchase the privately-held McIntyre Group Ltd, a global manufacturer of speciality surfactants. This acquisition will reinforce Rhodia Novecare's product range for personal cleansing and extend its offer for hair care, as well as home, institutional and industrial cleaning markets. It will drive new opportunities for oilfield production and agrochemicals applications and allow further business developments in fast-growing markets such as Asia-Pacific and Latin America.

Based near Chicago, the McIntyre Group employs about 200 people and has manufacturing facilities in the United States (Illinois) and in Europe (UK), complemented by a global commercial network. The company has shown strong business performance, achieving double-digit growth during the past three years, with 2008 estimates of US$146 million sales and around 10% recurring EBITDA margin.

## NOTE 37 List of companies included in the consolidated financial statements for the year ended December 31, 2008

The consolidated financial statements for the year ended December 31, 2008 included 99 companies, of which 87 subsidiaries, 8 joint ventures, 4 associates.

| **Subsidiaries** | **Country** | **%** |
|---|---|---|
| RHODIA ACETOW GMBH | Germany | 100.00 |
| RHODIA DEUTSCHLAND GMBH | Germany | 100.00 |
| RHODIA GMBH | Germany | 100.00 |
| RHODIA CHEMICALS PTY LTD | Australia | 100.00 |
| RHODIA BELGIUM | Belgium | 100.00 |
| RHODIA BRASIL LTDA | Brazil | 100.00 |
| RHODIA ENERGY BRASIL LTDA | Brazil | 100.00 |
| RHODIA POLIAMIDA BRASIL LTDA | Brazil | 100.00 |
| RHODIA POLIAMIDA E ESPECIALIDADES LTDA | Brazil | 100.00 |

| Subsidiaries | Country | % |
|---|---|---|
| RHOPART – PARTICIPAÇÕES, SERVI SERVIÇOS E COMÉRCIO LTDA | Brazil | 100.00 |
| RHODIA CANADA INC. | Canada | 100.00 |
| JADE FINE CHEMICALS (WUXI) Co. LTD | China | 100.00 |
| RHODIA (SHANGHAI) INTERNATIONAL TRADING Co. LTD | China | 100.00 |
| RHODIA (CHINA) Co. LTD | China | 100.00 |
| RHODIA PERFUMERY WUXI Co. LTD | China | 100.00 |
| RHODIA POLYAMIDE (SHANGHAI) Co. LTD | China | 100.00 |
| RHODIA SILICA QINGDAO Co. LTD | China | 100.00 |
| RHODIA SPECIALTY CHEMICALS WUXI Co. LTD | China | 100.00 |
| RHODIA WUXI PHARMACEUTICAL Co. LTD | China | 100.00 |
| RUOHAI (ZHEJIANG) FINE CHEMICALS Co. LTD | China | 100.00 |
| LIYANG RHODIA RARE EARTH NEW MATERIALS Co. LTD | China | 96.32 |
| RHODIA HENGCHANG (ZHANGJIAGANG) SPECIALTY CHEMICAL Co. LTD | China | 70.00 |
| BEIJING RP EASTERN CHEMICAL Co. LTD | China | 60.00 |
| BAOTOU RHODIA RARE EARTH Co. LTD | China | 55.00 |
| RHODIA (ZHENJIANG) CHEMICALS Co. LTD | China | 100.00 |
| RHODIA FINE CHEMICALS ADDITIVES (QINGDAO) Co. LTD | China | 100.00 |
| RHODIA ENERGY KOREA Co. LTD | South Korea | 100.00 |
| RHODIA POLYAMIDE Co. LTD | South Korea | 100.00 |
| RHODIA SILICA KOREA Co. LTD | South Korea | 100.00 |
| RHODIA IBERIA SL | Spain | 100.00 |
| ALCOLAC, INC. | United States | 100.00 |
| RHODIA FUNDING CORP. | United States | 100.00 |
| HEAT TREATMENT SERVICES INC. | United States | 100.00 |
| RHODIA FINANCIAL SERVICES INC. | United States | 100.00 |
| RHODIA HOLDING INC. | United States | 100.00 |
| RHODIA INC. | United States | 100.00 |
| RHODIA-INDIA HOLDING INC. | United States | 100.00 |
| RHODIA CHIMIE | France | 100.00 |
| RHODIA ELECTRONICS & CATALYSIS | France | 100.00 |
| RHODIA ENERGY | France | 100.00 |
| RHODIA ENERGY GHG | France | 100.00 |
| RHODIA FINANCE | France | 100.00 |
| RHODIA LABORATOIRE DU FUTUR | France | 100.00 |
| RHODIA OPERATIONS | France | 100.00 |
| RHODIA PARTICIPATIONS | France | 100.00 |
| RHODIA | France | 100.00 |
| RHODIA SERVICES | France | 100.00 |
| RHODIANYL S.N.C. | France | 100.00 |
| RHODIA HONG KONG LTD | Hong Kong | 100.00 |
| ALBRIGHT & WILSON CHEMICALS INDIA LTD | India | 72.80 |
| CEIMIC-RE LTD | Ireland | 100.00 |
| RHODIA ITALIA S.p.A. | Italy | 100.00 |
| RHODIA JAPAN LTD | Japan | 100.00 |
| ANAN KASEI Co., LTD | Japan | 67.00 |
| RHODIA NICCA LTD | Japan | 60.00 |
| CAREDOR | Luxembourg | 100.00 |
| PARTICIPATIONS CHIMIQUES | Luxembourg | 100.00 |
| RHODIA DE MEXICO SA DE CV | Mexico | 100.00 |

| Subsidiaries | Country | % |
|---|---|---|
| RHODIA ESPECIALIDADES SA DE CV | Mexico | 100.00 |
| RHODIA NEW ZEALAND LTD | New Zealand | 100.00 |
| RHODIA INTERNATIONAL HOLDINGS BV | The Netherlands | 100.00 |
| RHODIA POLYAMIDE POLSKA Sp.zo.o | Poland | 100.00 |
| HOLMES CHAPEL TRADING LTD | United Kingdom | 100.00 |
| RHODIA ECO SERVICES LTD | United Kingdom | 100.00 |
| RHODIA FOOD UK LTD | United Kingdom | 100.00 |
| RHODIA HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA HPCII UK LTD | United Kingdom | 100.00 |
| RHODIA INDUSTRIAL SPECIALTIES LTD | United Kingdom | 100.00 |
| RHODIA INTERNATIONAL HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA LTD | United Kingdom | 100.00 |
| RHODIA ORGANIQUE FINE LTD | United Kingdom | 100.00 |
| RHODIA OVERSEAS LTD | United Kingdom | 100.00 |
| RHODIA PHARMA SOLUTIONS HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA PHARMA SOLUTIONS LTD | United Kingdom | 100.00 |
| RHODIA REORGANISATION | United Kingdom | 100.00 |
| RHODIA UK LTD | United Kingdom | 100.00 |
| OOO SERTOW | Russia | 100.00 |
| ALBRIGHT & WILSON ASIA PACIFIC HOLDINGS PTE LTD | Singapore | 100.00 |
| RHODIA ASIA PACIFIC PTE LTD | Singapore | 100.00 |
| SOPARGEST – SOCIETE DE PARTICIPATION ET DE GESTION S.A. | Switzerland | 99.98 |
| RHODIA THAI HOLDINGS LTD | Thailand | 100.00 |
| RHODIA THAI INDUSTRIES LTD | Thailand | 74.00 |
| ALAVER SOCIEDAD ANONIMA | Uruguay | 100.00 |
| FAIRWAY INVESTMENTS S.A. | Uruguay | 100.00 |
| ZAMIN COMPANY S/A | Uruguay | 100.00 |
| RHODIA ACETOW VENEZUELA C.A. | Venezuela | 100.00 |
| RHODIA SILICES DE VENEZUELA C.A. | Venezuela | 100.00 |

| Joint ventures | Country | % |
|---|---|---|
| WÄRMEVERBUNDKRAFTWERK FREIBURG GMBH | Germany | 49.90 |
| PRIMESTER | United States | 50.00 |
| BUTACHIMIE | France | 50.00 |
| COGENERATION CHALAMPE | France | 50.00 |
| ORBEO | France | 50.00 |
| RHODIGAZ | France | 50.00 |
| HINDUSTAN GUM & CHEMICALS LTD | India | 50.00 |
| P.T. RHODIA MANYAR | Indonesia | 50.00 |

| Associates | Country | % |
|---|---|---|
| QINGDAO DONGYUE RHODIA CHEMICAL Co Ltd | China | 30.00 |
| GIE OSIRIS | France | 41.00 |
| GIE CHIMIE SALINDRES | France | 50.00 |
| ZAKLAD ENERGOELEKTRYCZNY «ENERGO-STIL» Sp. z o. o. | Poland | 25.00 |

## 20.3.2 COMPANY FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2008

### 20.3.2.1 STATUTORY AUDITOR'S REPORT ON THE STATUTORY ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2008, on:

- the audit of the accompanying financial statements of Rhodia SA;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

#### I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the financial position and assets and liabilities of the company, as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

#### II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the Commercial Code (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

The accounting estimates used to prepare the financial statements at December 31, 2008 were made against a backdrop of highly volatile financial markets and significant difficulty in assessing the economic outlook. In this context, and in accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

The company estimates the value in use of its investments in accordance with the methods described in notes 1 and 2.2 to the financial statements and recognizes impairments when the carrying amount exceeds value in use. We assessed the method adopted by the company and verified its correct application. Our work also consisted in assessing the data and assumptions used by the company and verifying the resulting calculations.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

## III - Specific verifications and information

We have also performed the specific verifications required by law.

We have no matters to report regarding:

- the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information provided in the management report of the Board of Directors with respect to remuneration granted to certain company officers and any other commitments made in their favor in connection with, or subsequent to, their appointment, termination or change in function.

In accordance with the law, we have verified that the management report contains the appropriate disclosures regarding the identity of shareholders.

Neuilly-sur-Seine and Paris La Défense, March 19, 2009

**Statutory auditors**

| PricewaterhouseCoopers Audit | KPMG Audit |
|---|---|
| | *Département de KPMG S.A.* |
| Christian Perrier | Denis Marangé |

## 20.3.2.2 STATUTORY ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

### A. BALANCE SHEET

| **Assets** | | **At December 31, 2008** | | | **At December 31, 2007** |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Note** | **Gross amount** | **Depreciation & amortization** | **Net amount** | **Net amount** |
| Intangible assets, and property, plant and equipment | 3 | 9 | (8) | 1 | 1 |
| Equity investments | 4 | 3,787 | (1,890) | 1,897 | 2,120 |
| Loans to equity investments | 5 | 2,833 | (2) | 2,831 | 3,271 |
| Other long-term investments | | 9 | - | 9 | 9 |
| Non current assets | | 6,638 | (1,900) | 4,738 | 5,401 |
| Other receivables | 6 | 1,206 | (3) | 1,203 | 186 |
| Cash advances to subsidiaries | 7 | 402 | - | 402 | 393 |
| Marketable securities | 8 | 108 | (2) | 106 | 210 |
| Cash and short-term investments | | 109 | - | 109 | 1 |
| Current assets | | 1,825 | (5) | 1,820 | 790 |
| Deferred charges | 9 | 7 | - | 7 | 9 |
| Unrealized foreign exchange losses | | 192 | - | 192 | 109 |
| **TOTAL ASSETS** | | **8,662** | **(1,905)** | **6,757** | **6,309** |

| **Liabilities and shareholders' equity** | **Note** | **At December 31, 2008** | **At December 31, 2007** |
|---|---|---|---|
| *(in millions of euros)* | | **Before appropriation** | **Before appropriation** |
| Share capital | | 1,213 | 1,204 |
| Additional paid-in capital | | 14 | 23 |
| Legal reserve | | 40 | 37 |
| Other reserves | | 123 | 105 |
| Retained earnings/(deficit) | | - | - |
| Net profit for the year | | 359 | 45 |
| Shareholders' equity | 10 | 1,749 | 1,414 |
| Provisions | 11 | 382 | 354 |
| Bank borrowings | | 1,689 | 1,737 |
| Other borrowings | | 1,697 | 2,096 |
| Borrowings | 12 | 3,386 | 3,833 |
| Tax and employee-related liabilities | | 2 | 3 |
| Other liabilities | 13 | 1,202 | 694 |
| Liabilities | | 4,590 | 4,530 |
| Unrealized foreign exchange gains | | 36 | 11 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **6,757** | **6,309** |

### B. INCOME STATEMENT

| *(in millions of euros)* | Note | At December 31 2008 | 2007 |
|---|---|---|---|
| Dividends received from equity investments | | 15 | 46 |
| Interest income | | 358 | 315 |
| Interest expense | | (254) | (232) |
| **Sub-total** | | **119** | **129** |
| Charges to/reversals of provisions for impairment of securities | | (198) | 5 |
| Charges to/reversals of provisions for subsidiary-related risks | | 8 | (75) |
| Other financial income/(expenses) | | 356 | (60) |
| **Net financial items** | 14 | **285** | **(1)** |
| Operating profit/(loss) | 15 | (21) | (18) |
| **Net profit/(loss) from ordinary activities** | | **264** | **(19)** |
| Net exceptional items | 16 | 4 | (7) |
| **Net profit/(loss) from ordinary activities before tax** | | **268** | **(26)** |
| Corporate income tax | 17 | 91 | 71 |
| **NET PROFIT FOR THE YEAR** | | **359** | **45** |

### C. CASH FLOW STATEMENT

| *(in millions of euros)* | At December 31 2008 | 2007 |
|---|---|---|
| **Operating cash flow** | | |
| Net profit for the year | 359 | 45 |
| *Elimination of non-cash and non-operating income and expenses* | | |
| • Charges to depreciation, amortization and provisions | 227 | 148 |
| • Profit/(loss) from assignment and waiver of receivables | (13) | 26 |
| • Share in profit/(loss) of partnerships (SNC) | (356) | 47 |
| Changes in working capital requirement | 23 | (111) |
| ***Net cash from operating activities (A)*** | ***240*** | ***155*** |
| **Investing cash flow** | | |
| Disbursements related to acquisitions of equity investments | (1) | - |
| Proceeds from disposal of equity investments | 15 | 2 |
| Proceeds from the impact of a capital reduction on equity investments | 24 | - |
| Net changes in loans to equity investments and other long-term investments | 440 | 571 |
| ***Net cash from investing activities (B)*** | ***478*** | ***573*** |
| **Financing cash flow** | | |
| Dividends paid to shareholders | (25) | - |
| New bonds and bank borrowings | 2 | 595 |
| Redemption of bonds and repayment of bank borrowings | (17) | (883) |
| Net changes in inter-company loans | (398) | (492) |
| Cash advances to subsidiaries | (271) | 42 |
| ***Net cash used in financing activities (C)*** | ***(709)*** | ***(738)*** |
| **Change in cash and cash equivalents (A+B+C)** | **9** | **(10)** |
| Cash and cash equivalents at the beginning of the year (D) | 193 | 203 |
| Cash and cash equivalents at the end of the year (A+B+C+D) | 202 | 193 |

## 20.3.2.3 NOTES TO THE STATUTORY ACCOUNTS YEAR ENDED DECEMBER 31, 2008

## NOTE 1 Activities and highlights of the year

Rhodia S.A. (hereinafter referred to as "Rhodia" or the "Company") is the parent company of the Rhodia specialty chemicals group. It acts as a holding company and also provides services as parent company to support, advise, coordinate and manage Rhodia's subsidiaries.

In 2008, Rhodia updated its equity investment portfolio valuation by relying, in certain cases, on estimates made by external appraisers. Following its valuation, the Energy division was transferred within the Group, resulting in the realization of a capital gain in the amount of €1,066 million. Concerning the remaining equity investments, the valuation work gave rise to the recognition of impairment losses totaling €955 million, reflecting the decline in the economic environment.

With respect to the 2006 bonus share allotment plan, the Company carried out a share capital increase by deducting amounts from its reserves. In addition, Rhodia S.A. purchased Company shares to cover the 2007 and 2008 Group bonus share allotment plans.

Finally, a certain number of Rhodia Services employees were transferred to Rhodia S.A., bringing the number of employees to 36 as of December 31, 2008, compared to 6 as of December 31, 2007.

## NOTE 2 Accounting policies

The annual financial statements of Rhodia were prepared in accordance with the accounting principles generally accepted in France and more specifically the 1999 French General Chart of Accounts. The balance sheet and profit or loss statement presentation has been adapted to the Company's holding company status.

### 2.1 *Intangible assets and property, plant and equipment*

**Valuation methods**

Intangible assets and property, plant and equipment are stated at purchase cost if acquired for valuable consideration, at production cost if internally generated, and at contribution value if received as a contribution.

Purchase cost includes:

- purchase price including import duties and non-recoverable taxes less rebates, trade discounts and payment allowances;
- incidental expenses excluding purchase expenses.

It should be noted that acquired brands are capitalized. The renewal costs of generated or acquired brands are expensed as incurred.

**Methods used to calculate depreciation and amortization**

Depreciation and amortization are calculated on a straight-line basis over the expected period of use.

Acquired brands with unlimited useful lives are not amortized.

**Assessment of asset value**

When there is an indication of impairment, the net carrying amount of the non-current asset is compared with its present value. An impairment loss is recorded, where appropriate, when the present value of the non-current asset falls below its net carrying amount.

### 2.2 *Long-term investments*

Equity investments are initially recognized at cost. Purchase expenses are, where applicable, allocated to the purchase cost of the securities.

Periodically, and particularly when valuing its portfolio, the Company measures the value in use of its equity investments. Where the purchase cost exceeds the value in use, two types of provision can be recorded:

- an impairment provision for up to the initial amount of the securities;
- a financial contingency provision for subsidiaries in respect of the residual amount.

Where value in use exceeds the purchase cost, no unrealized capital gains are recognized.

The value in use of equity investments is determined as follows:

**1/** The value in use of operating entities mainly takes into account the weighting of two criteria:

- the share of consolidated equity held,
- the share of enterprise value net of indebtedness. The enterprise value is determined using a market multiple applied to 2008 recurring EBITDA [12].

On a case-by-case basis, external valuations are carried out, mainly based on the discounted future cash flows of the subsidiary, including the gains arising from the group tax consolidation.

**2/** For non-operating or immaterial entities, the value in use is determined based on the share of equity held, calculated using the accounting principles applied by Rhodia for the preparation of its consolidated financial statements.

*(12) "Recurring EBITDA" corresponds to operating profit or loss before restructuring costs, net charges to depreciation, amortization and impairment, and other operating income and expenses.*

## 2.3 Receivables and payables

Receivables and payables are stated at nominal value. An impairment loss is recorded when their historical cost exceeds their carrying amount.

## 2.4 Marketable securities

**Negotiable medium-term notes**

Negotiable medium-term notes are recognized at cost. An impairment loss is recorded when their net carrying amount exceeds their net asset value.

**Treasury shares**

Treasury shares allocated to bonus share allotment plans are not subject to impairment based on market value due to Rhodia's commitment to allocate these shares to employees. A provision is recognized in liabilities (see paragraph 2.13 below).

Treasury shares not allocated to bonus share allotment plans are subject to impairment where their carrying amount exceeds their market value at the balance sheet date.

## 2.5 Bond issues

OCEANE bonds (bonds that can be converted or exchanged for new or existing shares) have been recorded in borrowings at nominal value on issuance, excluding redemption premiums. A provision determined on an actuarial basis to cover the risk that bonds may not be converted and the redemption premium-related expense is recorded so long as the conversion is not reasonably probable.

## 2.6 Bond issuance costs and premiums

Issuance costs and premiums incurred by Rhodia in respect of the issuance of bonds are spread out over the terms of the bonds on a straight-line basis when they are not rebilled to subsidiaries. A one-time amortization charge is recognized in the event of early redemption or buyback of the bonds.

## 2.7 Foreign currency transactions

Foreign currency-denominated income and expenses are recorded for their euro equivalent amount on the date of the transaction or commitment. Foreign currency-denominated payables, receivables and cash are shown on the face of the balance sheet for their euro equivalent amount at the exchange rate prevailing at the year-end. Differences arising from the revaluation of payables and receivables denominated in foreign currencies at the year-end exchange rate are shown on the face of the balance sheet as Currency translation adjustments. A provision is set aside for unrealized exchange losses.

The difference arising from the revaluation of cash balances is recorded in the income statement.

## 2.8 Derivative financial instruments

Rhodia uses derivative financial instruments in order to manage and mitigate its exposure to foreign exchange, interest rate and commodity index risk. Rhodia's policy is to manage its positions on an overall basis without necessarily setting up specific hedges.

**Interest-rate derivatives**

Income and expenses arising from the use of interest-rate derivatives are recognized in profit or loss symmetrically to the income and expenses from hedged transactions when they qualify for hedge accounting.

When they do not qualify for hedge accounting, these instruments are valued as follows:

- net unrealized losses on OTC instruments are fully provided for;
- net unrealized gains on OTC instruments are recorded in profit or loss solely when the transaction has been settled;
- unrealized gains and losses on organized markets are directly recognized in profit or loss.

**Foreign exchange derivatives**

Foreign exchange derivatives underpin Rhodia's foreign exchange position. Unrealized gains and losses on such instruments are included in the calculation of the provision for unrealized foreign exchange losses.

**Energy and commodity hedging derivatives**

Gains and losses arising from these instruments are recorded in net financial items.

## 2.9 Retirement obligations

Rhodia recognizes its retirement obligations, other post-employment benefits and termination benefits via a provision.

The amount thus provided corresponds to the actuarial value of rights vested by the beneficiaries at the year-end, without taking into account their future salary increases. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recorded in profit or loss as soon as recognized. Charges to and reversals from provisions are recorded in operating profit or loss.

### 2.10 Long-service awards

The Company's obligations with regard to employee long-service awards are fully provided for and estimated based on the assumptions used to calculate retirement obligations.

### 2.11 Stock subscription plans

Stock subscription plans are recorded when options are exercised as a capital increase in an amount corresponding to the subscription price paid by option holders. The difference between the subscription price and the par value of the stock represents additional paid-in capital where appropriate. No remuneration expense is recorded for employee benefits.

### 2.12 Bonus shares to be issued

Rhodia records the bonus shares definitely vested by beneficiaries when they are issued, via an offsetting entry against available reserves up to the par value amount of the shares issued.

No remuneration expense is recorded for employee benefits. The costs arising from bonus share allotment plans are expensed.

### 2.13 Allocations of existing bonus shares

Pursuant to CNC notice 2008-17 of November 6, 2008 on the accounting treatment of employee bonus share allotment plans:

- a provision is set aside to cover Rhodia S.A.'s obligation to deliver the shares to the beneficiaries at the definitive allocation date. The provision is determined by multiplying the share buyback price by the number of shares that should be allocated considering the allotment plan requirements (performance/presence). This provision is amortized on a straight-line basis over the bonus share vesting period, as and when the rights are vested by the beneficiaries;
- the charge to the contingency provision is presented in employee expenses via an expense reclassification account;
- the fair value of the shares at the time of allocation is used to calculate the base for the 10% social security contributions payable by Rhodia.

### 2.14 Dividends

Dividends receivable by Rhodia from its subsidiaries and equity investments are recorded as income on the date of approval by their Annual General Meetings.

### 2.15 Method of recognizing profit or loss of partnerships (SNC)

Under the bylaws of Rhodianyl (SNC) and Rhodia Participation (SNC), the share of profit or loss allocated to Rhodia S.A. is deemed to have been granted retroactively as of the period-end. As a result, the share of profit or loss is offset in net financial items against a current account classified under "Other receivables" or "Other payables".

### 2.16 Corporate income tax

Rhodia and certain of its French subsidiaries have entered into a tax consolidation group agreement whereby each subsidiary computes its tax expense as if it were not part of a tax group.

The tax savings resulting from the utilization of the tax losses of subsidiaries included in the tax group are immediately recognized in profit or loss by Rhodia and do not give rise to any subsequent cash payback. When subsidiaries become profit-making, Rhodia assumes, as appropriate, an additional tax expense as a result of having already deducted its subsidiaries' tax losses.

### 2.17 Statement of cash flows

Cash and cash equivalents include cash, marketable securities with a maturity of less than 3 months at inception, excluding treasury shares, and bank balances in credit.

## NOTE 3 Intangible assets and property, plant and equipment

This heading includes primarily the Rhodia brand acquired when the Group was established.

## NOTE 4 Equity investments

| *(in millions of euros)* | December 31, 2007 | Increase | Decrease | December 31, 2008 |
|---|---|---|---|---|
| Gross | 3,812 | 5 | (30) | 3,787 |
| Impairment | (1,692) | (226) | 28 | (1,890) |
| Net | 2,120 | (221) | (2) | 1,897 |

The decrease in the gross amount of equity investments is primarily attributable to the impact of a capital decrease by Rhodia Brazil in consideration for a cash payment of €24 million.

Charges for the impairment of equity investments for €(226) million mainly concern: Rhodia Brazil Ltd for €(115) million; Rhodia Holding Inc. for €(62) million; Rhodia Iberia for €(46) million. The charge to the provision for impairment in respect of Rhodia Brazil is primarily due to a decline in the recurring EBITDA of one of its subsidiaries and the depreciation of the Brazilian real.

The reversal of the provision for impairment mainly concerns Rhodia Deutschland. The calculation of the value in use of this investment by an expert resulted in a €23 million reversal.

As of December 31, 2008, the gross equity investments pledged in connection with the set-up of a new credit facility in 2007 amounted to €425 million, as in the previous period.

## NOTE 5 Loans to equity investments

All items under this heading concern equity affiliates.

As part of its business as the Group's holding company, Rhodia finances its subsidiaries and sub-subsidiaries, particularly by means of medium-term loans.

Loans to equity investments break down by maturity as follows:

| *(in millions of euros)* | December 31, 2008 |
|---|---|
| 2009 | 330 |
| 2010 | 167 |
| 2011 | 74 |
| 2012 | 304 |
| 2013 | 1,958 |
| **TOTAL** | **2,833** |

As of December 31, 2008, the loans pledged in connection with the set-up of a new credit facility in 2007 total €200 million, as in the previous period.

## NOTE 6 Other receivables

As of December 31, 2008, this gross heading totals €1,206 million and includes receivables from equity affiliates of €1,167 million (€167 million as of December 31, 2007), receivables from the French State of €30 million in respect of the 2007 and 2008 fiscal year research tax credit (€8 million as of December 31, 2007), accrued income on interest rate swaps of €8 million (€11 million as of December 31, 2007) and options in the amount of €1 million (€1 million as of December 31, 2007).

As of December 31, 2008, receivables from equity affiliates primarily comprise Rhodia S.A.'s share in the 2008 profits of Rhodia Participations for €1,057 million in addition to the current accounts relating to the tax consolidation for €92 million.

## NOTE 7 Cash advances to subsidiaries

This heading includes Rhodia's advances to equity affiliates as part of the Group cash pooling arrangement.

## NOTE 8 Marketable securities

As of December 31, 2008, marketable securities comprise negotiable medium-term notes of €94 million and treasury shares for a gross amount of €14 million.

As of December 31, 2008, the carrying amount of the medium-term notes approximated their net asset value.

Treasury shares were bought back during the year to cover the bonus share allotment plans. The performance requirements were not met for one of the plans, resulting in a reduction in the number of shares to be allocated. Treasury shares that cannot be allocated were subject to impairment in the amount of €(2) million.

## NOTE 9 Deferred charges

Deferred charges total €7 million as of December 31, 2008 and relate to bond issuance costs that are to be spread forward (€2 million in respect of the 2006 fourth quarter bond issue and €5 million in respect of the new bond issue subscribed during the first half of 2007).

## NOTE 10 Equity

### *10.1 Share capital and additional paid-in capital*

As of December 31, 2008, Rhodia's share capital totaled €1,213,044,816, comprising 101,087,068 Rhodia shares with a par value of €12 each.

On January 15, 2008, Rhodia carried out a share capital increase for a par value amount of €8,617,512 by creating 718,126 new shares, in connection with the 2006 bonus share allotment plan. This share capital increase was performed by deducting the amounts from additional paid-in capital.

During fiscal year 2008, the exercise of stock subscription options resulted in the creation of 1,111 shares with a total par value of €13,332 and additional paid-in capital of €3,466.

As of December 31, 2008, Rhodia held 1,792,137 treasury shares (recognized in marketable securities) that were bought back during 2008 in order to cover all the bonus share allotment plans granted in 2007 and 2008 to the employees or corporate officers of the Company and its subsidiaries.

### *10.2 Breakdown of changes in equity*

| *(in millions of euros)* | **As of December 31, 2007** | **Appropriation of 2007 earnings** | **2008 net profit** | **Share capital increase** | **As of December 31, 2008** |
|---|---|---|---|---|---|
| Share capital | 1,204 | - | - | 9 | 1,213 |
| Additional paid-in capital (1) | 23 | - | - | (9) | 14 |
| Legal reserve | 37 | 3 | - | - | 40 |
| Other reserves | 105 | 18 | - | - | 123 |
| Retained earnings/(deficit) | - | - | - | - | - |
| Net profit/(loss) for the year (2) | 45 | (45) | 359 | - | 359 |
| **Shareholders' equity** | **1,414** | **(24)** | **359** | **-** | **1,749** |

*(1) Reserves retained in full with respect to treasury shares as part of the buyback of treasury shares in order to cover all the bonus share allotment plans.*
*(2) The 2007 net profit was subject to a distribution of dividends in the amount of €25 million.*

### *10.3 Proposed appropriation of 2008 profit*

It will be proposed at the Shareholders' General Meeting to appropriate €18 million of the 2008 profit of €359 million to the legal reserve (that would increase from €40 million to €58 million).

The remaining €341 million would be recorded in other reserves (that would increase from €123 million to €464 million).

## NOTE 11 Provisions

Provisions as of December 31, 2008 and changes during fiscal year 2008 break down as follows:

| *(in millions of euros)* | Amount as of December 31, 2007 | Charges | Reversals | Amount as of December 31, 2008 |
|---|---|---|---|---|
| Unrealized exchange losses (1) | 93 | 16 | - | 109 |
| Termination payments on retirement and long service medals | 23 | 4 | - | 27 |
| Subsidiary-related contingencies (2) | 217 | 54 | (62) | 209 |
| Other contingencies and losses (3) | 21 | 25 | (9) | 37 |
| **TOTAL PROVISIONS** | **354** | **99** | **(71)** | **382** |

*(1) As of December 31, 2008, the revaluation of foreign currency-denominated receivables and payables, and foreign exchange derivative instruments results in a net unrealized loss which has been provided for in the financial statements. This unrealized loss is mainly attributable to the depreciation of the pound sterling versus the euro.*

*(2) The charges for the year mainly involve Rhodia Chimie due to a negative impact arising from retirement obligations on its value in use. The reversals for the year primarily concern Rhodia Holding Ltd mainly due to the depreciation of the pound sterling.*

*(3) As of December 31, 2008, provisions for other contingencies and losses mainly relate to:*
*guarantees given to sold subsidiaries or their buyers (€10 million),*
*financial risk (redemption premium) of the OCEANE bond issued in 2007 (€19 million) (see* note *12.5).*
*contingency provision corresponding to the estimated cost of the allotment of bonus shares to employees and corporate officers over four years for €(6) million. The allocation cost is determined based on an annual employee turnover assumption of 3%.*

## NOTE 12 Borrowings

### 12.1 Breakdown by type

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 | Maturity as of December 31, 2008 |
|---|---|---|---|
| 2004 Senior notes ($ denominated) | 4 | 4 | 06/01/2010 |
| 2004 Senior notes (€ denominated) | 1 | 1 | 06/01/2010 |
| 2013 bond issue (€ denominated) | 1,067 | 1,100 | 10/15/2013 |
| 2014 OCEANE bonds (€ denominated) | 595 | 595 | 01/01/2014 |
| Banks with a credit balance | - | 17 | |
| Accrued interest and other borrowings | 22 | 20 | |
| Sub-total bonds and bank borrowings | 1,689 | 1,737 | |
| Equity affiliate loans | 1,697 | 2,096 | |
| **TOTAL** | **3,386** | **3,833** | |

### 12.2 Breakdown by foreign currency

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Equity affiliates | | |
| Euro | 1,531 | 1,753 |
| Swiss franc | 11 | 12 |
| US dollar | 9 | 56 |
| Pound sterling | 133 | 263 |
| Singapore dollar | 13 | 12 |
| Sub-total equity affiliates | 1,697 | 2,096 |
| Bonds and bank borrowings | | |
| Euro | 1,685 | 1,733 |
| US dollar | 4 | 4 |
| Sub-total bonds and bank borrowings | 1,689 | 1,737 |
| **TOTAL** | **3,386** | **3,833** |

### 12.3 Breakdown by maturity

As of December 31, 2008, the maturity dates of these borrowings are as follows:

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Equity affiliates | | |
| 2008 | - | 2,096 |
| 2009 | 1,685 | - |
| 2010 | 12 | - |
| Sub-total equity affiliates | 1,697 | 2,096 |
| Bonds and bank borrowings | | |
| 2008 | - | 37 |
| 2009 | 22 | - |
| 2010 | 5 | 5 |
| 2011 and beyond | 1,662 | 1,695 |
| Sub-total bonds and bank borrowings | 1,689 | 1,737 |
| **TOTAL** | **3,386** | **3,833** |

### 12.4 Breakdown by rate

Long and medium-term borrowings broken down by interest rate, excluding the derivatives portfolio, break down as follows:

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Floating rate | 2,365 | 2,820 |
| Fixed rate | 1,021 | 1,013 |
| **TOTAL** | **3,386** | **3,833** |

### 12.5 Comments on the financing arrangements

#### Floating Rate Notes

These High Yield Floating Rate Notes were issued for a nominal amount of €1,100 million at 3-month Euribor + 2.75%, maturing on October 15, 2013. In December 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of €33 million, thus reducing the principal amount of the note to €1,067 million. The redemption price was €17 million.

#### OCEANE

OCEANE bonds (bonds that can be converted or exchanged for new or existing shares) for a nominal amount of €595 million, maturing on January 1, 2014 and bearing interest at 0.5%, were issued on April 27, 2007. The issue price amounted to €48.1 per bond. OCEANE bond holders may, at any time, exercise their conversion option on a 1.02 for 1 basis. OCEANE bonds carry a 13.22% redemption premium and a buyback option that may be exercised by Rhodia under certain conditions.

**Syndicated credit line**

On March 30, 2007, Rhodia entered into a multi-currency syndicated credit facility for €600 million ("Multicurrency Revolving Credit and Guaranty Facility" or "RCF") maturing on June 30, 2012.

The interest rate applied to the borrowed sums corresponds to the bank discount rate according to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio ("leverage"). In addition, Rhodia pays a commitment fee corresponding to 40% or 35% of the applicable margin depending on its level. The syndicated credit facility can be used in the form of bank loans and/or guarantees.

Rhodia has given collateral security in connection with the implementation of this syndicated credit line. Such collateral security is made up of a pledge of the securities of one of its subsidiaries and a pledge of a secured loan of another of its subsidiaries.

The RCF includes early repayment clauses, including a change of control of Rhodia or the adoption of a break-up or liquidation plan for the Company.

Moreover, the RCF includes mandatory repayment and partial cancellation clauses in the event of asset disposals beyond certain thresholds provided for in the agreement, and under certain conditions, particularly with respect to the use of proceeds from disposals.

The continuation of the RCF syndicated credit facility is subject to the compliance with certain financial ratios ("covenants") by Rhodia which are tested on a half-yearly basis. At and prior to December 31, 2008, Rhodia has complied with all applicable financial covenants.

In 2008, the RCF syndicated credit facility was only drawn down for bank guarantees totaling €66 million as of December 31, 2008. The amount not drawn down as of December 31, 2008 was €534 million.

### *12.6 Market value of borrowings*

As of December 31, 2008, Rhodia's debt was discounted by around 49% versus its nominal due to the one-off credit market restrictions arising from the general uncertainty of investors regarding the changes in macro-economic conditions.

### *12.7 Rating*

Rhodia is rated by two independent international rating agencies, Moody's Investors Service and Standard & Poor's.

In 2008, Moody's Investors Service maintained its Corporate Family Rating at Ba3 and changed the outlook from positive to stable in December. The unsecured senior debt and the OCEANE bond retained a B1 rating.

Standard & Poors issued a BB rating (stable outlook) to Rhodia (Corporate credit rating) and a BB rating to long-term borrowings in April 2008. Previously, two BB- ratings were issued. In February 2009, Standard & Poors reviewed the outlook and changed it from stable to negative.

No downward rating of either of these agencies can cause an accelerated repayment of any of the current borrowings or an increase in the cost thereof.

## NOTE 13 Other liabilities

This item includes cash advances from subsidiaries as part of the Group cash pooling system and Rhodia S.A.'s share in the 2008 losses of Rhodianyl.

## NOTE 14 Net financial items

Net financial items break down as follows:

| *(in millions of euros)* | **2008** | **2007** |
|---|---|---|
| Dividends from equity investments | 15 | 46 |
| Interest income | 358 | 315 |
| Interest expense | (254) | (232) |
| Net foreign exchange gains/(losses) | (2) | 2 |
| Net reversal from/(charge to) provisions for impairment of equity investments and for subsidiary-related contingencies | (190) | (70) |
| Other net interest income/(expense) | 358 | (62) |
| **TOTAL** | **285** | **(1)** |

### *14.1 Dividends from equity investments*

All dividends received are from equity affiliates.

### *14.2 Interest income and expense*

Interest income relates to loans and cash advances granted to equity affiliates for €313 million (€275 million in 2007), interest rate swaps for €39 million (€40 million in 2007) and Cap interest for €4 million.

Interest expense relates to loans and cash advances to equity affiliates for €135 million (€89 million in 2007), bond issuance costs for €89 million (€105 million in 2007) and interest rate swaps for €30 million (€38 million in 2007).

Net interest income totals €104 million in 2008, compared to €83 million in 2007. The change compared to the previous year results primarily from improved financing conditions, particularly with regard to bond issuance costs.

### *14.3 Impairment of equity investments and provisions for subsidiary-related contingencies*

Changes in impairment of equity investments and provisions for subsidiary-related contingencies are analyzed in notes 4 and 11.

### *14.4 Other financial income and expense*

In 2008, this item primarily includes:

- the share of Rhodia S.A. in the 2008 profits of Rhodianyl and Rhodia Participations for a total of €356 million. In 2008, Rhodia Participations sold all the securities that it owned in Rhodia Energy to Rhodia Finance, generating a capital gain of €1,066 million. In addition, Rhodia Participations recorded additional provisions for the securities of its subsidiaries, particularly Rhodia Electronics & Catalysis, in the amount of € (81) million. Finally, Rhodianyl also recorded additional provisions for the securities of its subsidiaries for €(685) million. These provisions primarily concern Rhodia Opérations for €(505) million and Butachimie for €(131) million in connection with an expert appraisal;
- the €16 million profit on the early redemption of FRN (see Note 12.5);
- capital gains on sales of marketable securities for €4 million;
- the charge to the provision for financial contingencies with regard to treasury shares (see Note 15) in the amount of €(6) million that was subject to an expense reclassification to operating profit in the amount of €6 million. Furthermore, a provision for impairment of the treasury shares not allocated to the allotment plan was recorded in the amount of €(2) million (see Note 8);
- the losses arising from financial instruments (commodities) for €(3) million;
- the charge to a provision for financial contingencies regarding the redemption of OCEANE bond premiums for €(11) million.

## NOTE 15 Operating profit/(loss)

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Services billed to equity affiliates (1) | 6 | - |
| Taxes | (1) | 1 |
| Personnel costs excluding retirement (1) | (15) | (5) |
| Net retirement expenses and similar commitments | (4) | (3) |
| Grant transferred to the income statement (2) | - | 3 |
| Other operating expenses (1) | (7) | (14) |
| **NET OPERATING LOSS** | **(21)** | **(18)** |

*(1) In 2008, the employees transferred to Rhodia S.A. (see note 21) generated an increase in employee costs and other operating expenses. However, these were offset by the services invoiced to equity affiliates in respect of services rendered to subsidiaries. In 2007, other operating expenses included cost reinvoicing by Rhodia Services for €(8) million that was not performed in 2008 due to the employee transfers (see note 21). Furthermore, the contingency provision set aside for the treasury shares purchased to cover the 2007 and 2008 bonus share allotment plans had a negative impact of €(6) million on other operating expenses.*

*(2) In 2007, a grant had been received as part of the Group's industrial investments in South Korea.*

## NOTE 16 Net exceptional items

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Net gains/(losses) on disposals of securities and assignment of receivables (1) | 12 | - |
| Investment disposal costs (2) | (3) | (6) |
| Other | (5) | (1) |
| **TOTAL** | **4** | **(7)** |

*(1) The capital gain mainly arises from the sale of Asian subsidiary securities.*

*(2) Expenses on disposals include a charge to the contingency provision for the sale of Asian subsidiaries.*

## NOTE 17 Tax position

Rhodia has been under a tax consolidation group regime since 1999. The scope of the tax group covered 12 companies in 2008 versus 14 in 2007 primarily as a result of the merger of activities conducted in France, particularly in Rhodia Operations.

In 2008, under the tax consolidation group regime, the Group reported net tax savings of €91 million (€71 million in 2007), that were equivalent to the tax charge of the profitable companies in the tax group.

Had Rhodia not belonged to a tax group, it would not have incurred any tax charge in respect of 2008 and 2007 due to its own loss-making position.

As of December 31, 2008, the tax group's tax loss carryforwards totaled €2,142 million (as a base) (€2,200 million in 2007), of which €1,617 million in losses transferred from consolidated subsidiaries.

## NOTE 18 Off-balance sheet commitments and transactions involving derivative financial instruments

### 18.1 Commitments given

| *(in millions of euros)* | December 31, 2008 | December 31, 2007 |
|---|---|---|
| To guarantee the obligations of equity affiliates | 121 | 124 |
| To guarantee the obligations of related parties | 1 | 1 |
| Other | 13 | 19 |
| **TOTAL** | **135** | **144** |

Certain Rhodia subsidiaries are financed as part of trade receivable securitization programs entered into with financial institutions and Rhodia is committed to guarantee the payment of any amount payable by its subsidiaries under such programs. As of December 31, 2008, financings secured by Rhodia's subsidiaries under such programs totaled €24 million.

In addition, Rhodia granted **orbeo** a guarantee of up to a maximum of €200 million to cover its subsidiaries' obligations arising from the sale of greenhouse gas emissions ("CER"). **orbeo** is a joint venture created in 2006 with Société Générale Énergie (a subsidiary of *Société Générale*) for the purpose of having the CER products marketed by the Rhodia Group in Brazil and South Korea. As the forward CER sales price negotiated with **orbeo** and not settled as of December 31, 2008 is higher than the spot exchange rate at this date, the risk covered by this guarantee is nil at the year-end.

### 18.2 Derivative financial instruments

Rhodia is exposed to market risks as a result of its financial transactions.

To manage its subsidiaries' exposure to the exchange risk arising primarily from their trading transactions, Rhodia sets up derivative instruments with external counterparties on behalf of its subsidiaries. The resulting exposure is immediately cancelled by setting up symmetrical contracts with the relevant subsidiaries. Thus, Rhodia does not assume any risk associated with these instruments.

This exposure is mainly related to fluctuations in exchange and interest rates.

#### Interest rate risk management

**Derivatives designated as hedges**

Rhodia is exposed to the variability of interest rates on the floating rate portion of its financial indebtedness. In 2006 and 2008, interest rate swaps and options (caps) were entered into in order to hedge the floating rate bonds issued in October 2006. The notional amounts of these contracts and their fair values are detailed in the table below.

| | | 2008 | | | | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| *(in millions of euros)* | EUR | < 1 yr | 1 to 5 years | > 5 years | Total | Fair value | Total | Fair value |
| Interest-rate swap | Floating-rate lender | 317 | 400 | - | 717 | (11) | 750 | 9 |
| Cap | Purchase | 350 | | - | 350 | 1 | 350 | 3 |
| **TOTAL** | | **667** | **400** | **-** | **1,067** | **(10)** | **1,100** | **12** |

**Derivatives not designated as hedges**

As of December 31, 2008, Rhodia did not have any interest rate derivatives not designated as hedges.

#### Foreign exchange risk management

Rhodia's policy consists in limiting its exposure to short-term fluctuations in exchange rates by calculating on a daily basis its net exposure to foreign currencies in its transactions, including both sales and purchases, and by using derivatives to reduce such exposure. The main derivatives used by Rhodia are forward foreign exchange contracts with terms of less than one year.

Forward currency purchase and sale contracts are mainly entered into by Rhodia to hedge its inter-company loans and borrowings and operating cash flows denominated in foreign currencies.

The nominal amounts as well as the fair values of forward purchase and sale contracts entered into with either external counterparties or subsidiaries are detailed below:

| | | As of December 31, 2008 | |
|---|---|---|---|
| *(in millions of euros)* | **Foreign currencies** | **Nominal** | **Fair value** |
| | USD | 384 | (3) |
| | GBP | 69 | (9) |
| | JPY | 176 | 20 |
| Forward purchases | Other | 160 | (6) |
| **Total** | | **789** | **2** |
| | USD | 430 | (3) |
| | GBP | 288 | 63 |
| | JPY | 227 | (26) |
| Forward sales | Other | 112 | 10 |
| **Total** | | **1,057** | **44** |
| **TOTAL** | | **1,846** | **46** |

#### Commodity risk management (fuel-oil, diesel)

The portfolio of the commodities derivatives is shown in the following table:

| | December 31, 2008 | | | December 31, 2007 | |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Diesel and fuel-oil swaps** | **Qty (tons)** | **Fair value** | **Qty (tons)** | **Fair value** |
| External transactions | Buyer | 77,102 | (12) | | |
| | Seller | 43,200 | 6 | 118,800 | (7) |
| Internal transactions | Buyer | 43,200 | (6) | 118,800 | 7 |
| | Seller | 77,102 | 12 | | |

Furthermore, an oil call option was concluded (its fair value was virtually 0 as of December 31, 2008) in connection with the management of the Group's risk exposure.

### 18.3 Counterparty risk

Transactions that may potentially expose Rhodia to a counterparty risk are essentially:

- short-term investments;
- derivative instruments.

Rhodia makes short-term investments with banks or financial institutions having S&P and Moody's ratings greater than or equal to AA- and Aa3, respectively, as of December 31, 2008.

Interest-rate or foreign currency contracts are entered into with banks or financial institutions whose S&P and Moody's ratings fall into the Investment *Grade* category. Furthermore, most of these transactions, as well as those maturing in over one year, are performed with counterparties whose ratings allocated by these agencies are greater than or equal to A- and A2, respectively.

## NOTE 19 Litigation

### Legal proceedings

In the ordinary course of its business, Rhodia is involved in a certain number of judicial, arbitral and administrative proceedings. These proceedings are mainly initiated by buyers of businesses sold by Rhodia or involve environmental or civil liability compensation claims related to marketed chemicals. Rhodia is also subject to certain claims and lawsuits which fall outside the scope of the ordinary course of its business, the most significant of which are summarized below in this section.

Provisions for the charges that could result from these procedures are not recognized until they are probable and their amount can be reasonably estimated. The amount of provisions made is based on Rhodia's assessment of the level of risk on a case-by-case basis and depends on its assessment of the basis for the claims, the stage of the proceedings and the arguments in its defense, it being specified that the occurrence of events during proceedings may lead to a reappraisal of the risk at any moment.

In addition, certain of the Group's US subsidiaries have potential liabilities under US Federal Superfund legislation and environmental regulations. Given the nature of the proceedings, the number of plaintiffs, the volume of waste at issue and the provisions that have already been recognized for these cases, Rhodia estimates that these claims will not result in significant costs for the Group and will not give rise to significant additional provisions.

Finally, Rhodia believes that there is no litigation or exceptional issues that, taken individually or as a whole, could have a material negative impact on its business, financial position or results, other than those detailed below.

### AMF administrative proceedings

On June 21, 2007, on completion of the administrative proceedings involving, *inter alia*, Rhodia and relating to facts dating back to the years 2001-2003, the AMF Enforcement Committee made its decision public. The Company was fined € 750,000. Rhodia lodged an appeal on August 20, 2007. In a ruling dated May 20, 2008, the Paris Court of Appeal confirmed the decision rendered by the AMF Enforcement Committee. Rhodia has appealed to the Court of Cassation, France's highest civil court.

### Litigation with shareholders

Two proceeedings brought in January 2004 before the Paris Commercial Court by certain shareholders were stayed:

- an individually brought ("*ut singuli*") action challenges Sanofi-Aventis (formerly Aventis) and certain individuals who were members of the Board of Directors of the Company at the time of the alleged facts. This action disputes the terms and conditions of the acquisition of Albright & Wilson by Rhodia. The plaintiffs demand that the defendants be ordered to pay the Company €925 million as compensation for the alleged harm the Company suffered. These proceedings were stayed on January 27, 2006;
- the other suit challenges Sanofi-Aventis (formerly Aventis), certain individuals who were members of the Board of Directors of the Company and the statutory auditors at the time of the alleged facts, as well as the Company on a subsidiary basis. This action alleges that the information on environmental risks and deferred tax assets made public by the Company in 2001 and until January 29, 2002, in respect of the acquisition by Rhodia of Albright & Wilson and then Chirex, were inaccurate and misleading. Both plaintiffs demand that the defendants be ordered to pay €131.8 million as a compensation for damages. These proceedings were stayed on February 10, 2006.

Both proceedings were stayed due to the existence of a criminal investigation conducted by examining magistrates of the financial division of the Paris Court of First Instance concerning the same facts and pursuant to three criminal complaints filed in 2003 and 2004 against an unspecified defendant by the same shareholders for misuse of company assets, insider dealings, publication of false or misleading information, fraudulent balance sheet and disclosure of inaccurate accounts. Rhodia joined the criminal investigation as a civil plaintiff ("partie civile") on January 25, 2006. The investigation was still in progress as of December 31, 2008.

Since April 7, 2005, various complaints have been filed by shareholders in United States against Rhodia as well as certain of its Directors and senior management. The plaintiffs have generally alleged that between April 26, 2001 and March 23, 2004 or March 24, 2005, depending on the plaintiff, certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 were violated, notably in terms of financial communication. Some of these "Erisa" type complaints were filed by participants in the Company's US pension schemes. In this context, the parties entered into an out-of-court settlement (of approximately $2.4 million, fully assumed by the Company's insurers) that was approved by the Court, thus terminating these proceedings. In respect of the other complaints, the U.S. District Court for the Southern District of New York ruled, in its September 26 and December 12, 2007 rulings, to dismiss all the plaintiffs' claims brought as part of class action suit. In the absence of appeal against these decisions, these proceedings are definitely closed.

### Trade litigation

#### Innophos litigation

On November 8, 2004, Rhodia received from Innophos, a subsidiary of Bain Capital, a complaint originating from Mexico's National Water Commission relating to water use at the Coatzacoalcos site during the period from 1998 to 2002. The total claim amounts to approximately 1.5 billion Mexican pesos (around €100 million), including user fees, interest and penalties. The Coatzacoalcos site was part of the speciality phosphates business that was sold in August 2004 to Bain Capital, giving rise to the creation of a new company, Innophos. To best protect its interests, Rhodia then informed Bain that it was willing to assume direct responsibility, subject to certain legal reservations, for resolving this matter with the Mexico National Water Commission. Since then, Rhodia has worked closely with Innophos to prepare a response, which was filed in Innophos' name on January 17, 2005. The amount of the initial claim was lowered following the application made by Rhodia to the administrative authority to reconsider and materialized by a decision rendered on August 29, 2005. The total amount of the revised claim was approximately €16.5 million. The Mexican Federal Administrative and Fiscal Court subsequently rejected all claims from the Mexican Water Commission. The decision was appealed by the latter on September 23, 2008. The Circuit Court rendered a decision on January 2009, definitively rejecting some of the claims made by the Mexican Water Commission (which therefore reduced the claim amount to around €9.5 million) while invalidating the decision of the Mexican Federal Administrative and Fiscal Court for the remainder. On February 5, 2009, this court rendered a new decision, again rejecting all the claims of the Mexican Water Commission. The Commission can appeal this decision. Should the case be decided against Innophos, the New York court has ruled that Rhodia should fully indemnify Innophos. Rhodia did not consider it necessary to record a provision in respect of this claim.

**City of Metz litigation**

At the request of the City of Metz, an expert was appointed by the Administrative Court of Nancy in 2002 in order to review the regulatory compliance of chloride disposals involving Solvay Carbonate France and Novacarb (Rhodia Chemicals acting as guarantor for Novacarb in connection with Rhodia's sale to Bain Capital in 2002 of certain European industrial and commercial activities relating to its basic chemicals business as well as the financial loss which, according to the City of Metz, this chloride waste caused by requiring it to make, in particular, investments for the supply and distribution of drinking water in the early 1970s. The expert submitted his report on February 14, 2008. The report confirmed the waste chloride's compliance with the prefect orders for installations. The expert also concluded that the current installations for the production of drinking water could supply drinking water to the greater Metz region and that, accordingly, the use of new units, and particularly treatment units, was not necessary, except potentially as a back-up system. The expert did not decide conclusively on the correlation between the City's investments to supply drinking water in the early 1970s and the chloride disposals at the time, or on the evaluation of the loss invoked. As his expertise was of a technical nature, he did not conclude further on whether the actions of the City of Metz were time-barred. By writ of summons dated December 30, 2008, the City of Metz nevertheless referred to the trial court of Metz seeking joint and several damages and interest of €51.5 million from Solvay Carbonate France and Novacarb to compensate for its alleged loss. Rhodia did not believe that it was necessary to record a provision.

### Other proceedings

**Securities and Exchange Board of India**

Rhodia S.A. is involved in proceedings in India initiated by the Securities and Exchange Board of India ("SEBI"), which is seeking to require Rhodia to initiate a public tender offer for 20% of the shares of Albright & Wilson Chemicals India Limited ("AWCIL"), a listed subsidiary of the group formerly known as Albright & Wilson, which Rhodia acquired in 2000 and of which it now owns 72.79%. These shares would be acquired at a price of 278 rupees per share, based on the value of those shares at the time of our acquisition of Albright & Wilson, and increased by interest accrued since 2000. Such a decision by the SEBI would increase Rhodia's holding of AWCIL from 72.79% to 92.79%. As its shareholding would exceed 90%, Rhodia would then be required to initiate a mandatory public tender offer (or "squeeze out") for the remaining 7.21% of outstanding shares for the same price. In this case, all the shares not yet held by Rhodia (27.21%) would be acquired for €7.2 million. Rhodia is challenging the merits of SEBI's claim but this risk is provided for in the financial statements. The High Court of Mumbai, which is hearing the case on Rhodia's appeal following an initial unfavorable judgment, had yet to make a final decision as of the date hereof.

### Significant proceedings entered into by the Company

The Company is pursuing various proceedings initiated in 2004 and 2005 in France, in Brazil and in the United States against Sanofi-Aventis (Rhône-Poulenc's successor) in respect of environmental and other employee pension liabilities inherited from its former parent company.

### Other

**Valauret litigation**

On March 19, 2005, Valauret SA, a shareholder, brought a suit (in an "ut singuli" proceeding) against the Chairman of the Board of Directors and Chief Executive Officer before the Nanterre Commercial Court alleging personal mismanagement, in an attempt to have them repay Rhodia the amounts paid to Mr. Jean-Pierre Tirouflet upon his departure in October 2003 (severance payment of €2.1 million and, if applicable, payments made under a supplementary retirement plan for which no sums have been paid to date). On November 21, 2007, when the case was ready to be tried, the plaintiff requested a stay in the proceedings on the grounds that a non-peremptory charge had been brought by the Paris Prosecutor's office. The defendants and the Company dispute the merits of such demands. On February 13, 2008, the Nanterre Commercial Court declared itself to be the competent authority and did not announce a stay in the proceedings. On December 3, 2008, it rendered a non-enforceable decision jointly ordering Messrs. Jean-Pierre Clamadieu and Yves René Nanot to pay Rhodia the amount of €2.1 million in damages. They were blamed for not having challenged at the time the payment to Mr. Jean-Pierre Tirouflet of the compensation stipulated in his employment contract upon his departure from the company in 2004. Messrs. Clamadieu and Nanot have filed an appeal against this decision.

## *Commitments relating to disposals*

In connection with disposals made in 2008 and prior years, Rhodia provided customary warranties related to accounting, tax, employee and environmental matters.

No warranties granted as part of the disposals were triggered between January 1 and December 31, 2008.

## NOTE 20 Compensation and benefits paid to key Group executives

Compensation and other benefits vested and paid to members of the Executive Committee and corporate officers break down as follows:

### AMOUNTS PAID DURING THE PERIOD

| *(in thousands of euros, except for options/shares granted)* | 2008 | 2007 |
|---|---|---|
| Wages, costs and short-term benefits | 3,654 | 3,748 |
| Total stock subscription options and bonus shares granted | 71,000 | 98,379 |

### AMOUNTS DUE IN RESPECT OF THE YEAR (SALARY) OR OBLIGATIONS EXISTING AT THE END OF THE YEAR (OTHER ELEMENTS)

| *(in thousands of euros, except for options/shares granted)* | 2008 | 2007 |
|---|---|---|
| Wages, costs and short-term benefits | 2,583 | 3,825 |
| Accumulated retirement and other post-employment benefits | 7,592 | 6,168 |
| Severance payments (1) | 5,881 | 4,714 |
| Total stock subscription options and bonus shares granted | 263,694 | 290,528 |

*(1) Severance payments acquired correspond to the commitments undertaken by Rhodia for the Group's key executives in the event of employment contract termination.*

## NOTE 21 Average number of employees

| | 2008 | 2007 |
|---|---|---|
| Management | 27 | 6 |
| Non-management | 3 | 1 |
| **TOTAL** | **30** | **7** |

The increase in the average number of employees was due to the transfer of Rhodia Services employees to Rhodia S.A.

## NOTE 22 Share-based payment

The principal changes in the stock subscription option and bonus share plans occurring during the year are as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Options** | **Bonus shares** | **Total** | **Options** | **Bonus shares** | **Total** |
| **Outstanding at the beginning of the year** | 2,072,536 | 1,628,651 | 3,701,187 | 2,141,278 | 733,279 | 2,874,557 |
| Adjustment for reverse share split | - | - | - | 931 | 506 | 1,437 |
| Granted | - | 1,023,960 | 1,023,960 | - | 923,360 | 923,360 |
| Cancelled | (38,743) | (621,857) | (660,600) | (50,689) | (28,494) | (79,183) |
| Exercised | (1,111) | (718,126) | (719,237) | (18,984) | - | (18,984) |
| **Outstanding at the end of the year** | 2 032 682 | 1,312,628 | 3,345,310 | 2,072,536 | 1,628,651 | 3,701,187 |

### 22.1 Share capital increase reserved for employees

Rhodia did not perform any capital increases reserved for employees in 2008 and 2007.

### 22.2 Stock option plans

Rhodia S.A. has granted stock subscription options to certain of its executive managers and employees. All of these option plans are payable in shares over the vesting periods mentioned below. The exercise of the stock subscription options is subordinated to the beneficiary's continued employment within the Group on the date of the fiscal year, with certain exceptions (such as retirement). The options vested may be exercised over a period limited in time. The exercise period varies according to the reason for leaving the Group.

#### Current stock option plans

Since the last allocation in 2004, no new stock subscription plans were granted by the Board of Directors.

Options granted under the 2004 plans are exercisable over an eight-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options granted under the 2001, 2002 and 2003 plans are exercisable over a twelve-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options issued under the 1999 and 2000 plans are exercisable over a ten-year period, with a holding period of five years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Main changes in stock option and bonus share plans outstanding at December 31, 2008:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** *(in euros)* | **Options** | **Weighted average exercise price** *(in euros)* |
| Options outstanding at the beginning of the year | 2,072,536 | 61,73 | 2,141,278 | 61,34 |
| Adjustment for reverse share split | - | - | 931 | - |
| Options cancelled (1) | (38,743) | 48,79 | (50,689) | 59,88 |
| Options exercised | (1,111) | 15,12 | (18,984) | 23,28 |
| Options outstanding at the end of the year | 2,032,682 | 62,00 | 2,072,536 | 61,73 |

*(1) Subscription options forfeited during the year.*

The weighted average remaining contractual life of the stock subscription options outstanding as of December 31, 2008 is 3 years (4 years as of December 2007).

In 2008, of all plans granted by the Rhodia Board of Directors, 1,111 options have been exercised on the A 2004 plan.

## Main features of the stock option plans outstanding at December 31, 2008:

| Stock subscription option plan | 1998 Plan | 1999/1 Plan | 1999/2 Plan | 2000/1 Plan | 2000/2 Plan | 2001 Plan | 2002 Plan | 2003 Plan | 2004 A Plan | 2004 B Plan |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 05/13/1998 | 05/13/1998 | 05/13/1998 | 05/13/1998 | 04/18/2000 | 04/18/2000 | 04/18/2000 | 05/21/2002 | 05/21/2002 | 05/21/2002 |
| Date of grant as approved by the Board of Directors | 06/24/1998 | 02/23/1999 | 02/23/1999 | 03/30/2000 | 09/27/2000 | 03/16/2001 | 03/20/2002 | 05/28/2003 | 06/17/2004 | 06/17/2004 |
| Exercise period (a) | 7 years from 06/24/01 | 7 years from 02/23/02 | 7 years from 03/01/02 | 7 years from 03/30/03 | 7 years from 09/27/03 | 9 years from 03/16/04 | 9 years from 03/20/05 | 9 years from 05/28/06 | 5 years from 06/17/07 | 5 years from 06/17/07 |
| Original options granted | 133,333 | 131,667 | 100,000 | 175,000 | 12,500 | 215,022 | 166,667 | 109,412 | 225,125 | 114,375 |
| Of which granted to the Board of Directors and Executive Committee (b) | 6,667 | 7,792 | 5,000 | 17,250 | - | 19,750 | 14,837 | 8,542 | 29,500 | 46,250 |
| Fair value of option | | | | | | | | 6,30 | 2,68 | 2,76 |
| Original exercise price (in €) | 256,08 | 180,00 | 180,00 | 205,68 | 195,12 | 188,40 | 144,48 (e) | 66,00 (e) | 18,00 | 18,00 |
| Maximum term (years) | 10 | 10 | 10 | 10 | 10 | 12 | 12 | 12 | 8 | 8 |
| Weighted average remaining term as of December 31, 2008 (years) | - | 0,2 | 0,2 | 1,2 | - | 4,2 | 5,2 | 6,4 | 3,5 | 3,5 |
| Adjusted exercise price (c) | - | 76,56 | 76,56 | 87,48 | - | 80,16 | 61,44 (e) | 28,08 (e) | 15,12 | 15,12 |
| Weighted average exercise price | - | 76,56 | 76,56 | 87,48 | - | 80,16 | 62,76 | 31,44 | 15,12 | 15,12 |
| Weighted average exercise price of exercisable options | - | 76,56 | 76,56 | 87,48 | - | 80,16 | 62,76 | 31,44 | 15,12 | 15,12 |
| Options outstanding at December 31, 2007 | 2,618 | 263,058 | 196,249 | 328,195 | - | 408,012 | 326,224 | 210,658 | 216,415 | 121,107 |
| Options forfeited between January 1 and December 31, 2008 | (2,618) | (1,176) | (1,178) | (3,430) | - | (4,905) | (6,292) | (4,292) | (10,481) | (4,371) |
| Options exercised between January 1 and December 31, 2008 | - | - | - | - | - | - | - | - | (1,111) | - |
| Options outstanding at December 31, 2008 | - | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 |
| Of which granted to the Board of Directors and Executive Committee (d) | - | 12,828 | 7,345 | 35,642 | - | 40,537 | 30,167 | 11,066 | 31,918 | 50,336 |
| Options exercisable at December 31, 2008 | - | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 |
| Of which granted to the Board of Directors and Executive Committee (d) | - | 12,828 | 7,345 | 35,642 | - | 40,537 | 30,167 | 11,066 | 31,918 | 50,336 |
| Among whom corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | 2,938 | 1,469 | 2,938 | - | 3,917 | 6,756 | 3,721 | 9,977 | 14,891 |
| • Jacques Khéliff | - | - | - | - | - | - | - | 392 | 844 | 795 |
| • Yves René Nanot | - | - | - | - | - | - | - | - | 9,977 | 19,855 |
| Number of beneficiaries at December 31, 2008 | - | 275 | 270 | 372 | - | 559 | 390 | 408 | 238 | 65 |

*(a) Without taking into account the tax holding period for tax residents in France of 4 years as from 2001 and 5 years previously.*

*(b) As made up on the stock subscription option grant date.*

*(c) After the capital increases which took place on May 7, 2004 and December 20, 2005, the Board of Directors adjusted the exercise price and the number of options outstanding in accordance with the French Commercial Code and applicable regulations to stock option plans.*

*(d) Actual data.*

*(e) Due to a personal commitment, Mr. Tirouflet accepted that the exercise price of his options would be set at €15 (after the 2004 and 2005 adjustments, this price was reduced to €6.38 before the reverse share split or €76.56 after the reverse share split).*

### 22.3 Bonus share plan

Under the 2005 French Finance Act, French companies are entitled to grant bonus shares to their executives and employees as from January 1, 2005.

**2008 A and B plans**

On March 17, 2008, the Rhodia Board of Directors approved a new bonus share plan for 342 beneficiaries (2 x 511,980 shares) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries.

The terms and conditions of these plans are as follows:

| | Plans A | | Plans B | |
|---|---|---|---|---|
| | «2+2» | «4+0» | «2+2» | «4+0» |
| Number of shares | 355,000 | 156,980 | 355,000 | 156,980 |
| Number of beneficiaries | 189 | 153 | 189 | 153 |
| Grant date | 03/17/ 2008 | 03/17/ 2008 | 03/17/ 2008 | 03/17/ 2008 |
| Vesting date | 03/18/ 2010 | 03/20/ 2012 | 03/18/ 2010 | 03/20/ 2012 |
| Holding period | Minimum March 18, 2012 | - | Minimum March 18, 2012 | - |
| Performance criteria | Level of CFROI (C*ash Flow Return On Investments)*, as presented in the consolidated financial statements of the Company for the year ended December 31, 2008 | | Recurring EBITDA/net sales ratio (including CER activities), as presented in the consolidated financial statements of the Company for the year ended December 31, 2008, exceeding by 2 points the average ratio of a panel of competitors | |
| Validation of vesting conditions | Board of Directors | | Board of Directors | |

The performance criteria of the 2008 A plans were not met at the 2008 year-end.

**Major changes in the bonus shares allotment plans during fiscal 2008:**

| Bonus share allotment plan | 2006 A Plan (c) | 2006 B Plan (c) | 2007 A Plan (d) (e) | 2007 B Plan (d) (e) | 2007 «2+2» Plan | 2007 «4+0» Plan | 2008 A «2+2» Plan (f) | 2008 A «4+0» Plan (f) | 2008 B «2+2» Plan (f) | 2008 B «4+0» Plan (f) |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 06/23/2005 | 06/23/2005 | 06/23/2005 | 06/23/2005 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 01/13/2006 | 01/13/2006 | 01/15/2007 | 01/15/2007 | 07/30/2007 | 07/30/2007 | 03/17/2008 | 03/17/2008 | 03/17/2008 | 03/17/2008 |
| Vesting date | 01/14/2008 | 01/14/2008 | 01/16/2009 | 01/16/2009 | 07/31/2009 | 07/31/2011 | 03/18/2010 | 03/20/2012 | 03/18/2010 | 03/20/2012 |
| Original bonus shares granted | 387,760 | 387,760 | 344,308 | 344,308 | 92,355 | 142,755 | 355,000 | 156,980 | 355,000 | 156,980 |
| Of which granted to the Board of Directors and Executive Committee (a) | 83,917 | 83,917 | 84,167 | 84,167 | 90 | - | 117,000 | - | 117,000 | - |
| Fair value of the share | 21,99 | 21,99 | 30,44 | 30,44 | 33,03 | 34,08 | 10,94 | 11,30 | 10,94 | 11,30 |
| Period of non-transferability | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | - | 2 years after the vesting period | - | 2 years after the vesting period | - |
| Number of bonus shares outstanding at December 31, 2007 | 359,313 | 359,313 | 339,490 | 339,490 | 91,695 | 139,350 | - | - | - | - |
| Bonus shares granted between January 1 and December 31, 2008 | - | - | - | - | - | - | 355,000 | 156,980 | 355,000 | 156,980 |
| Bonus shares forfeited between January 1 and December 31, 2008 | (250) | (250) | (50,066) | (50,066) | (1,410) | (4,035) | (355,000) | (156,980) | (2,800) | (1,000) |
| Bonus shares exercised between January 1 and December 31, 2008 | (359,063) | (359,063) | - | - | - | - | - | - | - | - |
| Number of bonus shares outstanding at December 31, 2008 | - | - | 289,424 | 289,424 | 90,285 | 135,315 | - | - | 352,200 | 155,980 |
| Of which granted to the Board of Directors and Executive Committee (b) | - | - | 74,167 | 74,167 | 75 | - | - | - | 129,500 | - |
| Among whom corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | 25,000 | 25,000 | - | - | - | - | 37,000 | - |
| • Jacques Khéliff | - | - | 4,167 | 4,167 | 15 | - | - | - | 7,500 | - |
| Number of beneficiaries at December 31, 2008 | - | - | 341 | 341 | 6,019 | 9,021 | - | - | 186 | 151 |

*(a) As made up on the grant date.*
*(b) Actual data.*
*(c) The performance criteria were met as of December 31, 2006.*
*(d) The performance criteria were met as of December 31, 2007.*
*(e) The bonus shares forfeited in 2008 were mostly exchanged for cash based on the Rhodia share price at the vesting date.*
*(f) The performance criteria were not met for A plans as of December 31, 2008 but they were met for B Plans as of such date.*

## NOTE 23 Subsequent events

There were no subsequent events.

## NOTE 24 Subsidiaries and affiliates

| (in millions of euros) | Share capital | Shareholders' equity (exclusive of net income for the year) (a) | % held | Gross carrying amount | Net carrying amount | Loans granted by the Company not yet repaid | Amount of guarantees given by the Company | Previous year revenue exclusive of tax (b) (c) | Net profit or loss of previous year (b) | Dividends received by the Company during the previous year |
|---|---|---|---|---|---|---|---|---|---|---|
| French subsidiaries | | | | | | | | | | |
| Rhodia Participations | 110 | 110 | 100.00% | 110 | 110 | - | - | - | 1,057 | - |
| Rhodianyl | 605 | 615 | 100.00% | 615 | 615 | 767 | - | - | (701) | - |
| Rhodia Finance | 252 | 252 | 99.98% | 252 | 252 | 901 | - | - | (150) | 5 |
| Rhodia Chimie | 29 | 177 | 100.00% | 84 | - | - | - | 7 | (20) | - |
| TOTAL FRENCH SUBSIDIARIES | | | | 1,061 | 977 | 1,668 | - | 7 | 186 | 5 |
| Foreign subsidiaries (d) | | | | | | | | | | |
| Rhodia Holding INC | 768 USD | 133 | 89.02% | 425 | 363 | - | - | - | 5 | - |
| Rhodia de Mexico SA de CV | 283 MXN | (6) | 100.00% | 25 | - | 3 | - | 17 | (1) | - |
| Rhodia Silica Koréa Co Ltd | 12,989 KRW | 10 | 100.00% | 9 | 9 | - | - | 46 | 5 | - |
| Rhodia Holding Ltd | 306 GBP | (123) | 100.00% | 929 | - | 273 | - | - | (38) | - |
| Rhodia New Zealand | 3 NZD | 1 | 100.00% | 2 | 2 | - | - | 2 | - | 1 |
| Sopargest | 20 CHF | 16 | 99.99% | 74 | 17 | - | - | - | (1) | 1 |
| Rhodia Ibéria | 16 EUR | 23 | 100.00% | 115 | 24 | - | - | 53 | (8) | - |
| Rhodia Hong Kong | 6 HKD | 1 | 100.00% | 2 | 2 | - | - | 31 | 2 | 2 |
| Rhodia Polyamides Co Ltd | 24,629 KRW | 27 | 59.40% | 24 | 24 | 39 | - | 236 | (5) | 2 |
| Rhodia Brasil LTDA | 210 BRL | 62 | 100.00% | 386 | 152 | - | - | 33 | (2) | - |
| Rhodia China Co Ltd | 405 CNY | 41 | 100.00% | 43 | 42 | - | - | 12 | - | - |
| Rhodia Deutschland | 8 EUR | 172 | 100.00% | 677 | 279 | 273 | - | - | (7) | - |
| Other companies more than 50% held | | | | 7 | 5 | 1 | - | 23 | 1 | 4 |
| TOTAL FOREIGN SUBSIDIARIES | | | | 2,718 | 919 | 589 | - | 453 | (49) | 10 |
| Total subsidiaries more than 50% held | | | | 3,779 | 1,896 | 2,257 | - | 460 | 137 | 15 |
| Subsidiaries 50% held or less | | | | | | | | | | |
| French subsidiaries | | | | 4 | - | 25 | 2 | 550 | (16) | - |
| Foreign subsidiaries | | | | 4 | 1 | - | 15 | 362 | 17 | - |
| Total subsidiaries 50% or less | | | | 8 | 1 | 25 | 17 | 912 | 1 | - |
| Total non-consolidated investments | | | | 3,787 | 1,897 | 2,282 | 17 | 1,372 | 138 | 15 |

*(a) The currency translation rate used for foreign companies is that prevailing at the end of December 2008.*
*(b) The currency translation rate used for foreign companies is the cumulative average rate from January 1 through December 31, 2008.*
*(c) For foreign companies, revenues exclusive of services and ancillary revenues.*
*(d) Share capital in (millions of) local currency. Shareholders equity, revenue and net income are derived from the statutory accounts estimated to date.*

This table has been compiled according to the currently available data.

## 20.3.3 PORTFOLIO OF EQUITY INVESTMENTS AND MARKETABLE SECURITIES

### 20.3.3.1 EQUITY INVESTMENTS

| Subsidiaries | Number of shares | % capital | Value at December 31, 2008 |
|---|---|---|---|
| | | | *(in millions of euros)* |
| French subsidiaries | | | |
| Rhodianyl | 40,357,499 | 100,00% | 615 |
| Rhodia Finance | 16,797,466 | 99,98% | 252 |
| Rhodia Participations | 7,348,699 | 100,00% | 110 |
| Rhodia Chimie | 28,836,752 | 100,00% | - |
| TOTAL FRENCH SUBSIDIARIES | | | 977 |
| Foreign Subsidiaries | | | |
| Rhodia Holding INC | 1,540 | 89,02% | 363 |
| Rhodia Deutschland | 7,721 | 100,00% | 279 |
| Rhodia Brasil LTDA | 369,823 | 100,00% | 152 |
| Rhodia China Co LTD | 49,000 | 100,00% | 42 |
| Rhodia Polyamides Co Ltd | 2,925,780 | 59,40% | 24 |
| Rhodia Ibéria | 2,609,690 | 100,00% | 24 |
| Sopargest | 19,997 | 99,99% | 17 |
| Rhodia Silica Koréa Co Ltd | 2,597,810 | 100,00% | 9 |
| Rhodia New Zealand | 1,499,999 | 100,00% | 2 |
| Rhodia Hong Kong | 55,999 | 100,00% | 2 |
| Rhodia de Mexico SA de CV | 283,053,127 | 100,00% | - |
| Rhodia Holding Ltd | 306,000,000 | 100,00% | - |
| Other companies held at more than 50% | | | 5 |
| TOTAL FOREIGN SUBSIDIARIES | | | 919 |
| TOTAL SUBSIDIARIES HELD AT MORE THAN 50% | | | 1,896 |
| Subsidiaries held at 50% and less | | | |
| French subsidiaries | | | 0 |
| Foreign subsidiaries | | | 1 |
| Total subsidiaries held at 50% and less | | | 1 |
| **Total equity investments** | | | **1,897** |

### 20.3.3.2 MARKETABLE SECURITIES

| Mutual funds | Number held | Unit value *(in euros)* | Value at December 31, 2008 |
|---|---|---|---|
| BMTN | | | |
| Société Générale BMTN TR 52 | 152 | 175,206 | 27 |
| Société Générale BMTN TR 52 | 247 | 175,207 | 43 |
| Société Générale BMTN TR 83 | 99 | 161,144 | 16 |
| Société Générale BMTN TR 68 | 43 | 190,302 | 8 |
| Total BMTN | | | 94 |
| Treasury shares | 1,792,137 | 7,56 | 14 |
| **Total marketable securities** | | | **108** |

## 20.3.4 COMPANY FIVE YEAR FINANCIAL SUMMARY

(Articles R. 225-81, R. 225-83 and R. 225-102 of the Commercial Code)

| PERIOD END DATE | 12/31/08 | 12/31/07 | 12/31/06 | 12/31/05 | 12/31/04 |
|---|---|---|---|---|---|
| | 12 months | 12 months | 12 months | 12 months | 12 months |
| **I. Capital at year-end** | | | | | |
| Share capital (in thousand of euros) | 1,213,045 | 1,204,414 | 1,204,186 | 1,176,717 | 627,582 |
| Number of shares | | | | | |
| - ordinary (1) | 101,087,068 | 100,367,831 | 1,204,186,174 | 1,176,716,541 | 627,582,158 |
| - priority dividend | | | | | |
| Maximum number of shares | | | | | |
| - by conversion of bonds | | | | | |
| - by subscription right | | | | | |
| **II. Results of operations (in thousand of euros)** | | | | | |
| Net sales excluding tax | 5,676 | 1,197 | 595 | 12,702 | 7,807 |
| Profit before tax, investments, depreciation, amortization and provisions | 497,422 | 140,102 | 326,577 | (400,485) | (332,444) |
| Income tax (including net gain under the tax consolidation group regime) | 91,160 | 71,149 | 24,356 | 13,476 | 24,004 |
| Participation of employees | | | | | |
| Depreciation, amortization and provisions | (229,667) | (165,803) | (132,426) | (288,899) | 44,560 |
| Net profit for the year | 358,915 | 45,447 | 218,507 | (675,908) | (263,880) |
| Distributed profit | 0 | 25,092 | 0 | 0 | 0 |
| **III. Earnings per share (in euros)** | | | | | |
| Earnings per share after tax and investments | | | | | |
| and before depreciation, amortization and provisions | 5,82 | 2,10 | 0,29 | (0,33) | (0,49) |
| Earnings per share after tax, investments, depreciation, | | | | | |
| amortization and provisions | 3,55 | 0,45 | 0,18 | (0,57) | (0,42) |
| Dividends | | 0,25 | | | |
| **IV. Employees** | | | | | |
| Average number of employees | 30 | 7 | 8 | 24 | 25 |
| Payroll (in thousand of euros) (2) | 11,647 | 3,413 | 4,921 | 12,204 | 20,467 |
| Employee benefits (social security, ...) (in thousand of euros) (2) | 2,931 | 1,633 | 1,166 | 3,423 | 5,067 |
| *(1) Recapitulation of successive issuances of ordinary shares forming the capital* | *719,237* | | *27,469,633* | *549,134,383* | *448,272,970* |
| *Reverse share split (number of shares)* | | *(1,103,818,343)* | | | |
| *Capital increase with access to capital with preferential subscription rights* | | | | *549,134* | *448,273* |
| *Increase reserved for employees (in thousand of euros)* | *8,631* | *228* | *27,470* | | |

*(2) Including severance payments and post-employment benefits*

## 20.3.5 COMPANY FINANCIAL POSITION AND RESULTS

### 20.3.5.1 FINANCIAL POSITION AND ANNUAL FINANCIAL STATEMENTS

During the period, Rhodia S.A. continued its activities as Group holding company, including:

- management of its portfolio of equity investments;
- centralization and management of the Group's financing and cash position, including management of its exposure to market risks.

However, as the parent company, it also provides services to support, advise, coordinate and manage Rhodia's subsidiaries.

The annual financial statements for the year ended December 31, 2008 showed a net profit of €359 million and total assets of €6,757 million.

These financial statements were prepared in accordance with accounting rules and principles applicable in France.

Significant events during the year ended December 31, 2008 were as follows:

- in 2008, Rhodia updated its equity investment portfolio valuation by relying, in certain cases, on estimates made by external appraisers. Following its valuation, the Energy division was transferred within the Group, resulting in the recognition of a capital gain in the amount of €1,066 million. Concerning the remaining equity investments, the valuation work gave rise to the realization of impairment losses totaling €955 million, reflecting the decline in the economic environment;
- with respect to the 2006 bonus share allotment plan, the Company carried out a share capital increase by deducting amounts from its reserves. In addition, Rhodia S.A. purchased Company shares to cover the 2007 and 2008 Group bonus share allotment plans;
- finally, a certain number of Rhodia Services employees were transferred to Rhodia S.A., bringing the number of employees to 36 as of December 31, 2008, compared to 6 as of December 31, 2007.

The Rhodia S.A. financial statements are presented in accordance with the going concern and consistency principles.

### 20.3.5.2 PRINCIPAL BALANCE SHEET CHANGES

#### 20.3.5.2.1 Non-current assets

- The gross value of Equity investments declined by €(25) million, corresponding primarily to the impact of the share capital decrease performed by Rhodia Brazil;
- Charges to provisions for impairment in the amount of €(226) million mainly concern: Rhodia Brazil Ltd for €(115) million; Rhodia Holding Inc for €(62) million and Rhodia Iberia for €(46) million. The charge in respect of Rhodia Brazil is primarily due to a decline in the recurring EBITDA of one of its subsidiaries and the depreciation of the Brazilian real;
- The reversals of provisions for impairment mainly concerns Rhodia Deutschland. The calculation of the value in use of this investment by an expert resulted in a €23 million reversal;
- Charges and reversals are determined using the value in use of the equity investments calculated as follows:

– The value in use of operating entities mainly takes into account the weighting of two criteria:

  – the share of consolidated equity held;

  – the share of enterprise value net of indebtedness. The enterprise value is determined using a market multiple applied to 2008 recurring EBITDA[13].

On a case-by-case basis, external valuations are carried out, mainly based on the discounted future cash flows of the subsidiary, including the gains arising from the group tax consolidation.

– For non-operating or immaterial entities, the value in use is determined based on the share of equity held, calculated using the accounting principles applied by Rhodia for the preparation of its consolidated financial statements.

- Loans to equity investments decreased by €440 million, representing a decline in the amount of loans granted to the Group's subsidiaries.

#### 20.3.5.2.2 Current assets

Current assets increased on the whole by €1,030 million. This overall increase was the result of the following main changes:

- the net value of Other receivables rose by 1,017 million, from €186 million as of December 31, 2007 to €1,203 million as of December 31, 2008, primarily due to the inclusion of the share in the 2008 profits of Rhodia Participations for €1,057 million;

*(13) "Recurring EBITDA" corresponds to operating profit or loss before restructuring costs, net charges to depreciation, amortization and impairment, and other operating income and expenses*

- Cash advances to subsidiaries increased by €9 million, from €393 million as of December 31, 2007 to €402 million as of December 31, 2008. This heading includes Rhodia's advances to its subsidiaries as part of the Group cash pooling arrangement;
- Marketable securities and Cash and short-term deposits rose by €4 million between 2007 and 2008.

Marketable securities comprised negotiable medium-term notes of €94 million and treasury shares for a gross amount of €14 million. Treasury shares were bought back during the year to cover the bonus share allotment plans. The performance requirements were not met for one of the plans, resulting in a reduction in the number of shares to be allocated. Treasury shares that cannot be allocated were subject to impairment in the amount of €(2) million.

Cash and short-term deposits comprised certificates of deposit in the amount of €100 million and bank account balances in the amount of €9 million.

## 20.3.5.2.3 Deferred charges

Deferred charges totaled €7 million as of December 31, 2008 and relate to bond issuance costs that are to be spread forward.

## 20.3.5.2.4 Shareholders' equity

Shareholders' equity increased from €1,414 million as of December 31, 2007 to €1,749 million as of December 31, 2008. This rise was primarily attributable to net profit of €359 million recorded in 2008 and the distribution of a portion of the 2007 net profit in the form of dividends in the amount of €25 million.

This dividend distribution was made pursuant to a decision of the Shareholders' General Meeting of May 16, 2008. The 2007 net profit of €45 million was appropriated as follows: €2 million to the legal reserve, €18 million to other reserves and €25 million distributed in dividends.

## 20.3.5.2.5 Provisions

Provisions for contingencies and losses totaled €382 million as of December 31, 2008, up €28 million compared to the previous year. This increase was primarily attributable to the following charges and reversals:

- As of December 31, 2008, the revaluation of foreign currency-denominated receivables and payables, and foreign exchange derivative instruments resulted in a €109 million unrealized loss, which has been provided for in the financial statements. This unrealized loss is mainly attributable to the depreciation of the pound sterling versus the euro. The change in the unrealized loss gave rise to an additional charge of €(16) million during fiscal 2008;
- Charges to provisions for subsidiary-related contingencies in the amount of €(54) million. The charges for the year mainly involve Rhodia Chimie due to a negative impact arising from retirement obligations on its value in use;
- Reversals of provisions for subsidiary-related contingencies in the amount of €62 million. The reversals for the year primarily concern Rhodia Holding Ltd mainly due to the depreciation of the pound sterling;
- Net reversals of provisions for retirement obligations in the amount of €(4) million;
- Net charges to provisions for contingencies in the amount of €(16) million. These charges break down as follows:
  - guarantees given to sold subsidiaries or their buyers for €(6) million,
  - financial risk (redemption premium) of the OCEANE bonds issued in 2007 for €(11) million,
  - charges to provisions for contingencies in the amount of €(6) million regarding the buyback of shares for allocation to the bonus share allotment plans,
  - reversals of provisions for contingencies for sold subsidiaries in the amount of €9 million.

## 20.3.5.2.6 Borrowings

- Borrowings declined by €48 million, primarily due to:
  - the partial early redemption of floating-rate notes maturing in 2013 for a nominal amount of €33 million,
  - the absence of bank overdrafts at the 2008 year-end, compared to a total of €17 million at the end of 2007.
- Other borrowings decreased by €399 million due to the net decline in borrowings from Group companies;
- Other liabilities increased by €508 million compared to 2007. This heading includes cash advances from subsidiaries as part of the Group cash pooling system and Rhodia S.A.'s share in the 2008 losses of Rhodianyl SNC.

## 20.3.5.2.7 Unrealized foreign exchange gains

Unrealized foreign exchange gains increased from €11 million as of December 31, 2007 to €36 million as of December 31, 2008.

## 20.3.5.3 CALCULATION OF PROFIT OR LOSS

Net profit in 2008 totaled €359 million, compared to €45 million in 2007.

### 20.3.5.3.1 Net financial items

Net financial items totaled €285 million and break down as follows:

- dividends received from equity investments in the amount of €15 million;
- net interest income in 2008 totaling €104 million;
- net charges to provisions for impairment of equity investments in the amount of €(198) million and net reversals to provisions for subsidiary-related contingencies in the amount of €8 million;
- net foreign exchange loss of €(2) million;
- other net financial income of €358 million. This heading mainly includes the share of Rhodia S.A. in the 2008 profits of Rhodianyl SNC and Rhodia Participations for a total of €356 million. In 2008, Rhodia Participations sold all the securities that it owned in Rhodia Energie to Rhodia Finance, generating a capital gain of €1,066 million. In addition, Rhodia Participations recorded additional provisions for the securities of its subsidiaries, particularly Rhodia Electronics & Catalysis, in the amount of € (81) million. Finally, Rhodianyl also recorded additional provisions for the securities of its subsidiaries for €(685) million. These provisions primarily concern Rhodia Opérations for €(505) million and Butachimie for €(131) million in connection with an expert appraisal.

### 20.3.5.3.2 Operating profit/(loss)

Operating losses totaling €(21) million mainly include:

- personnel costs of €(15) million, excluding retirement; these costs were partially rebilled as services to equity affiliates in the amount of €6 million;
- net retirement commitments and similar expenses for €(4) million;
- other operating expenses in the amount of €(7) million, mainly corresponding to a contingency provision set aside for the treasury shares purchased to cover the 2007 and 2008 bonus share allotment plans.

### 20.3.5.3.3 Net exceptional items

Net exceptional items totaled €4 million and mainly relate to:

- capital gains arising from the sale of Asian subsidiary securities in the amount of €12 million, less provisions for contingencies for €(3) million;
- a gain of €4 million regarding the recovery of input VAT that was initially expensed in respect of fiscal years 2006 and 2007;
- provisions for losses arising from various projects in the amount of €(9) million.

### 20.3.5.3.4 Income taxes

The 2008 income tax gain of €91 million primarily corresponds to the tax consolidation gain (including a one-off €20 million gain as a result of an internal Group disposal).

## 20.3.5.4 CASH FLOW

Cash increased by €9 million to reach €202 million as of December 31, 2008. This increase was attributable to:

- net cash from operating activities of €240 million;
- net cash from investing activities of €478 million;
- net cash used in financing activities of €(709) million.

## 20.3.6 APPROPRIATION OF PROFIT FOR FISCAL YEAR 2008

It will be proposed at the Shareholders' General Meeting to appropriate the 2008 net profit as follows:

| **Origin** *(in euros)* | |
|---|---|
| Net profit for the year | 358,915,280.68 |
| Other distributable reserves | 123,362,930.67 |
| i.e. a distributable amount of: | 482,278,211.35 |

To be appropriated as follows:

| **Appropriation** *(in euros)* | |
|---|---|
| Legal reserve (5% of net profit) | (17,945,764.04) |
| Other reserves | 464,332,447.31 |

# 20.4 Verification of annual historical information

## 20.4.1 REPORT OF THE STATUTORY AUDITORS

See the reports of the statutory auditors on the consolidated financial statements and the corporate financial statements for the year ended December 31, 2008, found respectively in chapters 20.3.1.1 and 20.3.2.1 of this reference document.

## 20.4.2 OTHER INFORMATION VERIFIED BY THE STATUTORY AUDITORS

See the report and certification of the statutory auditors on the aspects of health, environment and safety found in chapter 5.4 of this reference document.

# 20.5 Date of latest financial information

Not applicable.

# 20.6 Interim and other financial information

Not applicable.

## 20.7 Dividend distribution policy

Over the course of the last five years, net paid dividends, taxes pre-paid to the tax authorities (tax credits) and overall income have been in the following amounts:

| Year corresponding to the dividend payment | Net dividend per share *(in euros)* |
|---|---|
| 2003 | 0 |
| 2004 | 0 |
| 2005 | 0 |
| 2006 | 0 |
| 2007 | 0.25 |

Rhodia's 2007 financial results having been sufficient to allow it, the Board of Directors proposed payment of a dividend of €0.25 per share. The General Shareholders meeting of May 16, 2008 approved the dividend distribution of €0.25 per share for 2007. The payment was made on May 23, 2008

The economic recession that began at the end of 2008, general uncertainty and the significant decline in demand in the fourth quarter of 2008 and which continue as of the date of this reference document, have resulted in a lack of visibility.

The Group has prepared itself to face this difficult economic environment with new structural plans for cost reduction and a sharpened focus on financial discipline with, as a priority, the generation of Free Cash Flow.

In this context, the Board has decided to not pay a dividend with respect to 2008.

## 20.8 Legal proceedings

See note 32 (Litigation) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

## 20.9 Significant changes and trends

See information related to post-closing events in chapter 5.1.5 and Note 36 (Subsequent Events) to the consolidated financial statements in chapter 20.3.1.3 above.

# 21 Additional information

contents



## 21.1 Share capital

### 21.1.1 SHARE CAPITAL AT DECEMBER 31, 2008 – REVERSE SHARE SPLIT OF RHODIA SHARES

At December 31, 2008, Rhodia's share capital amounted to €1,213,044,816, divided into 101,087,068 ordinary shares with a nominal value of €12 per share, fully paid and of the same class.

At December 31, 2007, Rhodia's share capital amounted to €1,204,413,972 and was divided into 100,367,831 ordinary shares with a nominal value of €12 per share.

The reverse share split took place on June 12, 2007. On that date, it was decided to consolidate 12 old shares with a nominal value €1 into 1 new share with a nominal value of €12.

At December 31, 2008, the number of post-reverse split shares with a nominal value of €12 per share which were not delivered to shareholders was 23,121.

Shareholders have two years from the time of the reverse share split, or until June 12, 2009, to claim their post-reverse split shares. During this two-year period and in accordance with Article 18 of the Company's bylaws, every pre-reverse split share will provide its holder with the right to one (1) voting right and every post-reverse split share to twelve (12) voting rights, such that the number of voting rights attached to the shares of the Company is proportional to the part of the capital that they represent.

Post-reverse split shares not claimed by their holders will be sold in the market and the net proceeds of the sale will be held on behalf of such holders for ten years in a blocked bank account at BNP Paribas Securities Services. At the expiry of the ten year period, the outstanding sums due to such holders will be transferred to the Caisse des Dépôts et Consignations (the Deposit and Consignment Office) and will remain at the holders' disposal subject to the 30 year statute of limitations period, after which the sums revert to the Republic of France.

The change in share capital between December 31, 2007 and December 31, 2008 was due to:

- issuing 718,126 new shares with a nominal value of €12, in accordance with the free allocation of shares plan set up by the Company's Board of Directors in 2006;
- exercising options for the subscription of shares in 2008.

The historical development of the share capital is found in chapter 21.1.7 below.

## 21.1.2 SECURITIES NOT REPRESENTING CAPITAL

Since the entry into force of Order 2004-604 of June 24, 2004 introducing certain reforms in the securities sector, the new Article L. 228-40 of the Commercial Code provides that the Board of Directors has the authority to decide or authorize the issuance of bonds, except if the bylaws reserve this power to the general meeting of shareholders or if the latter decides to exercise this power. Because the Company's bylaws do not grant this power to the shareholders, the Board of Directors has the authority to issue bonds. It will not have to demand new authorizations for the issuance of bonds during future general meetings of shareholders.

Rhodia did not issue any bonds in 2008.

Detailed information regarding different prior or existing loans is found in chapter 10.3 above.

## 21.1.3 THE COMPANY'S ACQUISITION OF ITS OWN SHARES

### SPECIAL REPORT ON THE PURCHASE BY THE COMPANY OF ITS OWN SHARES IN 2008 (ARTICLE L.225-209, PARAGRAPH.2 OF THE COMMERCIAL CODE)

#### Share repurchase program in effect on the day of filing the reference document

The combined annual shareholders' meeting on May 16, 2008, authorized the Board of Directors for the period of 18 months from the date of the meeting, to purchase or make the Company purchase its shares:

- up to the number of shares representing 10% of the authorized capital (it being specified that the maximum number of shares held may not surpass 10% of the authorized capital);
- for a maximum fixed purchase price of €45 per share.

Such purchase must have for its objective one of the following: (i) the allocation of shares to the employees or officers of the Company and/or companies or groups related to it, in the context of option plans for subscription to or purchase of shares or free allocation of shares, (ii) delivery of shares at the time of the exercise of rights attached to securities giving access to the capital, (iii) ensuring liquidity and making a market for the Company's shares by an investment service provider within the framework of a liquidity agreement, (iv) holding or delivery in exchange or payment in connection with corporate acquisitions, (v) cancellation of all or a portion of shares acquired and (vi) use for any other purpose conforming to the regulations in force and to the market practice.

This authorization put an end to the authorization given by the combined annual shareholders' meeting on May 3, 2007.

Said authorization will expire no later than 18 months after the Combined General Meeting on May 16, 2008; in other words, on November 16, 2009, unless the General Meeting of May 20, 2009 authorizes a new share repurchase program.

#### Transactions carried out in 2008

The Company's Board of Directors implemented this authorization, authorizing the repurchase of a €2 million maximum in order to cover the existing free allocations of shares to employees and Group officers, or certain employees and Group officers.

This resulted in the following transactions:

- the purchase of 1,792,137 shares for €13,551,393.28;
- the transfer of 3,334 shares by the Company subsequent to the delivery of shares pursuant to a free share allocation plan to some employees.

As of December 31, 2008 the total number of shares held by Rhodia was 1,788,803, i.e., 1.77% of the Company's share capital, representing a book value of €13,546,481.98 and a nominal value of €21,465,636.

All of these shares were allocated to the allocation to Group employees and officers in accordance with the existing free share allocation plans in place at the date of the transactions.

The shares repurchased by the Company pursuant to the authorization conferred by the General Meeting of May 16, 2008 were not subject to any reallocation or other purpose than that provided for during their repurchase.

These transactions gave rise to transaction fees amounting to €33,878.

### Transactions carried out since the beginning of 2009

Since early 2009, the Company transferred 578,264 shares to beneficiaries of the free share allocation plans authorized by the Board of Directors at the meeting on January 15, 2007.

## 21.1.4 AUTHORIZATIONS AND USES

Summary table of current authorizations:

| Transactions/Securities | Maximum nominal amount of issuance | Use (date) | Duration of the authorization (and expiration) |
|---|---|---|---|
| Purchase of the Company's shares, General Shareholders' Meeting 5/16/2008 – 12th Resolution | 10% of the capital Purchase price: ≤ 45 € | 1,792,137 shares purchased * | 18 months (11/2009) |
| Capital reduction of the stated capital by canceling treasury stock, General Shareholders' Meeting 05/16/2008 – 13th Resolution | 10% of the capital | none | 24 months (05/2010) |
| Capital increase, all types of securities with shareholders' preferential subscription rights, General Shareholders' Meeting 05/03/07 – 10th Resolution | Capital = €600 million | none | 26 months (07/2009) |
| Capital increase reserved for participants in a Company savings plan, General Shareholders' Meeting 05/03/07 – 14th Resolution | €50 million, nominal value | none | 26 months (07/2009) |
| Free allocation of shares to employees and managers (Article L. 225-197-1 and following of the Commercial Code), General Shareholders' Meeting 05/03/07 – 16th Resolution | 2% of the capital (at the date of the allocations(s)) | 235,110 shares allocated (07/2007) ** 1,023,960 shares allocated (03/2008) **** 762,400 shares allocated (03/2009) | 26 months (07/2009) |
| Allocation of options for subscription or purchase of shares (Article L. 225-177 and following of the Commercial Code), General Shareholders' Meeting 05/03/07 – 17th Resolution | 1% of the capital (at the date of the allocation(s)) | none | 26 months (07/2009) |

** See chapter 21.1.3 above.*

*** Of which 92,355 as part of the "2+2" plan and 142,755 as part of the second plan known as "4+0" in the framework of a global plan for the free allocation of shares to 15,674 employees (see chapter 17.2.3 on the "Free allocations of shares", above).*

**** Pursuant to plans for the allocation of performance shares authorized by the Board of Directors at their meeting on March 17, 2008 (for a detailed description of these allocations, see chapter 17.2.3 on the "Allocation of performance shares", above).*

***** Pursuant to plans for the allocation of performance shares authorized by the Board of Directors at their meeting on March 16,2009 (for a detailed description of these allocations, see chapter 17.2.3 on the "Allocation of performance shares", above).*

Summary table of authorizations expired during the year:

| Transactions | Maximum nominal amount of issuance | Use (date) | Expiration Date |
|---|---|---|---|
| Purchase of the Company's shares, General Shareholders' Meeting 05/03/07 – 7th Resolution | 10% of the capital Purchase price: ≤ 60 € | none | May 2008 |
| Capital increase reserved to a category of beneficiaries, General Shareholders' Meeting 05/03/07 - 15th Resolution | €50 million, nominal value | none | November 2008 |

Authorizations that will be proposed for vote at the general meeting of shareholders scheduled for May 20, 2009 (upon second notice of meeting) are presented in the following table:

**SUMMARY TABLE OF AUTHORIZATION TO BE REQUESTED AT THE NEXT GENERAL SHAREHOLDERS' MEETING**

| Transactions/Securities | Maximum Nominal Amount of Issuance | Duration of the authorization (and expiration) |
|---|---|---|
| Repurchase of shares<br>15th Resolution | 10% of the capital<br>Purchase price: ≤ 30€ | 18 months<br>(11/2010) |
| Capital reduction of the stated capital by cancelling treasury stock<br>17th Resolution | 10% of the capital | 24 months<br>(05/2011) |
| Free allocation of shares to employees and managers (Article L. 225-197-1 and following of the Commercial Code)<br>18th Resolution | 1% of the capital<br>(at the date of the allocations(s))<br>Subject to performance conditions | 26 months<br>(07/2011) |
| Allocation of options for subscription or purchase of shares (Article L. 225-177 and following of the Commercial Code)<br>19th Resolution | 1% of the capital<br>(at the date of the allocations(s))<br>Subject to performance conditions | 26 months<br>(07/2011) |

## 21.1.5 SHARES, SECURITIES GIVING ACCESS TO CAPITAL, OPTIONS FOR SUBSCRIPTION OR PURCHASE OF SHARES AND FREE ALLOCATION OF SHARES

### 21.1.5.1 SUMMARY OF THE EXISTING AUTHORIZATIONS

#### Authorization to reduce share capital by canceling shares held by the Company

The combined annual general shareholders' meeting of May 16, 2008 authorized the Board of Directors, for a 24-month period, one or more times, within a limit of 10% of the Company's share capital, by 24-month period, all or part of the shares held by the Company and to reduce the ensuing share capital.

#### Authorization to increase capital by issuance of ordinary shares and/or of all types of securities giving immediate or future access to capital with preferential subscription rights

The combined annual shareholders' meeting held on May 3, 2007, delegated to the Board of Directors for a period of 26 months the power to decide to increase capital, one or more times, in the amount and at the time it decides appropriate, by issuing shares of the Company as well as all types of securities giving immediate or future access to capital, with preferential subscription rights setting €600 million as the maximum nominal amount for the issue of shares and €800 million as the maximum nominal amount for the issue of debt securities.

This delegation put an end to the authorization related to the issuance of shares and securities giving access to the capital with preferential subscription rights that was granted by the general meeting of June 23, 2005.

#### Authorization to increase capital by issuance of shares and/or securities giving immediate or future access to the capital issued by the Company reserved for participants in a Company savings plan

The general shareholders' meeting held on May 3, 2007 authorized the Board of Directors to issue shares and/or securities giving access to the capital issued by the Company reserved to employees participating in one of the Company's savings plans, for a maximum nominal amount of €50 million. This authorization to issue is valid for a period of 26 months and put an end to that conferred by the general meeting of shareholders on June 23, 2005 in the 22nd Resolution.

### Authorization to make free allocations of shares for the benefit of certain officers and employees of the Group or certain categories among them

The general shareholders' meeting held on May 3, 2007, authorized the Board of Directors to make free allocations of existing or newly issued shares by the Company limited to the equivalent of 2% of the capital at the date of the decision.

The beneficiaries of allocations could be the employees of the Company and companies and economic interest groups that are related to the Company within the meaning of Article L. 225-197-2 of the Commercial Code as well as certain officers.

The authorization provides that the allotment of performance shares to their beneficiaries can only be definitive at the end of:

- a vesting period of two years, the minimal duration of the obligation of conservation of performance shares (holding period) by the beneficiaries running from the time of the delivery of performance shares being also set for two years; or
- a vesting period with a minimal duration of four years, the period of conservation (holding period) can be thus eliminated.

It should be clarified that the Board of Directors could provide for vesting and holding periods longer than these minimal periods.

The authorization provides that the free allocations of shares must further be accompanied by certain conditions of economic performance, except for a limited number of shares representing a maximum nominal value of €3 million.

This authorization is valid for a period of 26 months and put an end to the one conferred by the general meeting of shareholders of June 23, 2005.

Detailed information concerning different plans for the free allocations of shares currently available in Rhodia is found in chapter 17.2, above.

### Allocation of options for subscription or purchase of shares

The general shareholders' meeting of May 3, 2007, authorized the Board of Directors to approve, within the limit equivalent to 1% of the capital at the date of the decision, one or several times, options giving right to subscription of new shares in the Company or purchase of existing shares in the Company related to the repurchases made by the Company.

The beneficiaries will be the employees, or some of them, of the Company and companies or economic interest groups that are related to it directly or indirectly within the meaning of Article L. 225-180 of the Commercial Code as well as certain officers.

This authorization is valid for 26 months.

Detailed information on the option plans for subscription to shares currently available in Rhodia is found in chapter 17.2, above.

## 21.1.5.2 TRANSACTIONS CARRIED OUT IN 2008

### a) Allocation of performance shares to certain officers and employees of the Group – January 2008

For a detailed description of these allotments, see chapter 17.2.3, "Allocation of performance shares", above.

## 21.1.5.3 SECURITIES GIVING ACCESS TO RHODIA'S CAPITAL

### a) Bonds with the option to be converted and/or exchanged into new or existing shares of the Company (OCEANEs)

On April 27, 2007, Rhodia issued OCEANEs for a total nominal amount of €595 million, due January 1, 2014 and bearing annual interest at 0.5%. The OCEANE bonds carried a 13.22% redemption premium and a repurchase option that may be exercised by Rhodia under certain conditions.

Following the reverse share split of the Company's shares and consecutive adjustments on the dilutive instruments of the Company, one OCEANE gives the right to obtain one share of the Company with a nominal value of €12.

At December 31, 2008, there were 12,372,661 outstanding OCEANEs.

### b) Subscription Warrants

At December 31, 2008, there were 215,193 outstanding subscription warrants.

Following the reverse share split of the Company's shares and consecutive adjustments on the dilutive instruments of the Company, 12 subscription warrants give right to the subscription of one post-reverse split share with a nominal value of €12.

These subscription warrants were issued within the context of the capital increase reserved to the employees and executed on June 30, 2006 and are attributed for the benefit of the employees of Rhodia's subsidiaries located in Germany, in place of a subscription discount, in order to put them in an economic position equivalent to that of employees of subsidiaries located in other countries. These warrants are held by the Common Fund for Placement of the Enterprise "Zukunft 2006" (*Fonds Commun de Placement d'Entreprise*), the employees of Rhodia's subsidiaries located in Germany having subscribed to this transaction for the reserved capital increase holding shares in this fund.

## 21.1.6 STOCK SUBSCRIPTION OPTIONS

At December 31, 2008, optional instruments on the capital of the Company were as follows:

- OCEANEs (see chapter 21.1.5.2), above);
- option plans for the subscription to the shares described in chapter 17.2 above; and
- share warrants (see chapter 21.1.5.3), above).

In addition, the free allocation of shares, such as the ones described in chapter 17.2 above, can result in the issuance of new shares.

## 21.1.7 HISTORY OF THE CAPITAL

| Date | Amount of the Capital | Number of Shares (nominal value) | Nature of the Transaction |
|---|---|---|---|
| Beginning 12/31/1999 | €2,621,115,615.00 | 174,741,041 (15 euros) | |
| 09/2000 | €2,621,115,615.00 | 179,309,188 (15 euros) | Capital increase reserved for employees: issuance of 4,568,147 new shares with a nominal value of €15 representing a capital increase of €68,522,205 (an issue premium of €1,644,532.92) |
| 05/2002 | €179,309,188 | 179,309,188 (1 euro) | Capital decrease for an amount of €2,510,328,632.00 by way of a decrease in the nominal value of 179,309,188 shares from €15 to €1 (amount of the decrease registered as "non-distributable issue premium") |
| 05/2004 | €627,582,158 | 627,582,158 (1 euro) | Capital increase with a preferential subscription right: issue of 448,272,970 new shares with a nominal value of €1 representing a capital increase of €448,272,970 (an issue premium of €22,413,648.50) |
| 12/2005 | €1,176,761,541 | 1,176,716,541 (1 euro) | Capital increase with a preferential subscription right: issue of 549,134,383 new shares with a nominal value of €1 representing a capital increase of €549,134,383 (an issue premium of €54,913,438) |
| 06/2006 | €1,204,186,174 | 1,204,186,174 (1 euro) | Capital increase reserved for employees: issue of 27,469,633 new shares with a nominal value of €1 representing a capital increase of €37,237,767 (an issue premium of €9,768,133.55) |
| 06/2007 | €1,204,231,992 | 100,352,666 (12 euros) | 1/Exercise of options for the subscription of shares: capital increase of €45,828 by the issuance of 45,828 shares with a nominal value of €1 per share.<br>2/The reverse share split: an exchange of 12 shares with the nominal value of €1 per share for one share with a nominal value of €12 per share |
| 12/2007 | €1,204,413,972 | 100,367,831 (12 euros) | Exercise of options for the subscription of shares: a capital increase of €181,980 by the issuance of 15,165 shares with a nominal value of €12 per share |
| 01/2008 | €1,204,031,484 | 101,085,957 (12 euros) | Plans A and B for the free allocations of shares 2006: a capital increase with a nominal amount of €8,617,512 by the issuance of 718,126 new Rhodia shares with a nominal value of €12 per share |
| 12/2008 | €1,213,044,816 | 101,087,068 (12 euros) | Exercise of options for the subscription of shares: a capital increase of €13,332 by the issuance of 1,111 shares with a nominal value of €12 per share |

## 21.1.8 MARKET FOR THE COMPANY'S FINANCIAL INSTRUMENTS

Rhodia's shares have been listed on Eurolist of Euronext (Compartment B) in Paris since June 25, 1998.

On June 12, 2007, Rhodia consolidated its shares by way of an exchange of one new share with a nominal value of €12 for 12 old shares with a nominal value of €1 per share. From that date, the consolidated shares are listed on Euronext Paris. On that same date, the non-consolidated shares were transferred from the Eurolist market of Euronext to the CVRMR market (Compartment for Shares De-listed from the Regulated Markets), where they were negotiable for a period of six months, or until December 12, 2007, with the view of encouraging the negotiation of the "fractions" of the shares for the shareholders of Rhodia not having the necessary quantity for the reverse share split.

In addition, from June 25, 1998 to September 28, 2007, the shares of Rhodia were listed on the New York Stock Exchange in New York as level 3 American Depositary Receipts (ADR). Each ADR represented one American Depositary Share (ADS), representing itself a share of Rhodia. These ADRs were consolidated on June 12, 2007, one new ADR for 12 old ADRs.

On September 7, 2007, Rhodia notified the New York Stock Exchange of its intention to delist from the New York Stock Exchange, and the de-listing of the level 3 ADRs took effect on September 28, 2007. On that same date, Rhodia initiated deregistration of all of its bonds that were registered with the Securities and Exchange Commission (SEC) by accomplishing the required formalities. This deregistration became effective on December 28, 2007.

Rhodia decided to maintain the listing of its shares in the United States in the form of level 1 privately negotiable ADRs on the International OTCQX. Each ADR represents one American Depositary Share (ADS), representing itself a Rhodia share. Every holder of such ADRs can, at any time, either sell its ADRs or convert them into Rhodia shares, which are the underlying shares, by settling the expenses of the conversion with the depository. In this latter case, the ADR which represented the Rhodia S.A. share is cancelled. At December 31, 2008, there were 2,887,232 outstanding ADRs, representing 2.9% of the Company's capital.

### IDENTIFICATION SHEET FOR RHODIA S.A. SHARES

Code ISIN FR0010479956

Code Bloomberg: RHA FP

Code Reuters: RHA.PA

Share eligible for SRD (Service for Deferred Payment): yes

Share eligible for PEA (Plan for savings of shares): yes

### IDENTIFICATION SHEET OF RHODIA S.A. ADR

Ratio: One ADR for one share of Rhodia S.A.

Code ISIN: US7623972061

Code Bloomberg: RHAYY US

Code Reuters: RHAYY.PK

The tables below describe the development in 2008 of the prices and volume of transactions in shares of Rhodia S.A. listed on Eurolist of Euronext Paris and the ADRs of Rhodia S.A. quoted on the International OTCQX.

**SHARES OF RHODIA S.A. LISTED ON EUROLIST OF EURONEXT PARIS**

| | **Close Price** | | **Volumes of transactions (daily average)** | |
|---|---|---|---|---|
| *(in euros)* | **High** | **Low** | **Number of shares** | **Amount of capital** |
| January 2008 | 26.83 | 17.47 | 1,569,949 | 32,433,694 |
| February 2008 | 22.23 | 16.57 | 1,849,968 | 34,483,133 |
| March 2008 | 16.43 | 12.22 | 2,313,498 | 32,482,805 |
| April 2008 | 15.88 | 12.67 | 1,868,498 | 26,718,097 |
| May 2008 | 15.48 | 13.55 | 1,387,636 | 20,361,423 |
| June 2008 | 15.45 | 11.72 | 1,366,771 | 18,490,578 |
| July 2008 | 12.38 | 8.90 | 2,112,934 | 22,524,787 |
| August 2008 | 13.50 | 11.77 | 1,462,673 | 18,747,916 |
| September 2008 | 14.12 | 10.29 | 1,533,506 | 18,953,280 |
| October 2008 | 10.70 | 5.72 | 1,947,181 | 15,598,430 |
| November 2008 | 8.10 | 4.88 | 1,378,696 | 8,590,705 |
| December 2008 | 5.07 | 3.957 | 4,362,733 | 18,875,847 |
| January 2009 | 5.01 | 3.33 | 2,029,533 | 8,602,632 |
| February 2009 | 3.92 | 2.74 | 1,494,502 | 4,826,127 |
| March 2009 (through March 20) | 2.63 | 2.13 | 957,516 | 4,673,185 |

*Source: Bloomberg*

**AMERICAN DEPOSITARY RECEIPTS (ADR) OF RHODIA S.A. LISTED ON THE NEW YORK STOCK EXCHANGE UNTIL SEPTEMBER 27, 2008 AND THE INTERNATIONAL OTCQX FROM SEPTEMBER 28, 2008**

| | | Close Price | Volumes of transactions (daily average) | |
|---|---|---|---|---|
| *(in dollars)* | **High** | **Low** | **Number of shares** | **Amount of Capital** |
| January 2008 | 39.65 | 26.50 | 10,364 | 328,258 |
| February 2008 | 32.95 | 24.80 | 6,568 | 182,660 |
| March 2008 | 25.10 | 19.14 | 25,039 | 531,522 |
| April 2008 | 24.75 | 19.85 | 3,387 | 76,857 |
| May 2008 | 23.50 | 20.75 | 3,657 | 82,698 |
| June 2008 | 23.90 | 18.65 | 3,847 | 82,466 |
| July 2008 | 19.20 | 13.95 | 24,472 | 377,896 |
| August 2008 | 20.10 | 17.85 | 1,632 | 31,243 |
| September 2008 | 20.15 | 14.70 | 2,859 | 50,074 |
| October 2008 | 15.20 | 7.30 | 7,040 | 82,198 |
| November 2008 | 10.65 | 5.86 | 5,106 | 43,600 |
| December 2008 | 6.55 | 5.50 | 6,427 | 38,614 |
| January 2009 | 7.06 | 4.25 | 2,970 | 14,718 |
| February 2009 | 5.04 | 3.46 | 110,060 | 40,066 |
| March 2009 (through March 20) | 3.65 | 2.52 | 8,208 | 25,051 |

*Source: Bloomberg*

# 21.2 Articles of incorporation and bylaws

## 21.2.1 CORPORATE PURPOSE

Pursuant to Article 3 of the bylaws, the purpose of the Company, in France as well as abroad, is, either directly or indirectly:

- to perform transactions in the fields of chemistry, fibers and polymers;
- to research, develop, manufacture, transform, market and supply products and goods, and to license, acquire, and transfer all industrial and commercial property rights;
- to make investments in any form whatsoever, in particular through the formation of new corporations, contributions, subscription, purchase of stock or interests in any business, groups or corporations relating directly or indirectly to the corporate purpose and, if appropriate, for any other purpose;
- to issue any guarantee, first demand guarantees, surety bonds and other security interests in compliance with the provisions of current laws and regulations, in particular to any company or entity of the Group, in connection with their activities, as well as the financing or re-financing of their activities. The contracting of any loan and, in general, the use of any method of financing, in particular, by the issue or, where applicable, by the subscription of financial instruments, with a view to facilitating the financing or re-financing of the Company's operations;
- as well as, in general, all financial, commercial, industrial, civil, real property, personal property transactions or services that may be directly or indirectly related to one of the specified purposes or to any similar or related purpose or which is liable to further the development of the Company's assets.

## 21.2.2 STATUTORY PROVISION RELATING TO THE BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE

Organization of the Board of Directors and Management Committee is described in Articles 11 to 16 of the Company's bylaws.

For further information, see chapter 14.3, above.

## 21.2.3 RIGHTS, PREFERENTIAL RIGHTS AND RESTRICTIONS ATTACHED TO THE COMPANY'S SHARES (ARTICLE 9 OF THE BYLAWS)

Each share entitles the holder thereof to a proportionate ownership in the assets of the Company and in the proceeds after liquidation equal to the *pro rata* portion of the registered capital represented by such share.

All securities which represent or will represent part of the registered capital will be included as registered capital for tax purposes. Thus, all duties and taxes which, for whatever reason may become payable by certain holders upon distribution of capital, either during the existence of the Company or at liquidation, will be allocated among all securities representing capital at the time of such distribution or distributions, with the result that, after taking into account the unredeemed nominal value of the securities to the extent of their respective rights, all present or future securities will confer upon the holders thereof the same effective benefits and the right to receive the same net amounts.

Whenever it is necessary to possess a certain number of shares in order to exercise a right, it shall be up to holders that do not possess such number to group together and, if necessary, to purchase or sell the requisite number of shares or rights.

## 21.2.4 MODIFICATION OF THE SHAREHOLDERS' RIGHTS

Any modification of the voting rights attached to the shares are regulated by law, the Company's bylaws do not provide for specific provisions.

## 21.2.5 GENERAL SHAREHOLDERS' MEETINGS (ARTICLE 18 OF THE BYLAWS)

Ordinary or extraordinary shareholders' meetings are called and deliberated in accordance with the law.

Meetings are held at the registered office or any other place specified in the notice for meeting.

The right for shareholders to personally attend shareholders' meetings, or to do so through a proxy holder or by mail, is subject to the registration of the shares in the name of the shareholder or the intermediary registered on his behalf (as provided for by law) by midnight (Paris time) on the third business day prior to the meeting:

- for registered shareholders: in registered securities accounts maintained by the Company;
- for bearer shareholders: in bearer securities accounts maintained by an authorized intermediary, as provided for by the applicable regulations.

A shareholder who does not have his domicile in France, within the meaning of Article 102 of the Civil Code, may be represented at ordinary or extraordinary meetings by an intermediary registered in accordance with the conditions provided for by current law and regulations. Said shareholder shall then be deemed to be present at said meeting for the calculation of the quorum and majority.

Subject to the qualifications provided for by regulations, and in accordance with the procedures established therefore by the Board of Directors, shareholders may attend and vote at any shareholders' or special meetings by videoconference or any electronic telecommunication or remote transmission means in accordance with applicable law and regulations. In such event, an electronic signature may be provided using a process that meets the requirements listed in the first sentence of the second paragraph of Article 1316-4 of the Civil Code. The shareholders shall then be deemed present at said meetings for the calculation of quorum and majority.

The shareholders, in accordance with the conditions defined by current regulations, may send their proxy vote form or mail vote form for all ordinary or extraordinary meetings, either on paper, or by remote transmission by decision of the Board of Directors published in the notice of meeting and the notice to attend the meeting.

To be accepted, all ballots and proxies must have actually been received at the Company's principal office or at the location stated in the meeting notice no later than two days prior to the date of the shareholders' meeting, except if a shorter period is stated in the meeting notice or required by mandatory provisions reducing said period.

Instructions given by electronic means that contain a power of attorney or a proxy may be received by the Company in accordance with the conditions and within the time limits defined by the current regulations.

The meeting's proceedings may be transmitted live by videoconference and/or by remote transmission. Where applicable, reference shall be made thereto in the notice of meeting and in the notice to attend the meeting.

The Chairman of the Board of Directors or, in his absence, a Director specifically delegated for said purpose by the Chairman presides over the meetings. Failing that, the meeting shall appoint its own Chairman.

The duties of tellers are fulfilled by the two members of the meeting with the highest number of votes and who accept said duties.

The officers of the meeting appoint the secretary, who may be chosen among non-shareholders.

An attendance sheet, drawn up in accordance with the law, is kept at each meeting of the Annual General Meeting. Said attendance sheet, duly signed by the shareholders and proxies, shall be certified true by the officers of the meeting.

Each meeting participant shall have as many votes as shares held or represented, subject to statutory limitations. Until two years after the start date of the reverse split transactions described in the notice of reverse share split published by the Company in the Bulletin des

Annonces Légales Obligatoires pursuant to the resolution adopted at the May 3, 2007 shareholders' meeting, all pre-reverse split shares give their holder the right to one (1) vote and all post-reverse split shares to twelve (12) votes, so that the number of votes generated by the Company's shares will be proportionate to the portion of equity they represent.

At the request of one or several members of the meeting representing by themselves or as proxies at least on tenth of the capital present or represented at the meeting, a secret ballot shall be held.

Minutes of the meetings are drawn up and copies thereof are certified in accordance with the law.

The right to vote attached to the share belongs to the beneficial owner at ordinary shareholders' meetings, as well as at extraordinary or special meetings.

## 21.2.6 CHANGE OF CONTROL

Neither Rhodia's bylaws nor any other internal document contain any provision for delaying, deferring or preventing a change of control.

## 21.2.7 THE CROSSING OF THRESHOLDS

Aside from the legal obligation to inform about the holding of a certain fraction of the share capital or voting rights and to make all necessary declarations in compliance with law, as from the date of the general shareholders' meeting of April 28, 2006, nothing in the bylaws or other internal documents of Rhodia that requires a holder of Rhodia shares to disclose crossing any shareholding threshold.

The declarations on crossing the thresholds of ownership made to the Autorité des Marchés Financiers and to Rhodia are described in chapter 18.3, above.

## 21.2.8 MODIFICATION OF SHARE CAPITAL

Any modification of the share capital or of the voting rights attached to the shares is subject to applicable legal requirements. The bylaws do not contain any specific rules.

## 21.2.9 COMPANY FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS (ARTICLE 19 OF THE BYLAWS)

### 21.2.9.1 COMPANY FINANCIAL STATEMENTS

Each corporate year lasts 12 months and starts on January 1 and closes on December 31.

At the end of each year, in accordance with existing laws, the Board of Directors establishes the inventory, company financial statements and a management report.

The net earnings during the year minus general costs and other expenses of the Company, including all depreciation and provisions, shall constitute net profits.

Net profits, minus losses from previous years (if any), are subject to a charge of at least one-twentieth of such net amount, which shall be used to create a reserve called the "legal reserve". This charge shall cease to be obligatory when the amount of the reserve becomes equal to one-tenth of the registered capital.

Distributable income equals the net profits of the year, minus losses from previous years and the charge from the legal reserve, plus profits carried forward from previous years.

In addition, shareholders may upon recommendation of the Board of Directors, decide at a general shareholders' meeting to distribute amounts held in the reserve funds that are available for their use, in such case, the decision of the shareholders must specifically indicate the reserves from which the funds are to be taken.

After approval of the accounts and verification of the existence of distributable amounts, the ordinary general shareholders' meeting shall decide upon the distribution of such amounts and, upon recommendation of the Board of Directors, shall distribute out of this amount to all holders of shares *pro rata* to their percentage interest in the registered capital.

If a balance remains the shareholders shall decide at an ordinary general shareholders' meeting which amounts will be carried forward to the next year or placed in one or more reserves that is it responsible for allocating to or using.

The ordinary general shareholders' meeting called to approve the financial statements for the year may grant each shareholder the right to elect to receive all or part of the final or interim dividends in cash or in shares.

In the event that financial statements established at the end of a year or at any date during the year, certified by the statutory auditors, set forth that the Company, since the close of the preceding year, after provision for depreciation and necessary reserves, deductions for prior losses, if necessary, and sums carried forward as reserves in application of the law or the bylaws and taking into account carried forward profits, has made a profit, it may distribute interim dividends before the approval of the year-end accounts.

The amount of these interim dividends shall not exceed the amount of the profit thus defined.

The extraordinary shareholders' meeting may decide to reduce the share capital for reasons other than for losses, by reducing the par value of the share. The amount of the reduction of the share capital, or the difference between the former and new par value multiplied by the number of outstanding shares, shall be recorded in an issue premium account, the amount of which shall not be distributable. Nevertheless, it may be subsequently capitalized or used to offset losses.

### 21.2.9.2 CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors presents at the general shareholders' meeting the Group's management report and consolidated financial statements. The shareholders' meeting deliberates on all matters relating to the consolidated financial statements of the last year.

The Group's management report may be included in the management report mentioned above.

## 21.3 Statutory auditors' fees for 2007 and 2008

See note 35 (statutory auditor's Fees for 2007 and 2008) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

# 22 Material contracts

Rhodia is not party to any material contracts resulting in a material obligation or undertaking for the entire Group, other than those concluded in the normal course of its business.

Concerning material contracts concluded in the normal course of its business, see the financial contracts described in chapter 10.3 of this reference document:

- the *syndicated credit facility* "new RCF", for the amount of €600 million, due June 30, 2012;
- the "*Floating Rates Notes*" issued in 2006 for €1,100 million due 2013;
- two trade receivable securitization agreements, North American and European; and
- the issuance of notes convertible and/or exchangeable into new or existing shares that occurred in April 2007.

# 23 Third party information, statements by experts and declarations of interest

Not applicable.

# 24 Publicly available documents

sommaire



## 24.1 Documents available on the Company's website

The following documents are available on the website of the Company (www.rhodia.com):

- this reference document filed with the *Autorité des Marchés Financiers* as an annual report;
- financial press releases; and
- bylaws.

Documents and information concerning the Company can be also requested at Rhodia's registered office located at Immeuble Cœur Défense, Tour A, 110 esplanade Charles de Gaulle, 92400 Courbevoie (phone number: +1 53 56 64 64).

## 24.2 Annual documents created pursuant to article 222-7 of the general Regulations of the Autorité des Marchés Financiers

Pursuant to Article 222-7 of the General regulations of the *Autorité des Marchés Financiers*, the following list sets forth the information disclosed by Rhodia since January 1, 2008 (in addition to the information included in chapter 24.1).

## LIST OF PRESS RELEASES

During 2008 and through the publication of this document, the following press releases have been published on the Company's website (www.rhodia.com) or in the Legal Information section of the website:

| | |
|---|---|
| 02/12/08 | Pascal Juéry appointed President of Rhodia Novecare – José Matias appointed Group Purchasing Vice President |
| 02/15/08 | Rhodia committed to the integration of young people into the world of work |
| 02/28/08 | 2007 Annual Results |
| 03/18/08 | Jean-Pierre Clamadieu appointed Chairman and Chief Executive Officer of Rhodia |
| 03/19/08 | Rhodia completes portofolio refocusing and simplifies its organization |
| 03/19/08 | Rhodia and Lyondell enter into exclusive negotiations with Perstorp for the sale of their isocyanates businesses |
| 03/25/08 | Rhodia and Icem renew global social responsability agreement |
| 03/26/08 | Information relating to the combined Shareholders' meeting of May 16, 2008 |
| 03/31/08 | Legal Information: Rhodia files its annual reference document |
| 04/01/08 | Yolène Coppin appointed Group Executive Vice President, Human Resources |
| 04/15/08 | Rhodia to boost innovation capability in Asia: major R&D Center in Shanghai to open |
| 04/25/08 | Rhodia launches production of eco-friendly solvent at new unit in Brazil |
| 04/29/08 | Rhodia to award first Rhodia Pierre-Gilles de Gennes prize for Science and Technology |
| 05/07/08 | First quarter 2008 results: volume growth and price increase in a challenging raw material and foreign exchange environment |
| 05/16/08 | Rhodia awards Professor Sir Richard Friend the Rhodia Pierre-Gilles De Gennes Prize for Science and Industry |
| 05/16/08 | Combined Annual Meeting of Rhodia Shareholders |
| 06/05/08 | Rhodia announces reforestation project in Brazil |
| 07/07/08 | Rhodia and Lyondell sign definitive agreements for the sale of their isocyanates businesses to Perstorp |
| 07/15/08 | New recruitment guide to promote diversity and combat discrimination |
| 07/30/08 | Second year quarter 2008 results: Rhodia demonstrated again its strong pricing power in a challenging environment |
| 08/05/08 | Rhodia 2008 half year report available |
| 08/11/08 | Rhodia launches « intelligent » polyamide yarn |
| 08/20/08 | Rhodia strongly rejects Invista claims against ADN technology |
| 09/01/08 | Rhodia and Lyondell complete sale of their isocyanates business to Perstorp |
| 09/08/08 | Rhodia earns official recognition for its sustainability performance |
| 09/30/08 | Rhodia and Brenntag sign partnership agreement for south-east Asia, Australia, India and Taiwan |
| 10/08/08 | Rhodia announces a plan to prove the competitiveness of its polyamide businesses in Europe |
| 10.10.08 | Rhodia announces share buy-back program to cover free share allocation plans |
| 10/30/08 | Maria Alcon Hidalgo joins Rhodia as Vice President Investor Relations |
| 11/04/08 | Rhodia and Dow Corning drive green tyre innovation with silica / silane agreement |
| 11/06/08 | Third quarter 2008 results |
| 11/19/08 | Rhodia inaugurates its new R&D center in Shanghai |
| 11/27/08 | REACH: Rhodia successfully completes the pre-registration of its chemical substances |
| 08.12.08 | Rhodia provides an update on business trends |
| 12/12/08 | Implementation of AFEP / MEDEF recommendations |
| 12/15/08 | Mr. Nanot and Mr. Clamadieu appeal |
| 01/12/09 | Rhodia to acquire McIntyre Group: another step in its profitable growth strategy |
| 01/15/09 | Jean-Yves Dubreuil appointed Director of Human Resources, France and European Labor Relations |
| 02/25/09 | Full year 2008 results |
| 03/02/09 | Rhodia completes McIntyre Group acquisition |
| 03/20/09 | Rhodia presents plans to boost its competitiveness in France |
| 03/20/09 | Information relating to the Combined Shareholders' Meeting of May 20, 2009 |
| 03/20/09 | Resolutions proposed to Annual Shareholders' Meeting of Rhodia |

## LIST OF DOCUMENTS PUBLISHED IN BALO (BULLETIN DES ANNONCES LÉGALES OBLIGATOIRES)

The information below is available on the Company's website (www.rhodia.com), as well as on the official website of the *Autorité des Marchés Financiers* (www.amf-france.org).

| | |
|---|---|
| 02/29/2008 | Periodic publication – Quarterly sales and financial condition |
| 03/26/2008 | Notice of meeting – Shareholders' meeting |
| 04/02/2008 | Periodic publication – Annual financial statements |
| 04/18/2008 | Notice of meeting – Shareholders' meeting |
| 05/07/2008 | Notice of meeting – Shareholders' meeting |
| 05/14/2008 | Periodic publication – Quarterly sales and financial condition |
| 06/16/2008 | Issuance and listings – Warrants, bonds and other securities |
| 06/18/2008 | Periodic publication – Annual financial statements |
| 08/04/2008 | Periodic publication – Quarterly sales and financial condition |
| 03/20/2009 | Notice of meeting - Shareholders' meeting |

# 25 Information on shareholdings

See chapter 7.2 above of this document and Notes 37 (List of companies included in the consolidated financial statements for the years ended December 31, 2008) to the consolidated financial statements in chapter 20.3.1.3 of this reference document.

# 26 List of reports

| **Reports** | **chapter** |
|---|---|
| Internal Reports | |
| Report of the Chairman on the conditions of preparation and organization of the Board tasks and internal control proceedings implemented by the Company | 16.5.1 |
| Special report of the Board of Directors on the allocation of performance shares in 2008 | 17.2.3 |
| Special report of the Board of Directors on purchases of treasury shares by the Company during 2008 (article L.225-209, alinea 2 of the Commercial Code) | 21.1.3 |
| External Reports | |
| Report of one of the statutory auditors on the calculation of environmental security indicators in 2008 | 5.4 |
| Report of the statutory auditors, prepared pursuant to article L. 225-235 of the commercial Code on the report of the Chairman of the Board of Directors of Rhodia S.A., concerning the internal control procedures related to the preparation and use of the financial and accounting information | 16.5.2 |
| Special report of the statutory auditors on regulated agreements and obligations for the financial year ended December 31, 2008 | 19 |
| Report of the statutory auditors on the consolidated financial statements for the financial year ended December 31, 2008 | 20.3.1.1 |
| Report of the statutory auditors on the individual company financial statements for the financial year ended December 31, 2008 | 20.3.2.1 |

# 27 Reconciliation table
## (referring to financial and management reports)

The reconciliation table is to identify the chapters of the annual financial report (pursuant to Article L. 451-1-2 of Monetary and Financial Code and Article 222-3 of the General Regulations of the *Autorité des Marchés Financiers*) and the management report of Rhodia (pursuant to Article L. 225-100 and following of the Commercial Code), incorporated in this reference document.

The information from Rhodia's annual financial report is set forth in entries 1, 3, 4, 5, 6, 7 and 8 in the table below.

The information from Rhodia's consolidated corporate management report is set forth in entries 1 to 3 in the table below.

| | Information | Reference |
|---|---|---|
| **1** | **Company management report of the Board of Directors** | **chapter 20.3.5 of this reference document** |
| 1.1 | Position of the Company's activity during the past year, and if applicable, position of its subsidiaries and affiliates' activity | chapters 6 and 9 of this reference document |
| 1.2 | Profits of the Company, its subsidiaries, and its affiliates by business sector | chapters 9 and 20.3 of this reference document |
| 1.3 | Important events between the end of the year and the day the report was created | chapter 20.9 of this reference document |
| 1.4 | Issues and future prospects | chapters 6, 9 and 12 of this reference document |
| 1.5 | Research and Development activities | chapter 11 of this reference document |
| 1.6 | Analysis of business, profits and financial developments | chapter 12 of this reference document |
| 1.7 | Financial performance indicators | chapter 3 of this reference document |
| 1.8 | Indicators in environment and employee area | chapters 4, 5.3 and 17 of this reference document |
| 1.9 | Description of main risks and uncertainties | chapter 4 of this reference document |
| 1.10 | Information on the use of financial instruments and the Company's policy on the management of financial risks | chapters 4 and 10 of this reference document |
| 1.11 | Employees participation in the share capital | chapter 18.1 of this reference document |
| 1.12 | Total compensation and any fringe benefits granted to each director | chapters 15 and 17.2 of this reference document |
| 1.13 | List of positions and positions exercised by each director of the Company, corporate governance | chapter 14 of this reference document |
| 1.14 | Social and environmental impact | chapters 4.1.2, 4.2.2 and 5.3 of this reference document |
| 1.15 | Information on the Company's policy on the prevention of risks of technological accidents, the Company's ability to cover its civil liability for damages to the goods and persons resulting from certain classified installations, and methods designed to ensure indemnification processes for victims of technological accidents for which the Company is held liable for | chapters 4 and 5.3 of this reference document |
| 1.16 | Dividends distributed during the past three years | chapter 20.7 of this reference document |
| 1.17 | Information relating to stock purchase plan | chapter 21.1.3 of this reference document |
| 1.18 | Transactions by the directors with respect to their own shares | chapter 14.2.2 of this reference document |
| 1.19 | Calculation and results of the adjustments of the conversion basis or of the exercise of securities giving access to the capital and stock options for subscription to or purchase of the shares | chapter 17.2.2 of this reference document |

| | Information | Reference |
|---|---|---|
| 1.20 | Acquisitions of shareholdings in companies with their registered office on the French territory and representing more than 1/20, 1/10, 1/5, 1/3, 1/2 or 2/3 of their share capital or voting rights and takeovers of companies with their registered office located on the French territory | chapter 25 of this reference document |
| 1.21 | Items potentially having an influence in the event of a public takeover bid (by application of article L-225-100-3 of the Commercial code) | chapter 18.4 of this reference document |
| 2 | Summary table of the Board of Directors' current delegation related to the capital increase | chapter 21.1.4 of this reference document |
| 3 | Consolidated Group management report of the Board of Directors | chapter 9 of this reference document |
| 3.1 | Business development | chapters 6 and 9 of this reference document |
| 3.2 | Position of all the consolidated companies | chapters 6 and 9 of this reference document |
| 3.3 | Foreseeable developments | chapters 6, 12 and 13 of this reference document |
| 3.4 | Important events between the end of the year and the day the report was drafted | chapter 20.9 of this reference document |
| 3.5 | Research and Development activities | chapter 11 of this reference document |
| 3.6 | Description of main risks and uncertainties | chapter 4 of this reference document |
| 3.7 | Information on the use of financial instruments and the Company's policy on managing financial risks | chapter 4 of this reference document |
| 3.8 | Information on the Company's shareholders | chapter 18.1 of this reference document |
| 3.9 | Company financial results for the last five years | chapter 20.3.4 of this reference document |
| 4 | Company annual financial statements | chapter 20.3 of this reference document |
| 5 | Consolidated financial statements | chapter 20.3 of this reference document |
| 6 | Certification by the person responsible for the reference document (containing the annual financial report) | chapter 1.2 of this reference document |
| 7 | General report of the statutory auditors on the Company financial statements | chapter 20.3 of this reference document |
| 8 | Statutory auditors report on the consolidated financial statements | chapter 20.3 of this reference document |

# 28 Table of contents


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