

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

Current report filing

Filing Date: **2007-07-16** | Period of Report: **2007-07-16**  
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### FILER

#### **SOLUTIA INC**

CIK: **1043382** | IRS No.: **431781797** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **001-13255** | Film No.: **07982312**  
SIC: **2800** Chemicals & allied products

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): JULY 16, 2007 (MAY 1, 2007)

SOLUTIA INC.

-----  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

-----  
(STATE OF INCORPORATION)

001-13255  
-----  
(COMMISSION  
FILE NUMBER)

43-1781797  
-----  
(IRS EMPLOYER  
IDENTIFICATION NO.)

575 MARYVILLE CENTRE DRIVE, P.O. BOX 66760, ST. LOUIS, MISSOURI 63166-6760  
-----  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(314) 674-1000  
-----

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 7.01. REGULATION FD DISCLOSURE

On December 17, 2003, Solutia, Inc. ("Solutia") and its fourteen U.S. subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The Debtors' chapter 11 cases were consolidated for the purpose of joint administration and were assigned the lead case number 03-17949 (PCB).

On July 7, 2007, the Debtors filed with the Bankruptcy Court: (a) the Debtors' Second Amended Joint Plan of Reorganization pursuant to Chapter 11 of the Bankruptcy Code (the "Plan") and (b) the Debtors' Second Amended Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code (the "Disclosure Statement"). Copies of the Plan and Disclosure Statement, as filed with the Bankruptcy Court, are furnished as Exhibits 99.1 and 99.2 hereto, respectively.

Bankruptcy law does not permit solicitation of acceptances of the Plan until the Bankruptcy Court approves the Disclosure Statement. Accordingly, this announcement is not intended to be, nor should it be construed as, a solicitation for a vote on the Plan. The Plan will become

effective only if it receives the requisite stakeholder approval and is confirmed by the Bankruptcy Court.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(b) Pro Forma Financial Information

The following pro forma financial information is filed in this report pursuant to Instruction (2) to Item 9.01(b)(2):

Pro Forma Condensed Combined Statement of Financial Position as of March 31, 2007

Pro Forma Condensed Combined Statement of Operations For the Year Ended December 31, 2006

Pro Forma Condensed Combined Statement of Operations For the Three Months Ended March 31, 2007

(d) Exhibits

Exhibit Number	Description
99.1	Debtors' Second Amended Joint Plan or Reorganization Pursuant to Chapter 11 of the Bankruptcy Code, including Retiree Settlement Agreement filed as Exhibit B to the Plan
99.2	Debtors' Second Amended Disclosure Statement Pursuant to Section 1125 of the Bankruptcy Code

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

SOLUTIA INC.

-----  
(Registrant)

/s/ Rosemary L. Klein

-----  
Senior Vice President, General Counsel  
and Secretary

DATE: July 16, 2007

SOLUTIA INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION  
(DOLLARS IN MILLIONS)

On May 1, 2007, Solutia Inc. ("Solutia") purchased Akzo Nobel's stake in Flexsys Holding BV ("Flexsys"), a 50/50 rubber chemicals joint venture between Akzo Nobel and Solutia (the "Flexsys Acquisition") for \$213, subject to debt assumption and various purchase price adjustments. Contemporaneous with the closing of the Flexsys Acquisition, Flexsys purchased Akzo Nobel's Crystex manufacturing operations ("Crystex Purchase") in Japan for \$25 and refinanced its existing \$200 term and revolving credit facility to \$225. The Flexsys Acquisition was financed by \$150 of funding under the Solutia amended DIP credit facility and additional funding through Flexsys. The acquisition price after debt assumption and certain purchase price adjustments was \$115. Akzo Nobel and certain of its affiliates will continue providing services to Flexsys at certain sites shared by Flexsys and Akzo Nobel pursuant to services agreements entered into in connection with the Flexsys Acquisition.

The unaudited pro forma condensed combined financial information reflects the combination of the historical condensed consolidated statement of financial position and statement of operations for Solutia and Flexsys, adjusted for certain effects of the Flexsys Acquisition, the related financings, and the Crystex Purchase.

The unaudited pro forma condensed combined statement of financial position gives effect to the transactions as if they had occurred on March 31, 2007. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2006 and three months ended March 31, 2007 give effect to the transactions as if they had occurred on January 1, 2006.

The unaudited pro forma adjustments are based upon currently available information and certain assumptions that we believe to be reasonable under the circumstances. The acquisition will be accounted for, and the pro forma condensed combined financial information has been prepared, using the purchase method of accounting. The pro forma adjustments reflect our preliminary estimates of the purchase price allocation and are subject to revision as more detailed analysis is completed and the fair value of Flexsys' assets and liabilities is finalized.

These pro forma results should not be construed to be indicative of future results that actually would have occurred had the transactions occurred at the dates presented. In addition, we have not assumed any cost savings or synergies that might occur related to these transactions.

<TABLE>

PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION  
AS OF MARCH 31, 2007  
(DOLLARS IN MILLIONS)  
(UNAUDITED)

<CAPTION>

	HISTORICAL SOLUTIA {a}	HISTORICAL FLEXSYS {b}	TRANSACTIONS CONTEMPORANEOUS WITH THE ACQUISITION {c}	ADJUSTMENTS FOR THE ACQUISITION	PRO FORMA CONSOLIDATED
<C>	<C>	<C>	<C>	<C>	<C>
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 168	\$ 11	\$ 98 {d}	\$ (115) {i}	\$ 162
Trade receivables, net	337	111	-	-	448
Miscellaneous receivables	100	35	-	(2) {j}	133
Inventories	314	101	1 {e}	3 {k}	419
Restricted cash for acquisition	150	-	(150) {f}	-	-
Prepaid expenses and other assets	42	6	6 {e}	(1) {p}	53
<b>TOTAL CURRENT ASSETS</b>	<b>1,111</b>	<b>264</b>	<b>(45)</b>	<b>(115)</b>	<b>1,215</b>
PROPERTY, PLANT AND EQUIPMENT, NET	801	240	18 {e}	14 {l}	1,073
INVESTMENTS IN AFFILIATES	198	-	-	(197) {m}	1
GOODWILL	89	94	3 {e}	(92) {n}	94
IDENTIFIED INTANGIBLE ASSETS, NET	31	8	-	19 {o}	58
OTHER ASSETS	100	12	17 {e}{g}	(11) {p}{q}	118
<b>TOTAL ASSETS</b>	<b>\$ 2,330</b>	<b>\$618</b>	<b>\$ (7)</b>	<b>\$ (382)</b>	<b>\$ 2,559</b>
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$243	\$ 46	\$ 2 {e}	\$ -	\$291
Accrued liabilities	216	62	-	(2) {j}	276
Short-term debt	975	22	-	-	997
Current maturities of long-term debt	-	73	(73) {h}	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,434</b>	<b>203</b>	<b>(71)</b>	<b>(2)</b>	<b>1,564</b>
LONG-TERM DEBT	213	-	73 {h}	-	308
OTHER LIABILITIES	289	29	(9) {e}{g}	6 {p}	315
LIABILITIES SUBJECT TO COMPROMISE	1,807	-	-	-	1,807
<b>SHAREHOLDERS' EQUITY (DEFICIT):</b>					
Common stock	1	391	-	(391) {r}	1
Additional contributed capital	56	24	-	(24) {r}	56
Treasury stock, at cost	(251)	-	-	-	(251)
Net deficiency of assets at spinoff	(113)	-	-	-	(113)
Accumulated other comprehensive loss	(65)	(50)	-	50 {r}	(65)
Retained earnings (Accumulated deficit)	(1,041)	21	-	(21) {r}	(1,041)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIT)</b>	<b>(1,413)</b>	<b>386</b>	<b>-</b>	<b>(386)</b>	<b>(1,413)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 2,330</b>	<b>\$618</b>	<b>\$ (7)</b>	<b>\$ (382)</b>	<b>\$ 2,559</b>

See notes to unaudited pro forma condensed combined statement of financial position

<FN>

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION  
(dollars in millions)

{a} - Represents the historical condensed consolidated statement of financial position of the Company as of March 31, 2007 included in the Company's Form 10-Q filed on May 7, 2007.

{b} - Represents the unaudited combined balance sheet of Flexsys as of March 31, 2007.

{c} - Contemporaneous with the Flexsys Acquisition, Flexsys refinanced its existing term and revolving credit facility, completed the purchase of the Crystex manufacturing operations in Japan from Akzo Nobel ("Crystex Purchase"), extinguished the liability and pre-funded the United Kingdom Defined Benefit Pension Plan. Furthermore, the Company increased its DIP credit facility agreement to facilitate the Flexsys Acquisition. The pro forma adjustments give effect to these transactions as if they were consummated on March 31, 2007.

{d} - Represents net cash provided from the financing transactions, as reduced by the use of cash to fund the Crystex Purchase and United Kingdom Defined Benefit Pension Plan, and to extinguish certain Flexsys debt.

Amounts paid:

Extinguishment of existing Flexsys term and revolving credit facility	\$73
Crystex Purchase	25
Extinguishment of United Kingdom Defined Benefit Pension Plan Liability (see Note {g})	11
Pre-fund payment of United Kingdom Defined Benefit Pension Plan (see Note {g})	16
	----
Total amounts paid	\$125
	----

Sources of Cash:

Solutia DIP credit facility (see Note {f})	\$150
Flexsys term loan and revolving credit facility refinancing	73
	----
Total sources of cash	\$223
	----

Net cash provided \$98  
=====

{e} - Reflects the Crystex Purchase, recorded at estimated fair values in accordance with purchase accounting and the resulting goodwill, detailed as follows:

Purchase price	\$25
Assets purchased:	
Inventories	\$1
Prepaid expenses and other assets	6
Property, plant and equipment	18
Other assets	1
	----
	26
Liabilities assumed:	
Accounts payable	2
Other liabilities	2
	----
	4
Fair value of net assets acquired	\$22
	----
Goodwill acquired	\$3
	=====

{f} - Solutia amended its DIP credit facility in January 2007 to facilitate the Flexsys Acquisition, which among other things, increased the size of the DIP credit facility. The DIP amendment restricted \$150 of the increased facility for the Flexsys Acquisition and, therefore, at March 31, 2007, the \$150 was classified as restricted cash. To facilitate the Flexsys Acquisition, Solutia released the restricted cash.

{g} - As required by the purchase agreement, Solutia funded \$27 to the United Kingdom Defined Benefit Pension Plan. Flexsys' liability for the pension plan was \$11 at March 31, 2007. Therefore, \$11 represents an extinguishment of the

liability and \$16 represents a pre-funding payment of the United Kingdom Defined Benefit Pension Plan.

{h} - Represents the Flexsys term and revolving credit facility refinancing as is further discussed in notes {c} and {d}.

{i} - Represents the cash purchase price paid to Akzo Nobel.

{j} - Represents the elimination of intercompany receivables/payables.

{k} - Represents an increase to reflect a fair value step-up in basis in accordance with purchase accounting requirements.

{l} - Represents an increase of \$59 to reflect a fair value step-up in basis in accordance with purchase accounting requirements, partially offset by a decrease of approximately \$45 associated with the allocation of negative goodwill. The net decrease in property, plant and equipment, net and the respective economic useful lives is as follows:

	Net Fair Value Adjustment	Useful Life
	-----	-----
Land	\$1	N/A
Land improvements	-	21
Buildings and building improvements	2	21
Manufacturing equipment	9	8
Other equipment	-	2
Construction in process	2	N/A
	-----	
Total	\$14	
	=====	

{m} - Represents the elimination of Solutia's equity investment in Flexsys at March 31, 2007.

{n} - Represents the write-off of goodwill recorded on Flexsys' balance sheet of \$97 after the Crystex Purchase, partially offset by the reclassification of goodwill recorded on Solutia's statement of position of \$5 related to the formation of the Flexsys joint venture and previously recorded in Investments in Affiliates.

{o} - Represents an increase of approximately \$27 to reflect a fair value step-up in basis in accordance with purchase accounting requirements, partially offset by a decrease of \$8 associated with the allocation of negative goodwill. The net increase in Identifiable Intangible Assets and respective estimated useful lives is as follows:

	Net Fair Value Adjustment	Useful Life
	-----	-----
Technology	\$22	25
Trademarks & tradenames	3	25
Patents	2	10
	-----	
Total	\$27	
	=====	

{p} - Represents the deferred tax effect related to the purchase accounting and negative goodwill adjustments further discussed in notes {k}, {l} and {o}.

{q} - Of the other assets amount, \$6 represents deferred charges related to the Flexsys acquisition which were included in the purchase price allocation.

{r} - Represents the elimination of Flexsys' historical equity balances.

</TABLE>

<TABLE>

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(DOLLARS IN MILLIONS)  
(UNAUDITED)

<CAPTION>

	HISTORICAL SOLUTIA	{a}	HISTORICAL FLEXSYS	{b}	ADJUSTMENTS FOR THE ACQUISITION	PRO FORMA CONSOLIDATED
	-----		-----		-----	-----
<C>	<C>		<C>		<C>	<C>
NET SALES	\$ 2,905		\$ 606		\$ -	\$ 3,511
Cost of goods sold	2,524		456		(9) {c}	2,971

GROSS PROFIT	381	150	9	540
Total marketing, administrative and technological expenses	278	58	(1) {c}	335
Amortization of intangible assets	1	-	1 {d}	2
OPERATING INCOME	102	92	9	203
Equity earnings from affiliates	38	-	(37) {e}	1
Interest expense	(104)	(3)	(13) {f}	(120)
Other income (loss), net	14	(3)	-	11
Loss on debt modification	(8)	-	-	(8)
Reorganization items, net	(71)	-	-	(71)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	(29)	86	(41)	16
Income tax expense	18	20	5 {g}	43
INCOME (LOSS) FROM CONTINUING OPERATIONS	(47)	66	(46)	(27)
LOSS PER BASIC AND DILUTED SHARE	(\$0.45)			(\$0.26)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	104.5			104.5

See notes to the unaudited pro forma condensed combined statement of operations

<FN>  
NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS  
(Dollars in millions)

{a} - Represents the historical consolidated statement of operations of the Company for the year ended December 31, 2006 included in the Company's 2006 Form 10-K filed on March 6, 2007.

{b} - Represents the historical combined statement of operations of Flexsys for the year ended December 31, 2006, derived from audited combined financial statements filed with Solutia's 2006 Form 10-K/A filed on March 28, 2007 as Exhibit 99.2 Combined Financial Statements of Flexsys Group

{c} - To reduce depreciation expense to reflect lower asset values and updated estimated useful lives. The reduction of the depreciation expense on depreciable assets is calculated as follows:

<CAPTION>

	Fair Value	Useful Life	Depreciation Post-Acquisition	Depreciation Pre-Acquisition	Depreciation Adjustment
<C>	<C>	<C>	<C>	<C>	<C>
Land	\$14	N/A			
Land improvements	2	21	-	-	-
Buildings and building improvements	35	21	2	2	-
Manufacturing equipment	177	8	22	32	(10)
Other equipment	3	2	2	2	-
Construction in process	41	N/A			
Total	\$272		\$26	\$36	(\$10)

<FN>  
Reduction in depreciation is allocated between cost of goods sold and marketing, administrative, and technological expenses based on Flexsys' historical classification.

{d} - To record amortization expense on identified intangible asset values as a result of the acquisition and is calculated as follows:

<CAPTION>

	Fair Value	Useful Life	Amortization Post-Acquisition
<C>	<C>	<C>	<C>
Technology	\$22	25	\$1
Trademarks & tradenames	3	25	-
Patents	2	10	-
Total	\$27		\$1

<FN>  
{e} - Represents adjustment to eliminate equity income recognized by Solutia related to Flexsys during 2006.

{f} - The table below sets forth adjustments to interest expense resulting from the extinguishment of debt and issuance of new debt:

<C>	<C>
Interest expense on pro forma borrowings:	
Flexsys term loan and revolver (1)	\$3
Solutia amendment of DIP credit facility (2)	13
	-----
Total interest expense on pro forma borrowings	16
Less: historical Flexsys interest expense	(3)
	-----
Total adjustment to interest expense	\$13
	=====

<FN>

(1) Represents interest expense on the \$73 refinancing of Flexsys' debt. The debt has a variable interest rate and was calculated using an average interest rate of 4.88%.

(2) Represents interest expense on the \$150 increase in the DIP credit facility to facilitate the Flexsys Acquisition. The debt has a variable interest rate and was calculated using an average interest rate of 8.77%.

{g} - Represents the adjustment to income tax resulting from the pro forma adjustments in notes {c} - {f}. The adjustment is calculated as follows:

<C>	<C>
Adjustments on Flexsys pro forma transactions	
Depreciation expense	10
Amortization of intangible assets	(1)
Interest on term loan and revolver	(3)
Historical interest expense	3
	-----
	9
Flexsys statutory tax rate	35%
	-----
Adjustment to income tax from Flexsys pro forma adjustments	3
Adjustment on Solutia pro forma transactions (1)	
Equity loss from Flexsys joint venture (2)	7
Solutia UK Ltd. statutory tax rate	30%
	-----
Adjustment to income tax from Solutia pro forma adjustments	2
	-----
Total adjustment to income tax from pro forma adjustments	5
	=====

<FN>

(1) At December 31, 2006, the Company had substantial federal and state net operating losses available to offset taxable income. Because the U.S. legal entities owned by the Company are operating under Chapter 11 of the US Bankruptcy Code, a valuation allowance has been recorded to reduce the deferred tax asset to zero. Since the pro forma adjustments that relate to Solutia affect these legal entities' operations, the tax effect of these adjustments is zero.

(2) Solutia's United Kingdom legal entity recorded a \$7 equity loss from affiliate during 2006 (\$37 equity earnings from affiliate on a consolidated basis). Solutia UK Ltd. is not operating under Chapter 11, therefore, the reversal of the loss is tax effected using the applicable statutory tax rate for 2006.

</TABLE>

<TABLE>

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007  
(DOLLARS IN MILLIONS)  
(UNAUDITED)

<CAPTION>

HISTORICAL

HISTORICAL

ADJUSTMENTS  
FOR THE

PRO FORMA



	SOLUTIA {a}	FLEXSYS {b}	ACQUISITION	CONSOLIDATED
<C>	<C>	<C>	<C>	<C>
NET SALES	\$ 727	\$ 158	\$ -	\$ 885
Cost of goods sold	621	121	(2) {c}	740
GROSS PROFIT	106	37	2	145
Total marketing, administrative, and technological expenses	67	12	-	79
OPERATING INCOME	39	25	2	66
Equity earnings from affiliates	9	-	(9) {d}	-
Interest expense	(29)	(1)	(3) {e}	(33)
Other income (loss), net	3	(1)	-	2
Loss on debt modification	(7)	-	-	(7)
Reorganization items, net	(16)	-	-	(16)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	(1)	23	(10)	12
Income tax expense	7	4	1 {f}	12
INCOME (LOSS) FROM CONTINUING OPERATIONS	(8)	19	(11)	-
EARNINGS (LOSS) PER BASIC AND DILUTED SHARE	(\$0.08)			\$0.00
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	104.5			104.5

See notes to the unaudited pro forma condensed combined statement of operations

<FN>

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS  
(Dollars in millions)

{a} - Represents the historical condensed consolidated statement of financial position of the Company as of March 31, 2007 included in the Company's Form 10-Q filed on May 7, 2007.

{b} - Represents the unaudited combined balance sheet of Flexsys as of March 31, 2007.

{c} - To reduce depreciation expense to reflect lower asset values and updated estimated useful lives. The reduction of the depreciation expense on depreciable assets is calculated as follows:

	Fair Value	Useful Life	Depreciation Post-Acquisition	Depreciation Pre-Acquisition	Depreciation Adjustment
<C>	<C>	<C>	<C>	<C>	<C>
Land	\$14	N/A			
Land improvements	2	21	-	-	-
Buildings and building improvements	35	21	-	-	-
Manufacturing equipment	177	8	6	8	(2)
Other equipment	3	2	1	1	-
Construction in process	41	N/A			
Total	\$272		\$7	\$9	(\$2)

<FN>

{d} - Represents adjustment to eliminate equity income recognized by Solutia related to Flexsys during the three months ended March 31, 2007.

{e} - The table below sets forth adjustments to interest expense resulting from the extinguishment of debt and issuance of new debt:

<C>	<C>
Interest expense on pro forma borrowings:	
Flexsys term loan and revolver (1)	\$1
Solutia amendment of DIP credit facility (2)	3
Total interest expense on pro forma borrowings	4
Less: historical Flexsys interest expense	(1)
Total adjustment to interest expense	\$3

<FN>

(1) Represents interest expense on the \$73 refinancing of Flexsys' debt. The debt has a variable interest rate and was calculated using an average interest rate of 5.48% for the three months ended March 31, 2007.

(2) Represents interest expense on the \$150 increase in the DIP credit facility to facilitate the Flexsys Acquisition. The debt has a variable interest rate and was calculated using an average interest rate of 8.56% for the three months ended March 31, 2007.

{f} - Represents the adjustment to income tax resulting from the pro forma adjustments in notes {c} - {e}. The adjustment is calculated as follows:

<C>	<C>
Adjustments on Flexsys pro forma transactions	
Depreciation expense	2
Interest on term loan and revolver	1
Historical interest expense	(1)
	-----
	2
Flexsys statutory tax rate	35%
	-----
Adjustment to income tax from Flexsys pro forma adjustments	1
Adjustment on Solutia pro forma transactions (1)	-
	-----
Total adjustment to income tax from pro forma adjustments	1
	=====

<FN>

(1) At March 31, 2007, the Company had substantial federal and state net operating losses available to offset taxable income. Because the U.S. legal entities owned by the Company are operating under Chapter 11 of the US Bankruptcy Code, a valuation allowance has been recorded to reduce the deferred tax asset to zero. Since the pro forma adjustments that relate to Solutia affect these legal entities' operations, the tax effect of these adjustments is zero.

</TABLE>

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

```

-----x
IN RE                               :
                                   : Chapter 11
SOLUTIA INC., ET AL.,              :
                                   : Case No. 03-17949 (PCB)
Debtors.                            : (Jointly Administered)
-----x

```

THIS PLAN APPLIES TO:

X All Debtors	Axio Research Corporation
---	---
Solutia Inc.	Solutia Investments, LLC
---	---
Solutia Business Enterprises Inc.	Beamer Road Management Company
---	---
Solutia Systems, Inc.	Monchem, Inc.
---	---
Solutia Overseas, Inc.	Solutia Inter-America, Inc.
---	---
CPFilms Inc.	Solutia International Holding, LLC
---	---
Solutia Management Company, Inc.	Solutia Taiwan, Inc.
---	---
Monchem International, Inc.	Solutia Greater China, Inc.
---	---

DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION

KIRKLAND & ELLIS LLP  
Citigroup Center  
153 East 53rd Street  
New York, New York 10022-4611  
Telephone: (212) 446-4800  
Facsimile: (212) 446-4900  
Richard M. Cieri (RC 6062)  
Jonathan S. Henes (JH 1979)  
Colin M. Adams (CA 2913)

Attorneys for the Debtors and Debtors  
in Possession

Dated: July 9, 2007

TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
ARTICLE I DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME.....	1
A. Defined Terms.....	1

1.	"2027/2037 Notes".....	1
2.	"Abernathy Settlement Agreement".....	1
3.	"Ad Hoc Notes Committee".....	1
4.	"Ad Hoc Trade Committee".....	1
5.	"ACE Companies".....	1
6.	"ACE Insurance Program".....	1
7.	"ACE Settlement Agreement".....	2
8.	"Administrative Expense Claim".....	2
9.	"Administrative Expense Claim Bar Date".....	2
10.	"Affiliate".....	2
11.	"Allowed Claim".....	2
12.	"Allowed . . . Claim".....	3
13.	"Anniston Consent Decree".....	3
14.	"Anniston Global Settlement Agreement".....	3
15.	"Anniston Litigation Settlement Agreements".....	3
16.	"Anniston Side Letter Agreement".....	3
17.	"Avoidance Actions".....	3
18.	"Axio Claims".....	3
19.	"Axio Liquidation Sale".....	3
20.	"Ballot".....	3
21.	"Bankruptcy Code".....	3
22.	"Bankruptcy Court".....	3
23.	"Bankruptcy Rules".....	3
24.	"Bar Date".....	3
25.	"Bar Date Order".....	4
26.	"Business Day".....	4
27.	"Cash".....	4
28.	"Causes of Action".....	4
29.	"CERCLA".....	4
30.	"Chapter 11 Cases".....	4
31.	"Chemicals Assets".....	4
32.	"Chemicals Liabilities".....	4
33.	"Chocolate Bayou Agreements".....	4
34.	"Chocolate Bayou Settlement".....	4
35.	"Claim".....	4
36.	"Claims Objection Deadline".....	4
37.	"Class".....	4
38.	"Commercial and Operating Agreements".....	5
39.	"Confirmation".....	5
40.	"Confirmation Date".....	5
41.	"Confirmation Hearing".....	5
42.	"Confirmation Order".....	5
43.	"Consummation".....	5
44.	"Convenience Claims".....	5

TABLE OF CONTENTS  
(CONTINUED)

	Page	
	----	
45.	"CPFilms Claims".....	5
46.	"Creditors' Committee".....	5
47.	"Debtor Intercompany Claim".....	5
48.	"DIP Claims".....	5
49.	"DIP Credit Facility".....	5
50.	"DIP Lender".....	5
51.	"Directors' and Officer Indemnity Claims".....	5
52.	"Disclosure Statement Hearing".....	5
53.	"Disclosure Statement Order".....	6
54.	"Disputed Claim".....	6
55.	"Disputed Claims Reserve".....	6
56.	"Disputed General Unsecured Claims Reserve".....	6
57.	"Disputed General Unsecured Claim".....	6
58.	"Distribution".....	6
59.	"Distribution Agreement".....	6
60.	"Distribution Date".....	6
61.	"Distribution Record Date".....	6
62.	"Effective Date".....	6
63.	"Eligible Holder".....	6
64.	"Entity".....	6
65.	"Environmental Liability".....	6

66.	"Environmental Liability Costs".....	6
67.	"Equity Committee".....	6
68.	"Equity Committee Adversary Proceeding".....	6
69.	"Equity Interest".....	7
70.	"ERISA".....	7
71.	"Estate" and, collectively, "Estates".....	7
72.	"Exchange Act".....	7
73.	"Executory Contract and/or Unexpired Lease".....	7
74.	"Exit Financing Facility".....	7
75.	"Exit Financing Facility Agent Bank".....	7
76.	"Exit Financing Facility Commitment Letter".....	7
77.	"Final Order".....	7
78.	"Formalin Purchase Agreement".....	7
79.	"Funding Co".....	7
80.	"Funding Co Charter".....	7
81.	"General Unsecured Claims".....	7
82.	"HCN Purchase Agreement".....	8
83.	"HMD Purchase Agreement".....	8
84.	"HMTA Purchase Agreement".....	8
85.	"Holdback Amount".....	8
86.	"Holdback Escrow Account".....	8
87.	"Holder" and, collectively, "Holders".....	8
88.	"HSR Act".....	8
89.	"Impaired".....	8
90.	"Impaired Claim".....	8
91.	"Impaired Class".....	8
92.	"Incentive Plan".....	8
93.	"Insured Claims".....	8
94.	"Internal Revenue Code".....	8
95.	"IRS".....	8

TABLE OF CONTENTS  
(CONTINUED)

	Page	
	----	
96.	"JPM Adversary Proceeding".....	9
97.	"Legacy Claims".....	9
98.	"Legacy Sites".....	9
99.	"Legacy Site Claims".....	9
100.	"Lien".....	9
101.	"Master Operating Agreement".....	9
102.	"Monsanto".....	9
103.	"Monsanto Claim".....	9
104.	"Monsanto Contribution".....	9
105.	"Monsanto/Pharmacia Injunction".....	9
106.	"Monsanto's Professionals".....	9
107.	"Monsanto Settlement".....	10
108.	"Monsanto Tort Management".....	10
109.	"National Securities Exchange".....	10
110.	"New By-laws".....	10
111.	"New Certificate of Incorporation".....	10
112.	"New Common Stock".....	10
113.	"Nominee".....	10
114.	"Non-Debtor Intercompany Claim".....	10
115.	"Noteholder Claims".....	10
116.	"NRD Claims".....	10
117.	"NYSE".....	10
118.	"Ordinary Course Professionals Order".....	10
119.	"PBG".....	10
120.	"PCBs".....	10
121.	"Pension Plan".....	11
122.	"Person".....	11
123.	"Petition Date".....	11
124.	"Pharmacia".....	11
125.	"Pharmacia Contribution".....	11
126.	"Pharmacia Claims".....	11
127.	"Plan Documents".....	11
128.	"Plan Supplement".....	11
129.	"Prepetition Indenture".....	11
130.	"Prepetition Indenture Trustee".....	11
131.	"Priority Non-Tax Claim".....	12

132.	"Priority Tax Claim".....	12
133.	"Pro Rata".....	12
134.	"Professional".....	12
135.	"Professional Fee Claims".....	12
136.	"Professional Fee Order".....	12
137.	"Quarterly Distribution Date".....	12
138.	"Registration Rights Agreement".....	12
139.	"Reinstated" or "Reinstatement".....	12
140.	"Relationship Agreement".....	14
141.	"Reorganized . . .".....	14
142.	"Restructuring Transactions".....	14
143.	"Restructuring Transactions Agreement".....	14
144.	"Retained Sites".....	14
145.	"Retirees".....	14
146.	"Retiree Approval Order".....	14

iii

TABLE OF CONTENTS  
(CONTINUED)

	Page	
	----	
147.	"Retiree Benefits".....	14
148.	"Retiree Claim".....	14
149.	"Retirees' Committee".....	14
150.	"Retiree Settlement Agreement".....	14
151.	"Retiree Trust".....	14
152.	"Rights".....	14
153.	"Rights Offering".....	14
154.	"Rights Offering Procedures".....	15
155.	"Rights Subscription Exercise Form".....	15
156.	"Sauget Administrative Orders".....	15
157.	"Schedules".....	15
158.	"Secured Claim".....	15
159.	"Securities Act".....	15
160.	"Security Claims".....	15
161.	"Senior Secured Notes".....	15
162.	"Senior Secured Note Claims".....	15
163.	"Senior Secured Notes Trustee".....	15
164.	"Separation Agreement".....	15
165.	"Settled Adversary Proceedings".....	15
166.	"Shareholders Agreement".....	16
167.	"Shared Sites".....	16
168.	"SIP Plan".....	16
169.	"Spinoff".....	16
170.	"Spinoff Indemnity Claim".....	16
171.	"Stipulation of Amount and Nature of Claim".....	16
172.	"Stock Pool".....	16
173.	"Subsidiary" or "Subsidiaries".....	16
174.	"Tolbert Settlement Agreement".....	16
175.	"Tort Claims".....	16
176.	"Treasury Regulations".....	17
177.	"Undeliverable Distribution".....	17
178.	"Uniform Commercial Code".....	17
179.	"Unimpaired".....	17
180.	"Unimpaired Claim".....	17
181.	"Unimpaired Class".....	17
182.	"United States of America".....	17
183.	"Unsecured Claim".....	17
184.	"Value".....	17
185.	"Voting Agent".....	17
186.	"Voting Deadline".....	17
187.	"Voting Record Date".....	17
188.	"Warrants".....	17
189.	"Warrant Agreement".....	18
B.	Rules of Interpretation and Computation of Time.....	19
1.	Rules of Interpretation.....	19
2.	Computation of Time.....	19
ARTICLE II CLASSES OF CLAIMS AND EQUITY INTERESTS.....		20
ARTICLE III TREATMENT OF CLAIMS AND EQUITY INTERESTS.....		21

TABLE OF CONTENTS  
(CONTINUED)

	Page
	----
1. Payment of Administrative Expense Claims.....	21
2. Payment of Priority Tax Claims.....	23
B. Classes of Claims.....	23
1. Priority Non-Tax Claims (Class 1).....	23
2. Secured Claims (Class 2).....	23
3. Senior Secured Note Claim (Class 3).....	24
4. Convenience Claims (Class 4).....	24
5. CPFilms Claims (Class 5).....	24
6. NRD Claims (Class 6).....	25
7. Insured Claims (Class 7).....	25
8. Tort Claims (Class 8).....	25
9. Legacy Site Claims (Class 9).....	26
10. Equity Interests in all Debtors other than Solutia (Class 10).....	26
11. Monsanto Claim (Class 11).....	26
12. Noteholder Claims (Class 12).....	27
13. General Unsecured Claims (Class 13).....	27
14. Retiree Claim (Class 14).....	27
15. Pharmacia Claims (Class 15).....	28
16. Non-Debtor Intercompany Claims (Class 16).....	28
17. Debtor Intercompany Claims (Class 17).....	28
18. Axio Claims (Class 18).....	28
19. Security Claims (Class 19).....	29
20. Equity Interests in Solutia (Class 20).....	29
ARTICLE IV ACCEPTANCE OR REJECTION OF THE PLAN.....	30
A. Special Provisions Governing Unimpaired Claims.....	30
B. Classes Entitled to Vote.....	30
C. Cramdown.....	30
ARTICLE V MEANS FOR IMPLEMENTATION OF THE PLAN.....	31
A. General Settlement of Claims.....	31
B. Settlement Among the Debtors, Monsanto, Pharmacia, the Retirees, the Creditors' Committee and the Ad Hoc Trade Committee.....	31
1. The Distribution Agreement.....	31
2. Relationship Agreement.....	32
3. Commercial and Operating Agreements.....	32
4. Monsanto Tort Management.....	32
5. Monsanto's Settlement of Adversary Proceedings, Contested Matters, Disputes and Monsanto Claims..	32
6. Monsanto's Professionals.....	32
7. Monsanto Administrative Claim.....	33
8. Pharmacia Contribution.....	33
9. Settlement With Retirees.....	33
10. Settled Adversary Proceedings.....	33
11. Solutia's Assumption of Certain Environmental Liabilities.....	33
C. Restructuring Transactions.....	34
D. Continued Corporate Existence and Vesting of Assets in the Reorganized Debtors.....	34
E. Execution of Plan Documents.....	35
F. Corporate Governance, Directors and Officers and Corporate Action of the Reorganized Debtors.....	35

TABLE OF CONTENTS  
(CONTINUED)

1.	New Certificates of Incorporation and New By-Laws	35
2.	Directors and Officers of the Reorganized Debtors	35
3.	Corporate Action	35
4.	The New Common Stock	36
5.	Shareholders Agreement	36
G.	Exit Financing Facility, Obtaining Cash for Distributions and Transfers of Funds Among the Debtors	36
H.	The Rights Offering	36
1.	Use of Rights Offering Proceeds	36
2.	Rights Offering Procedures	37
I.	Funding Co.	37
J.	Incentive Plan	37
K.	Release of Liens and Guarantee Claims	37
L.	Cancellation of Existing Securities and Agreements	37
M.	Effectuating Documents	38
N.	Employment and Other Benefits Programs	38
ARTICLE VI TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES		39
A.	Assumption and Rejection of Executory Contracts and Unexpired Leases	39
B.	Claims Based on Rejection of Executory Contracts or Unexpired Leases	39
C.	Cure of Defaults for Executory Contracts and Unexpired Leases Assumed	39
D.	Insurance Policies	40
1.	ACE Settlement	40
E.	Anniston Settlement	40
F.	Assumption of Pension Obligations	40
G.	Contracts and Leases Entered Into After the Petition Date	41
ARTICLE VII PROVISIONS GOVERNING DISTRIBUTIONS		42
A.	Distributions for Claims Allowed as of the Effective Date	42
B.	Delivery of Distributions	42
C.	Delivery and Distributions and Undeliverable or Unclaimed Distributions	42
1.	Delivery of Distributions in General	42
2.	Undeliverable Distributions	42
D.	Compliance with Tax Requirements/Allocations	43
E.	Record Date for Distribution	43
F.	Distributions of Whole Shares and Warrants Only	43
G.	Set-offs and Recoupments	43
H.	Surrender of Cancelled Instruments or Securities	44
I.	Disputed Claims Reserve	44
1.	Deposit of Cash on the Effective Date	44
2.	Distribution After Allowance	44
3.	Distributions After Disallowance	44
4.	Property Held in the Disputed Claims Reserve	44
J.	The Disputed General Unsecured Claims Reserve	45
1.	Deposit of New Common Stock on the Effective Date	45
2.	Distributions After Allowance	45
3.	Distributions After Disallowance	45
4.	Property Held in Disputed General Unsecured Claims Reserve	46
ARTICLE VIII PROCEDURES FOR TREATING DISPUTED GENERAL UNSECURED CLAIMS		47
A.	Objections to Claims	47
vi		
TABLE OF CONTENTS (CONTINUED)		
		Page
		----
B.	General Unsecured Claims Monitor	47
C.	No Distributions Pending Allowance	48
D.	Estimation of Claims	48
ARTICLE IX CONDITIONS PRECEDENT TO CONFIRMATION AND CONSUMMATION OF THE PLAN		49
A.	Condition Precedent to Confirmation	49
B.	Conditions Precedent to Effective Date	50



C.	Effect of Failure of Conditions.....	51
D.	Waiver of Conditions.....	51
ARTICLE X	INJUNCTIONS, RELEASES, EXCULPATION AND DISCHARGE.....	52
A.	Injunctions.....	52
1.	DEBTORS' INJUNCTION.....	52
2.	MONSANTO/PHARMACIA INJUNCTION.....	52
B.	Releases.....	53
1.	RELEASES BY THE DEBTORS.....	53
2.	RELEASES BY HOLDERS OF CLAIMS AND EQUITY INTERESTS.....	54
3.	RETIREE RELEASE AND INJUNCTION.....	55
C.	EXCULPATION AND LIMITATION OF LIABILITY.....	55
D.	DISCHARGE OF CLAIMS AND TERMINATION OF EQUITY INTERESTS....	55
ARTICLE XI	RETENTION OF JURISDICTION.....	57
A.	Retention of Jurisdiction.....	57
ARTICLE XII	MISCELLANEOUS PROVISIONS.....	59
A.	Binding Effect.....	59
B.	Preservation of Avoidance Actions.....	59
C.	Claims of the United States of America.....	59
D.	Applicability of Section 1125(e) of the Bankruptcy Code....	59
E.	Dissolution of the Creditors' Committee, Retirees' Committee and Equity Committee.....	59
F.	Payment of Statutory Fees.....	60
G.	Modification of the Plan.....	60
H.	Severability.....	60
I.	Revocation or Withdrawal of the Plan.....	60
J.	Section 1145 Exemption.....	61
K.	Section 1146 Exemption.....	61
L.	Notices.....	61
1.	The Debtors and the Reorganized Debtors.....	61
2.	The Creditors' Committee.....	62
3.	The Retirees' Committee.....	62
4.	The Equity Committee.....	62
5.	The DIP Lenders.....	63
6.	The United States Trustee.....	63
7.	Monsanto.....	63
8.	Pharmacia.....	64
M.	Governing Law.....	64

TABLE OF EXHIBITS

Exhibit A	Relationship Agreement(1)
Exhibit B	Retiree Settlement Agreement(2)
Exhibit C	Exit Financing Facility Commitment Letter
Exhibit D	Form of New Bylaws
Exhibit E	Form of New Certificates of Incorporation
Exhibit F	Initial Directors and Officers of Each Reorganized Debtor
Exhibit G	List of Executory Contracts and Unexpired Leases to be Assumed
Exhibit H	Rights Offering Procedures
Exhibit I	Incentive Plan
Exhibit J	Registration Rights Agreement
Exhibit K	Funding Co Charter
Exhibit L	Shareholders Agreement
Exhibit M	Restructuring Transaction Agreement

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(1) Filed with the Bankruptcy Court on February 14, 2006.

(2) Filed with the Bankruptcy Court on February 14, 2006.

viii

## INTRODUCTION

Solutia Inc. ("Solutia"), together with its direct and indirect subsidiaries and its Affiliates Solutia Business Enterprises Inc., Solutia Systems, Inc., Solutia Overseas, Inc., CPFilms Inc. ("CPFilms"), Solutia Management Company, Inc., Monchem International, Inc., Axio Research Corporation, Solutia Investments, LLC, Beamer Road Management Company, Monchem, Inc., Solutia Inter-America, Inc., Solutia International Holding, LLC, Solutia Taiwan, Inc. and Solutia Greater China, Inc., as debtors and debtors in possession (collectively, the "Debtors"), propose this amended joint plan of reorganization (the "Plan") for the resolution of the outstanding claims against, and equity interests in, the Debtors. The Debtors are the proponents of the Plan within the meaning of section 1129 of the Bankruptcy Code (as defined below). Reference is made to the Debtors' disclosure statement, which was filed with the Bankruptcy Court on July [\_\_], 2007 (the "Disclosure Statement"), for a discussion of the Debtors' history, businesses, results of operations, historical financial information, accomplishments during the Chapter 11 Cases (as defined below), projections and properties, and for a summary and analysis of this Plan and the settlements contemplated herein and the Plan Documents. There also are other agreements and documents, which are or will be filed with the Bankruptcy Court, that are referenced in this Plan or the Disclosure Statement.

## ARTICLE I

DEFINED TERMS, RULES OF INTERPRETATION  
AND COMPUTATION OF TIME

## A. DEFINED TERMS

As used in this Plan, capitalized terms have the meanings set forth below or in the Introduction above. Any terms that are not otherwise defined herein, but that are used in the Bankruptcy Code or the Bankruptcy Rules (each as defined below), will have the meaning ascribed to them in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

1. "2027/2037 NOTES" means the two series of unsecured public notes issued by Solutia: (a) \$150 million in 6.72% notes due October 15, 2037 and (b) \$300 million in 7.375% notes due October 15, 2027.

2. "ABERNATHY SETTLEMENT AGREEMENT" means that certain settlement agreement, dated September 9, 2003, resolving the lawsuit captioned Sabrina Abernathy v. Monsanto Company, Civil Action No. CY-01-832 (Etowah County).

3. "AD HOC NOTES COMMITTEE" means the ad hoc committee of Holders of the 2027/2037 Notes.

4. "AD HOC TRADE COMMITTEE" means the ad hoc committee of Holders of trade claims in Solutia.

5. "ACE COMPANIES" means, collectively, ACE American Insurance Company, Indemnity Insurance Company of North America, ACE Insurance Company of Puerto Rico, Pacific Employers Insurance Company, Insurance Company of North America, ESIS, Inc. ("ESIS") and their respective affiliates.

6. "ACE INSURANCE PROGRAM" means all insurance policies and all agreements, documents or instruments relating thereto that have been issued or entered into by the ACE Companies (or any of

them) to or with one or more of the Debtors, their respective predecessors and/or affiliates including, but not limited to, Monsanto. The ACE Insurance Program includes, without limitation: (i) Consent and Agreement regarding Assumption of Insurance Obligations, effective September 1, 1997, by and among Monsanto, Solutia and INA on behalf of the ACE Companies, (ii) that certain OCIP/Wrap-Up Casualty Insurance Program Agreement effective August 1, 1998 between Solutia and certain of the ACE Companies ("OCIP Agreement") and (iii) those certain service agreements with ESIS ("ESIS Agreements") under which ESIS provides the Debtors with certain claims administration services.

7. "ACE SETTLEMENT AGREEMENT" means the settlement agreement to be executed by and among the ACE Companies and the Debtors pursuant to which the Debtors will assume the ACE Insurance Program in its entirety and pay the cure costs related thereto.

8. "ADMINISTRATIVE EXPENSE CLAIM" means a Claim for costs and expenses of administering the Estates that is Allowed under sections 503(b), 507(b) or 1114(e)(2) of the Bankruptcy Code, including: (a) the actual and necessary costs and expenses incurred after the Petition Date of preserving the respective Estates and operating the businesses of the Debtors (such as wages, salaries, commissions for services and payments for inventories, leased equipment and premises), including DIP Claims; (b) compensation for legal, financial advisory, accounting and other services and reimbursement of expenses awarded or allowed under sections 330(a) or 331 of the Bankruptcy Code, including Professional Fee Claims; (c) all fees and charges assessed against the Estates under chapter 123 of title 28, United States Code, 28 U.S.C. Sections 1911-1930; and (d) Claims for reclamation allowed in accordance with section 546(c)(2) of the Bankruptcy Code and section 2-702 of the Uniform Commercial Code.

9. "ADMINISTRATIVE EXPENSE CLAIM BAR DATE" means the date that is the forty-fifth (45th) day after the Effective Date.

10. "AFFILIATE" means, with respect to any Person or Entity, a Person or Entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such person or Entity; provided, however, that in no event shall any of Monsanto, Solutia,

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Reorganized Solutia or Pharmacia be considered to be Affiliates for purposes of the Plan.

11. "ALLOWED CLAIM" means:

a. a Claim that: (i) has been listed by a particular Debtor on its Schedules as other than disputed, contingent or unliquidated; and (ii) is not otherwise a Disputed Claim;

b. a Claim (i) for which a proof of Claim or request for payment of Administrative Claim has been filed by the applicable Bar Date or otherwise been deemed timely filed under applicable law or order of the Bankruptcy Court; (ii) as to which the Claims Objection Deadline has passed; and (iii) that is not otherwise a Disputed Claim; or

c. a Claim that is allowed: (i) in any Stipulation of Amount and Nature of Claim; (ii) in any contract, instrument or other agreement entered into in connection with the Plan and approved by the Bankruptcy Court; (iii) in a Final Order; or (iv) pursuant to the terms of the Plan.

2

12. "ALLOWED . . . CLAIM" means an Allowed Claim in the particular Class or category specified. Any reference herein to a particular Allowed Claim includes both the secured and unsecured portions of such Claim, as applicable.

13. "ANNISTON CONSENT DECREE" means the Partial Consent Decree entered by the District Court for the Northern District of Alabama on August 9, 2003, among the United States, Pharmacia and Solutia with respect to the Anniston Superfund Site in Anniston, Alabama.

14. "ANNISTON GLOBAL SETTLEMENT AGREEMENT" means that certain Global

Settlement Agreement, dated September 9, 2003, among Solutia, Monsanto and Pharmacia, which resolved certain lawsuits pending against Solutia, Monsanto and Pharmacia in the United States District Court, Northern District of Alabama and in the Circuit Court, Etowah County, Alabama and was approved by those courts.

15. "ANNISTON LITIGATION SETTLEMENT AGREEMENTS" means the Abernathy Settlement Agreement together with the Tolbert Settlement Agreement.

16. "ANNISTON SIDE LETTER AGREEMENT" means that certain agreement, dated August 20, 2003, among Solutia, Monsanto and Pharmacia which sets forth their respective obligations under the Anniston Litigation Settlement Agreements.

17. "AVOIDANCE ACTIONS" means any and all actual or potential Claims to avoid a transfer of property or an obligation incurred by the Debtor pursuant to any applicable section of the Bankruptcy Code, including sections 544, 545, 547, 548, 549, 550, 551, 553(b) and 724(a) of the Bankruptcy Code.

18. "AXIO CLAIMS" means all Claims against Axio Research Corporation.

19. "AXIO LIQUIDATION SALE" means that certain sale of the assets of Axio Research Corporation authorized pursuant to that certain order of the Bankruptcy Court dated December 16, 2004.

20. "BALLOT" means the ballot forms distributed to each Holder of an Impaired Claim on which the Holder may indicate, among other things, whether it accepts or rejects the Plan.

21. "BANKRUPTCY CODE" means title 11 of the United States Code, as applicable to the Chapter 11 Cases.

22. "BANKRUPTCY COURT" means the United States Bankruptcy Court for the Southern District of New York, which has jurisdiction over the Chapter 11 Cases and, to the extent of the withdrawal of any reference under section 157 of title 28 of the United States Code, the United States District Court for the Southern District of New York.

23. "BANKRUPTCY RULES" means, collectively, the Federal Rules of Bankruptcy Procedure and the local rules of the Bankruptcy Court, as applicable to the Chapter 11 Cases.

24. "BAR DATE" means, with respect to Claims against the Debtors, (a) November 30, 2004, or (b) any other bar date for the filing of Claims established by (i) the Bar Date Order, (ii) a separate order of the Bankruptcy Court, (iii) a stipulation between or among the Debtors and a Holder in connection with the Chapter 11 Cases or (iv) a supplemental bar date established by the Debtors in accordance with the Bar Date Order.

3

25. "BAR DATE ORDER" means that certain order of the Bankruptcy Court entered on October 1, 2004, which established a Bar Date for filing proofs of Claims in the Chapter 11 Cases, as the same may be amended, modified or supplemented.

26. "BUSINESS DAY" means any day, other than a Saturday, Sunday or "legal holiday" (as defined in Bankruptcy Rule 9006(a)).

27. "CASH" means legal tender of the United States of America.

28. "CAUSES OF ACTION" means all actions, causes of action, liabilities, obligations, rights, suits, damages, judgments, remedies, demands, setoffs, defenses, recoupments, crossclaims, counterclaims, third-party claims, indemnity claims, contribution claims or any other claims whatsoever, whether known or unknown, matured or unmatured, fixed or contingent, liquidated or unliquidated, disputed or undisputed, suspected or unsuspected, foreseen or unforeseen, direct or indirect, choate or inchoate, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission or other event occurring prior to the Petition Date or during the course of the Chapter 11 Cases, including through the Effective Date.

29. "CERCLA" means the Comprehensive Environmental Response,

30. "CHAPTER 11 CASES" means (a) when used with reference to a particular Debtor, the chapter 11 case pending for that Debtor under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court and (b) when used with reference to all Debtors, the procedurally consolidated chapter 11 cases pending for the Debtors in the Bankruptcy Court.

31. "CHEMICALS ASSETS" means the assets constituting "Chemicals Assets" as defined and set forth in the Distribution Agreement.

32. "CHEMICALS LIABILITIES" means the liabilities constituting "Chemicals Liabilities" as defined and set forth in the Distribution Agreement.

33. "CHOCOLATE BAYOU AGREEMENTS" means the Master Operating Agreement, the HMTA Purchase Agreement, and the HCN Purchase Agreement and the Formalin Purchase Agreement, the agreements that define the relationship between Monsanto and Solutia at the Alvin, Texas "Chocolate Bayou" facility.

34. "CHOCOLATE BAYOU SETTLEMENT" means the settlement between Monsanto and Solutia to amend the Chocolate Bayou Agreements.

35. "CLAIM" means a "claim," as defined in section 101(5) of the Bankruptcy Code, against any Debtor.

36. "CLAIMS OBJECTION DEADLINE" means, for each Claim, the later of (a) 90 days after the Effective Date and (b) such other period of limitation as may be specifically fixed by an order of the Bankruptcy Court for objecting to such Claim.

37. "CLASS" means a class of Claims or Equity Interests, as described in Article II herein.

4

38. "COMMERCIAL AND OPERATING AGREEMENTS" means the Master Operating Agreement, the HMD Purchase Agreement, the HMTA Purchase Agreement, the HCN Purchase Agreement and the Formalin Purchase Agreement.

39. "CONFIRMATION" means the entry of the Confirmation Order on the docket of the Chapter 11 Cases.

40. "CONFIRMATION DATE" means the date on which the Bankruptcy Court enters the Confirmation Order on its docket, within the meaning of Bankruptcy Rules 5003 and 9021.

41. "CONFIRMATION HEARING" means the hearing held by the Bankruptcy Court on Confirmation of the Plan, as such hearing may be continued from time to time.

42. "CONFIRMATION ORDER" means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

43. "CONSUMMATION" means the occurrence of the Effective Date.

44. "CONVENIENCE CLAIMS" means a Claim that otherwise would be a General Unsecured Claim included in Class 13, but (a) the amount of such Claim is equal to or less than \$2,500 or (b) the Holder of such Claim, in full settlement of such Claim, agrees, by the applicable voting deadline as specified in the Disclosure Statement, pursuant to an election made by such Holder on its Ballot, to reduce such Claim to \$2,500.

45. "CPFILMS CLAIMS" means all Claims, other than Non-Debtor Intercompany Claims, Debtor Intercompany Claims and Legacy Claims, scheduled by or filed against CPFilms.

46. "CREDITORS' COMMITTEE" means the official committee of unsecured creditors of the Debtors appointed by the United States Trustee in the Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code, as reconstituted from time to time.

47. "DEBTOR INTERCOMPANY CLAIM" means any Claim of one Debtor against

another Debtor.

48. "DIP CLAIMS" means all Claims arising under or pursuant to the DIP Credit Facility.

49. "DIP CREDIT FACILITY" means that certain Financing Agreement, dated as of January 16, 2004, as amended on March 1, 2004, July 20, 2004, June 1, 2005, March 17, 2006, and January 25, 2007, among Solutia and Solutia Business Enterprises Inc, as borrowers, all of the other Debtors, as guarantors, Citicorp USA, Inc., as administrative, collateral and documentation agent, and Citibank, N.A., as Issuer, and the lenders party thereto, as the same may be amended from time to time prior to the Confirmation Date.

50. "DIP LENDER" means, collectively, (a) those entities identified as "Lenders" in the DIP Credit Facility and their respective successors and assigns and (b) Citibank, N.A. (as Issuer).

51. "DIRECTORS' AND OFFICER INDEMNITY CLAIMS" means all Claims filed by the Debtors' current and former directors, officers and employees for indemnification or contribution.

52. "DISCLOSURE STATEMENT HEARING" means the hearing held by the Bankruptcy Court regarding the approval of the Disclosure Statement.

5

53. "DISCLOSURE STATEMENT ORDER" means that certain order of the Bankruptcy Court entered on \_\_\_\_\_, 2007, which is annexed as Exhibit B to the Disclosure Statement.

54. "DISPUTED CLAIM" means any Claim which is not an Allowed Claim.

55. "DISPUTED CLAIMS RESERVE" means the reserve established and maintained by the Reorganized Debtors to hold Cash to be distributed, as applicable, to Holders of Allowed Claims other than Allowed General Unsecured Claims and Allowed Noteholder Claims pending resolution of Section VII.I hereof.

56. "DISPUTED GENERAL UNSECURED CLAIMS RESERVE" means the reserve established and maintained by the Reorganized Debtors to hold the shares of New Common Stock to be Distributed, as applicable, to Holders of Allowed General Unsecured Claims and Allowed Noteholder Claims pending the resolution of Disputed General Unsecured Claims in accordance with the terms of Section VII.J hereof.

57. "DISPUTED GENERAL UNSECURED CLAIM" means any General Unsecured Claim that, as of the date of determination, is a Disputed Claim.

58. "DISTRIBUTION" means any distribution made under the Plan to a Holder of an Allowed Claim.

59. "DISTRIBUTION AGREEMENT" means that certain agreement, dated as of September 1, 1997, as amended on July 1, 2002 and otherwise from time to time, by and between Solutia and Pharmacia.

60. "DISTRIBUTION DATE" means any date on which a Distribution is made.

61. "DISTRIBUTION RECORD DATE" means the date that is five Business Days after the Confirmation Date.

62. "EFFECTIVE DATE" means the day that is the first Business Day after all conditions to occurrence of the Effective Date have been met or waived pursuant to Sections IX.B and IX.D.

63. "ELIGIBLE HOLDER" means the Holders of General Unsecured Claims and the Holders of Noteholder Claims that are eligible, pursuant to the Rights Offering Procedures, to participate in the Rights Offering.

64. "ENTITY" shall have the meaning set forth in section 101(15) of the Bankruptcy Code.

65. "ENVIRONMENTAL LIABILITY" means any liability constituting an

"Environmental Liability" as defined and set forth in the Relationship Agreement.

66. "ENVIRONMENTAL LIABILITY COSTS" means any costs constituting "Environmental Liability Costs" as defined and set forth in the Relationship Agreement.

67. "EQUITY COMMITTEE" means the official committee of equity security holders of the Debtors appointed in the Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code, as reconstituted from time to time.

68. "EQUITY COMMITTEE ADVERSARY PROCEEDING" means the adversary proceeding filed on March 7, 2005 by the Equity Committee against Pharmacia and Monsanto, Case No. 05-01202.

6

69. "EQUITY INTEREST" means any share of common stock, preferred stock or other instrument evidencing an ownership interest in any of the Debtors, whether or not transferable, and any option, warrant or right, contractual or otherwise, to acquire any such interest.

70. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

71. "ESTATE" and, collectively, "ESTATES" means the estate created for that Debtor in its Chapter 11 Case pursuant to section 541 of the Bankruptcy Code.

72. "EXCHANGE ACT" means the Securities Exchange Act of 1934, 15 U.S.C. Sections 78a-78jj, as now in effect or hereafter amended.

73. "EXECUTORY CONTRACT AND/OR UNEXPIRED LEASE" means a contract or lease to which one or more of the Debtors is a party and that is subject to assumption or rejection under section 365 of the Bankruptcy Code.

74. "EXIT FINANCING FACILITY" means a senior secured credit facility that will be entered into by the Reorganized Debtors, the Exit Financing Facility Agent Bank and the relevant lenders on the Effective Date.

75. "EXIT FINANCING FACILITY AGENT BANK" means the agent bank under the Exit Financing Facility.

76. "EXIT FINANCING FACILITY COMMITMENT LETTER" means a binding commitment letter for the Exit Financing Facility.

77. "FINAL ORDER" means an order or judgment of the Bankruptcy Court, or other court of competent jurisdiction, as entered on the docket in the Chapter 11 Cases or the docket of any other court of competent jurisdiction, which has not been reversed, stayed, modified or amended, and as to which the time to appeal or seek certiorari has expired, and no appeal or petition for certiorari has been timely taken, or as to which any appeal that has been taken or any petition for certiorari that has been timely filed has been resolved by the highest court to which the order or judgment was appealed or from which certiorari was sought.

78. "FORMALIN PURCHASE AGREEMENT" means the Raw Material Purchase Agreement for Formalin dated September 1, 1997, as amended on April 1, 1999 and on September 26, 2003, between Solutia and Monsanto (as assignee of Pharmacia).

79. "FUNDING CO" means a newly created, special purpose, tax-efficient, bankruptcy-remote subsidiary of Reorganized Solutia, funded with the proceeds of the Rights Offering.

80. "FUNDING CO CHARTER" means the agreement governing Funding Co, substantially in the form annexed hereto as Exhibit K.

81. "GENERAL UNSECURED CLAIMS" means Unsecured Claims, other than Convenience Claims, Debtor Intercompany Claims, Insured Claims (only to the extent that such Insured Claims are payable by any available insurance coverage proceeds), the Noteholder Claims, the Monsanto Claim, Non-Debtor Intercompany Claims, NRD Claims, the Pharmacia Claims, the Legacy Site Claims, the Retiree Claim, Unsecured Claims against Axio Research Corporation, CPFilms

82. "HCN PURCHASE AGREEMENT" means the Raw Material Purchase Agreement for HCN dated September 1, 1997, as amended on April 1, 1999, between Solutia and Monsanto (as assignee of Pharmacia).

83. "HMD PURCHASE AGREEMENT" means the Raw Material Purchase Agreement for HMD dated September 1, 1997, as amended from time to time, between Solutia and Monsanto (as assignee of Pharmacia).

84. "HMTA PURCHASE AGREEMENT" means the Raw Material Conversion Agreement for HMTA dated September 1, 1997, as amended on April 1, 1999, between Solutia and Monsanto (as assignee of Pharmacia).

85. "HOLDBACK AMOUNT" means the aggregate holdback of those Professional fees billed to the Debtors during the Chapter 11 Cases that are held back pursuant to the Professional Fee Order or any other order of the Bankruptcy Court, which amount is to be deposited in the Holdback Escrow Account as of the Effective Date. The Holdback Amount shall not be considered property of the Debtors or the Reorganized Debtors except as set forth in Section III.A.1.d.ii.a.(iii).

86. "HOLDBACK ESCROW ACCOUNT" means the escrow account established by Reorganized Solutia into which Cash equal to the Holdback Amount shall be deposited on the Effective Date for the payment of Allowed Professional Fee Claims to the extent not previously paid or disallowed.

87. "HOLDER" and, collectively, "HOLDERS" means a Person or Entity legally holding a Claim or Equity Interest.

88. "HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

89. "IMPAIRED" means, with respect to a Claim or Equity Interest (or Class of Claims or Equity Interests), a Claim or Equity Interest (or Class of Claims or Equity Interests) that is impaired within the meaning of section 1124 of the Bankruptcy Code.

90. "IMPAIRED CLAIM" means a Claim classified in an Impaired Class.

91. "IMPAIRED CLASS" means each of Classes 3, 5, 11, 12, 13, 14, 15, 16, 17, 18, 19 and 20 as set forth in Article III of the Plan.

92. "INCENTIVE PLAN" means the employee incentive plan to be implemented in accordance with Section V.J. hereof substantially in the form annexed hereto as Exhibit I.

93. "INSURED CLAIMS" means any Claims (other than Tort Claims and Environmental Liabilities) that are covered under any insurance policies that are maintained by any of the Debtors, Pharmacia or Monsanto, but only to the extent of such coverage.

94. "INTERNAL REVENUE CODE" means the Internal Revenue Code of 1986, as amended from time to time, and any applicable rulings, Treasury Regulations, judicial decisions and notices, announcements and other releases of the United States Treasury Department or the IRS.

95. "IRS" means the Internal Revenue Service of the United States of America.

96. "JPM ADVERSARY PROCEEDING" means the adversary proceeding commenced on May 27, 2005 by the predecessor to the Prepetition Indenture Trustee against Solutia in the Bankruptcy Court, Case No. 05-01843.

97. "LEGACY CLAIMS" means all Claims, including, but not limited to, Tort Claims and Legacy Sites Claims, arising under or related to the Distribution Agreement, including any and all Claims relating to or arising out of the Spinoff, the Chemicals Liabilities and the Spinoff Indemnity



Claims.

98. "LEGACY SITES" means the "Legacy Sites" as defined and set forth in the Relationship Agreement.

99. "LEGACY SITE CLAIMS" means all Environmental Liability Costs with respect to the Legacy Sites.

100. "LIEN" means any lien, lease, right of first refusal, servitude, claim, pledge, option, charge, hypothecation, easement, security interest, right-of-way, encroachment, mortgage, deed of trust or any other encumbrance, restriction or limitation whatsoever.

101. "MASTER OPERATING AGREEMENT" means that certain Master Operating Agreement, dated as of September 1, 1997, as amended from time to time, by and between Solutia and Monsanto (as assignee of Pharmacia).

102. "MONSANTO" means Monsanto Company, a Delaware corporation, and its Affiliates.

103. "MONSANTO CLAIM" means any and all Claims of Monsanto, including all Claims of Monsanto on account of Solutia's breach of the Distribution Agreement.

104. "MONSANTO CONTRIBUTION" means, among other things, (a) the Monsanto Tort Management, (b) Monsanto's settlement of adversary proceedings (including the Settled Adversary Proceedings), contested matters, disputes and the Monsanto Claim, (c) Monsanto's management, litigation and settlement of various Legacy Claims, including Tort Claims, from the Petition Date through the Effective Date, (d) Monsanto's agreement to take financial responsibility, as between itself and Reorganized Solutia only, for the Legacy Site Claims and Environmental Liability for the Shared Sites, subject to the sharing mechanism set forth in the Relationship Agreement, and (e) Monsanto's agreement to (i) pay certain liabilities, including certain environmental liabilities as set forth in Section V.B herein and in the Relationship Agreement, (ii) forever release the Debtors from any and all indemnity obligations owed to Monsanto arising under the Distribution Agreement and/or any other agreement (other than as set forth in the Relationship Agreement and the Commercial and Operating Agreements), including any amendments to the Distribution Agreement, related to the Legacy Claims or otherwise, (iii) enter into the Relationship Agreement and amend the Master Operating Agreement, (iv) waive any right to file surrogate Claims pursuant to Bankruptcy Rule 3005, (v) grant certain indemnities to the Reorganized Debtors pursuant to the terms of the Relationship Agreement, and (vi) enter into the Chocolate Bayou Settlement.

105. "MONSANTO/PHARMACIA INJUNCTION" means the injunction in favor of Monsanto and Pharmacia as set forth in Section X.A.2 herein.

106. "MONSANTO'S PROFESSIONALS" means Willkie Farr & Gallagher LLP, Bryan Cave LLP, Boies, Schiller & Flexner LLP, Greenhill & Co., LLC, Kramer Capital Partners, Perella Weinberg Partners LP, Groom Law Group, ARCADIS, FTI Consulting, Dickstein Shapiro Morin & Oshinky LLP

9

and Sonnenschein Nath & Rosenthal LLP, Environ, William Holder, The Weinberg Group, Inc., Navigant and BDO Seidman, LLP.

107. "MONSANTO SETTLEMENT" means, as described in more detail in Article V.B hereof, the settlement between and among Monsanto, Solutia, the Creditors' Committee, the Ad Hoc Trade Committee and the Retirees' Committee whereby Monsanto has agreed to make the Monsanto Contribution in exchange for the allowance and treatment of the Monsanto Claim described in more detail in Article III.C.1.a hereof.

108. "MONSANTO TORT MANAGEMENT" means Monsanto's agreement to take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Tort Claims and to indemnify Reorganized Solutia for the Tort Claims, pursuant to the terms of the Relationship Agreement.

109. "NATIONAL SECURITIES EXCHANGE" means any exchange registered pursuant to Section 6(a) of the Exchange Act.

110. "NEW BY-LAWS" means the form of the by-laws of each of the Reorganized Debtors, which form is annexed hereto as Exhibit D.

111. "NEW CERTIFICATE OF INCORPORATION" means, the form of the certificates of incorporation of each of the Reorganized Debtors, which form is annexed hereto as Exhibit E.

112. "NEW COMMON STOCK" means the shares of common stock, par value \$.01 per share, of Reorganized Solutia, authorized pursuant to the New Certificate of Incorporation of Reorganized Solutia.

113. "NOMINEE" means any broker, dealer, commercial bank, trust company, savings and loan financial institution or other nominee in whose name securities were registered or held of record on behalf of a beneficial Holder.

114. "NON-DEBTOR INTERCOMPANY CLAIM" means any Claim owed by a Debtor to a non-Debtor Affiliate as of the Petition Date.

115. "NOTEHOLDER CLAIMS" means the Claims for principal and accrued but unpaid interest of the Holders of the 2027/2037 Notes as of the Petition Date.

116. "NRD CLAIMS" means Claims filed in the Chapter 11 Cases in accordance with the Bar Date Order under Section 107(a)(4)(C) of CERCLA, 42 U.S.C. Section 9607(a)(4)(C), or other provision of law, for damages for injury to, destruction of or loss of natural resources, including the reasonable cost of assessing such damages.

117. "NYSE" means the New York Stock Exchange.

118. "ORDINARY COURSE PROFESSIONALS ORDER" means that certain order of the Bankruptcy Court entered on January 16, 2004, as amended from time to time, which authorized the employment and payment of Professionals by the Debtors in the ordinary course of business.

119. "PBGC" means the Pension Benefit Guaranty Corporation.

120. "PCBS" means polychlorinated biphenyls.

10

121. "PENSION PLAN" means the Solutia Inc. Employees' Pension Plan, dated September 1, 1997, as amended and restated from time to time.

122. "PERSON" shall have the meaning set forth in section 101(41) of the Bankruptcy Code.

123. "PETITION DATE" means December 17, 2003, the date on which the Debtors commenced the Chapter 11 Cases.

124. "PHARMACIA" means Pharmacia Corporation, formerly known as Monsanto Company, a Delaware corporation.

125. "PHARMACIA CONTRIBUTION" means, pursuant to the provisions of Article V hereof, Pharmacia's agreement to (a) subject to the indemnity agreement to be provided by the Reorganized Debtors pursuant to the Relationship Agreement, forever release the Debtors and the Reorganized Debtors from any and all Legacy Claims, including any indemnity obligations arising under the Distribution Agreement, or otherwise, and any other claims or liabilities Pharmacia holds, has held or may in the future hold against the Debtors and the Reorganized Debtors, related to the Distribution Agreement or the Legacy Claims, and (b) waive the Pharmacia Claims in their entirety with prejudice.

126. "PHARMACIA CLAIMS" means all Claims asserted by Pharmacia, its parent and Affiliates, including Pfizer Inc., including Legacy Claims and any Claims for indemnification, contribution or otherwise arising under or related to the Distribution Agreement or any other agreement.

127. "PLAN DOCUMENTS" means (a) the Relationship Agreement, (b) the Exit Financing Facility, (c) the Exit Financing Facility Commitment Letter, (d) the New Certificate of Incorporation of each Reorganized Debtor, (e) the New By-laws of each Reorganized Debtor, (f) the list of Executory Contracts

and Unexpired Leases to be assumed, (g) the Rights Offering Procedures, (h) Commercial and Operating Agreements, (i) the Incentive Plan, (j) the Registration Rights Agreement, (k) the Restructuring Transactions Agreement, (l) the Retiree Settlement Agreement, (m) the Funding Co Charter, (n) the Shareholders Agreement, (o) the Warrant Agreement, and (p) any and all instruments, certificates, agreements or other documents executed, delivered, entered into or filed in connection with the Plan or any of the foregoing.

128. "PLAN SUPPLEMENT" means the following forms of documents: (a) the Exit Financing Facility Commitment Letter; (b) the New Certificate of Incorporation of each Reorganized Debtor; (c) the New By-laws of each Reorganized Debtor; (d) the list of Executory Contracts and Unexpired Leases to be assumed; (e) the Incentive Plan; (f) the Registration Rights Agreement; (g) the Restructuring Transactions Agreement; (h) the Funding Co Charter; (i) the identity and affiliations of any Person proposed to serve on the initial board of directors or be an officer of each of the Reorganized Debtors and to the extent any director or officer of Reorganized Solutia is an "insider" under the Bankruptcy Code, the nature and amount of any compensation to be paid to such director or officer; (j) the Warrant Agreement, and (k) the Shareholders Agreement, each in substantially final form or final form, as applicable, each of which will be filed with the Bankruptcy Court at least ten (10) days prior to the Confirmation Hearing.

129. "PREPETITION INDENTURE" means that certain Indenture, dated October 1, 1997, as the same may have been subsequently modified, amended or supplemented, together with all instruments and agreements related thereto, between Solutia and the Prepetition Indenture Trustee, under which Solutia issued the 2027/2037 Notes.

130. "PREPETITION INDENTURE TRUSTEE" means Wilmington Trust Company, or any successor thereto, as indenture trustee under the Prepetition Indenture.

11

131. "PRIORITY NON-TAX CLAIM" means any Claim, other than an Administrative Expense Claim or a Priority Tax Claim, entitled to priority in right of payment under section 507(a) of the Bankruptcy Code.

132. "PRIORITY TAX CLAIM" means any Claim of a governmental unit of the kind specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

133. "PRO RATA" means the ratio of the amount of an Allowed Claim in a particular Class to the aggregate amount of all Allowed Claims in such Class.

134. "PROFESSIONAL" means (a) any professional employed in the Chapter 11 Cases by an order or orders of the Bankruptcy Court issued pursuant to section 327, 328 or 1103 of the Bankruptcy Code and (b) any professional or other Entity seeking compensation and reimbursement in connection with the Chapter 11 Cases pursuant to section 503(b)(4) of the Bankruptcy Code.

135. "PROFESSIONAL FEE CLAIMS" means all Administrative Expense Claims for the compensation of Professionals and the reimbursement of expenses incurred by such Professionals (to the extent Allowed under sections 328, 330, 331, 363 or 503 of the Bankruptcy Code) through the Effective Date.

136. "PROFESSIONAL FEE ORDER" means that certain order of the Bankruptcy Court entered on January 16, 2004, establishing procedures for interim compensation and reimbursement of expenses of Professionals.

137. "QUARTERLY DISTRIBUTION DATE" means the last Business Day of the month following the end of each calendar quarter after the Effective Date; provided, however, that if the Effective Date is within 45 days before the end  
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of a calendar quarter, the first Quarterly Distribution Date will be the last Business Day of the month following the end of the first calendar quarter after the calendar quarter in which the Effective Date falls.

138. "REGISTRATION RIGHTS AGREEMENT" means the agreement, a form of which is attached hereto as Exhibit J, whereby Reorganized Solutia will be obligated to register certain shares of New Common Stock pursuant to the terms and conditions of such agreement.

139. "REINSTATED" or "REINSTATEMENT" means a Claim or Equity Interest unimpaired within the meaning of section 1124 of the Bankruptcy Code. Unless the Plan specifies a particular method of Reinstatement, when the Plan provides that an Allowed Claim or Allowed Equity Interest will be Reinstated, such Claim or Equity Interest will be Reinstated, at the applicable Reorganized Debtor's sole discretion, in accordance with one of the following:

a. The legal, equitable and contractual rights to which such Claim or Equity Interest entitles the holder will be unaltered; or

b. Notwithstanding any contractual provision or applicable law that entitles the Holder of such Claim or Equity Interest to demand or receive accelerated payment of such Claim or Interest after the occurrence of a default:

i. any such default that occurred before or after the Petition Date, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code, will be cured;

12

ii. the maturity of such Claim or Equity Interest, as such maturity existed before such default, will be reinstated;

iii. the Holder of such Claim or Equity Interest will be compensated for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law to the extent required by section 1124(c) of the Bankruptcy Code; and

iv. the legal, equitable or contractual rights to which such Claim or Equity Interest entitles the Holder of such Claim or Equity Interest will not otherwise be altered.

13

140. "RELATIONSHIP AGREEMENT" means that certain agreement between and among Reorganized Solutia, Monsanto and Funding Co, substantially in the form annexed hereto as Exhibit A.

141. "REORGANIZED . . ." means, when used in reference to a particular Debtor, such Debtor on and after the Effective Date.

142. "RESTRUCTURING TRANSACTIONS" means those mergers, consolidations, restructurings, transfers, conversions, dispositions, liquidations or dissolutions that the Debtors or Reorganized Debtors determine to be necessary or appropriate to effect a restructuring of a Debtor's business or a restructuring of the overall corporate structure of the Reorganized Debtors, all of which shall be effected by the Restructuring Transactions Agreement.

143. "RESTRUCTURING TRANSACTIONS AGREEMENT" means the agreement or agreements that govern the Restructuring Transactions, annexed hereto as Exhibit M.

144. "RETAINED SITES" means the "Retained Sites" as defined and set forth in the Relationship Agreement.

145. "RETIREEES" has the meaning set forth in the preamble to the Retiree Settlement Agreement.

146. "RETIREE APPROVAL ORDER" means an order of the Bankruptcy Court, approving the Retiree Settlement Agreement.

147. "RETIREE BENEFITS" means the benefits provided to the Retirees as set forth in the Retiree Settlement Agreement.

148. "RETIREE CLAIM" means an Allowed non-priority, Unsecured Claim on account of certain consensual benefit reductions included in the Retiree Settlement Agreement, in the aggregate amount of \$35 million, the Distribution received on account of which, in accordance with the terms of the Retiree

Settlement Agreement and the Plan will be held in trust (or sold) for the benefit of Retirees in accordance with the terms of the Retiree Settlement Agreement.

149. "RETIREEES' COMMITTEE" means the official committee of retirees of the Debtors appointed by the United States Trustee in the Chapter 11 Cases pursuant to section 1114 of the Bankruptcy Code.

150. "RETIREE SETTLEMENT AGREEMENT" means that certain agreement, as amended, between the Debtors and the Retirees' Committee, effective as of the Effective Date, substantially in the form of Exhibit B.

151. "RETIREE TRUST" has the meaning set forth in the Retiree Settlement Agreement.

152. "RIGHTS" means the rights to subscribe for and to acquire, on the Effective Date, an aggregate of 27.9% of the New Common Stock, in exchange for \$250 million in Cash in accordance with the terms and conditions of the Rights Offering as set forth in the Rights Offering Procedures.

153. "RIGHTS OFFERING" means the offering of the Rights by the Debtors to Eligible Holders.

14

154. "RIGHTS OFFERING PROCEDURES" means those certain Rights Offering Procedures, which set forth the terms and conditions of the Rights Offering, which shall be in substantially the form annexed hereto as Exhibit H.

155. "RIGHTS SUBSCRIPTION EXERCISE FORM" means that certain form distributed to each Eligible Holder, which form such Eligible Holder may use to exercise Rights.

156. "SAUGET ADMINISTRATIVE ORDERS" means the Administrative Orders, relating to the Sauget, Illinois Area 1 and Area 2 sites, V-W-99-C-554, effective January 21, 1999; V-W-99-554, issued May 31, 2000; V-W-01-C-622, effective November 24, 2000; and V-W-C-716, issued September 30, 2002.

157. "SCHEDULES" means the schedules of assets and liabilities and the statements of financial affairs filed by the Debtors with the Bankruptcy Court, as required by section 521 of the Bankruptcy Code and the Official Bankruptcy Forms, as the same may have been or may be amended, modified or supplemented.

158. "SECURED CLAIM" means a Claim, other than a Senior Secured Note Claim or DIP Claim, that is secured by a lien on property in which an Estate has an interest or that is subject to setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Holder's interest in the applicable Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to section 506(a) of the Bankruptcy Code and, if applicable, section 1129(b) of the Bankruptcy Code.

159. "SECURITIES ACT" means the Securities Act of 1933, 15 U.S.C. Sections 77a-77aa, as now in effect or hereafter amended.

160. "SECURITY CLAIMS" means any Claim (a) arising from rescission of a purchase or sale of a security of any of the Debtors, (b) for damages arising from the purchase or sale of such security, (c) for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such Claim, or (d) otherwise subject to subordination under section 510(b) of the Bankruptcy Code.

161. "SENIOR SECURED NOTES" means those certain 11.25% Senior Secured Notes, due on July 15, 2009, issued pursuant to that certain Indenture, dated July 9, 2002, as amended from time to time.

162. "SENIOR SECURED NOTE CLAIMS" means Claims for principal and accrued and unpaid interest through the Effective Date arising from the Senior Secured Notes.

163. "SENIOR SECURED NOTES TRUSTEE" means Bank of New York, or any successor thereto, as indenture trustee under that certain Indenture, dated July 9, 2002, as amended from time to time.

164. "SEPARATION AGREEMENT" means that certain agreement, dated as of September 1, 2000, as amended, by and between Pharmacia and Monsanto.

165. "SETTLED ADVERSARY PROCEEDINGS" means the following adversary proceedings commenced in the Bankruptcy Court: Solutia Inc. v. Pharmacia Corp., Case No. 03-93700 (PCB), filed Dec. 17, 2003; Solutia Inc. v. Pharmacia Corp., Case No. 04-2969 (PCB), filed April 20, 2004; Official Committee of Retirees v. Solutia Inc., Case No. 04-3057 (PCB), filed May 7, 2004; and Solutia Inc. v. Monsanto Company and Pharmacia Corp., Case No. No. 05-03353 (PCB), filed on December 17, 2005.

15

166. "SHAREHOLDERS AGREEMENT" means that certain agreement between Reorganized Solutia and Monsanto, substantially in the form of Exhibit L hereto.

167. "SHARED SITES" means the "Shared Sites" as defined and set forth in the Relationship Agreement.

168. "SIP PLAN" means the Solutia Inc. Savings and Investment Plan, dated September 1, 1997, as amended and restated from time to time.

169. "SPINOFF" means the transaction contemplated by the Distribution Agreement, whereby Pharmacia spun-off its Chemicals Assets and Chemicals Liabilities to Solutia.

170. "SPINOFF INDEMNITY CLAIM" means any Claim or claim against any of the Debtors, the Subsidiaries or Solutia's Affiliates, as appropriate, for indemnification or contribution held by Monsanto or Pharmacia, including the Monsanto Claims and the Pharmacia Claims, that arise from or relate to the Spinoff or the Distribution Agreement.

171. "STIPULATION OF AMOUNT AND NATURE OF CLAIM" means a stipulation or other agreement between a Debtor or Reorganized Debtor, subject to Section VIII.B herein, or the claims monitor, and a Holder of a Claim approved by the Bankruptcy Court or an agreed order of the Bankruptcy Court, establishing the allowed amount and nature of a Claim.

172. "STOCK POOL" means 49.9% of the New Common Stock to be Distributed to the Holders of the Allowed Noteholder Claims and Allowed General Unsecured Claims, which pool may be decreased or increased from time to time as set forth in Section VII.J hereof.

173. "SUBSIDIARY" or "SUBSIDIARIES" means the direct and indirect subsidiaries of Solutia.

174. "TOLBERT SETTLEMENT AGREEMENT" means that certain settlement agreement, dated September 9, 2003, resolving the lawsuit captioned Tolbert v. Monsanto Company, Civil Action No. 01-C-1407-S.

175. "TORT CLAIMS" means all legal, equitable or other claims, demands, costs, causes of action and/or other liabilities arising under tort law (including demands for indemnification or contribution relating to or arising out of any such liability, whether arising under contract, tort law or otherwise), whether currently asserted or asserted in the future, whether known or unknown, (a) which constitute Chemicals Liabilities assumed by Solutia under the Distribution Agreement, (b) for which Solutia was required to indemnify Monsanto and Pharmacia under the Distribution Agreement, and (c) which are for property damage, personal injury, products liability or premises liability or other damages arising out of or related to exposure to asbestos, PCB, dioxin, benzene, vinyl chloride, silica, butadiene, pentachlorophenol, styrene tars, other chemical exposure or environmental contamination, regardless of whether (i) any of the Debtors is, was or will be named as a defendant in any action commenced by or on behalf of the holder of such Tort Claim, or (ii) such holder has filed a proof of claim in the Chapter 11 Case. "Tort Claims" shall not include, among other things: NRD Claims; claims for medical or retiree benefits, including retiree medical, disability and life insurance benefits; monitoring obligations with respect to PAB-exposed former employees; workers compensation claims brought solely pursuant to worker compensations statutes and not constituting or arising out of a claim, demand, cost, cause of action and/or other liability that would otherwise be defined as a "Tort Claim" herein; antitrust claims; commercial, business or contract

claims; Environmental Liability Costs; any other remediation obligations covered by the Relationship Agreement; Legacy Claims for "response" as defined under Section 101(25) of CERCLA; claims asserted in connection with any pension or similar obligations of

16

Solutia, including (x) claims asserted in the actions entitled Davis v. Solutia Inc. Employees' Pension Plan, No. 3:05CV736, Scharringhausen v. Solutia Inc. Employees' Pension Plan, No. 3:06CV00099, and the administrative charge entitled Larry Probst v. Monsanto Company and Solutia, Inc., EEOC Charge Nos. 280 A 00618 through 280 A 00652, and any similar litigation and (y) claims asserted in the action entitled Miller v. Pharmacia Corporation, No. 4:04CV981, or any similar litigation; or any claims, including claims for exposure to chemicals or other substances, arising from Solutia's operations after the Spinoff.

176. "TREASURY REGULATIONS" means regulations (including temporary and proposed regulations) promulgated under the Internal Revenue Code, as amended from time to time, by the United States Treasury Department.

177. "UNDELIVERABLE DISTRIBUTION" means a Distribution of New Common Stock or Cash that is returned to the Reorganized Debtors as undeliverable or is otherwise unclaimed for one year after the date such Distribution was made.

178. "UNIFORM COMMERCIAL CODE" means the uniform code of laws governing various commercial transactions, including the sale of goods, banking transactions, secured transactions in personal property and other matters, as applicable in the relevant state(s).

179. "UNIMPAIRED" means, with respect to a Claim (or Class of Claims), a Claim (or Class of Claims) that is unimpaired within the meaning of section 1124 of the Bankruptcy Code.

180. "UNIMPAIRED CLAIM" means a Claim classified in an Unimpaired Class.

181. "UNIMPAIRED CLASS" means each of Classes 1, 2, 4, 6, 7, 8, 9 and 10 as set forth in Article III of the Plan.

182. "UNITED STATES OF AMERICA" means the United States of America and all of its agencies, subdivisions and instrumentalities.

183. "UNSECURED CLAIM" means any Claim that is neither secured nor entitled to priority under the Bankruptcy Code or any order of the Court, including any Claim arising from the rejection of an Executory Contract or Unexpired Lease under section 365 of the Bankruptcy Code.

184. "VALUE" shall have the meaning set forth in Section VII.I hereof.

185. "VOTING AGENT" means Financial Balloting Group LLC, 757 Third Avenue, 3rd Floor, New York, New York 10017.

186. "VOTING DEADLINE" means the date set by the Bankruptcy Court by which all Ballots for acceptance or rejection of the Plan must be received by the Voting Agent.

187. "VOTING RECORD DATE" means the record date set by the Bankruptcy Court, pursuant to Bankruptcy Rule 3017(d), for determining which creditors and equity security holders are entitled to receive solicitation materials and, when applicable, to vote on the Plan.

188. "WARRANTS" means warrants to be issued on the Effective Date pursuant to and subject to the terms of the Warrant Agreement to purchase up to 3.5% of the New Common Stock at a strike price of \$14.16, the principal terms of which are annexed hereto as Exhibit N.

17

189. "WARRANT AGREEMENT" means that certain warrant agreement, dated

as of the Effective Date, governing the Warrants to be issued by Reorganized Solutia, which agreement shall be in substantially the form contained in the Plan Supplement.

B. RULES OF INTERPRETATION AND COMPUTATION OF TIME

1. RULES OF INTERPRETATION

For purposes of the Plan, unless otherwise provided herein: (a) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, will include both the singular and the plural; (b) unless otherwise provided in the Plan, any reference in the Plan to a contract, instrument, release or other agreement or document being in a particular form or on particular terms and conditions means that such document will be substantially in such form or substantially on such terms and conditions; (c) any reference in the Plan to an existing document or exhibit filed or to be filed means such document or exhibit, as it may have been or may be amended, modified or supplemented pursuant to the Plan or Confirmation Order; (d) any reference to an Entity as a Holder of a Claim or Equity Interest includes that Entity's successors, assigns and, where applicable, Affiliates; (e) all references in the Plan to sections, articles and exhibits are references to sections, articles and exhibits of or to the Plan; (f) the words "herein," "hereunder" and "hereto" refer to the Plan in its entirety rather than to a particular portion of the Plan; (g) captions and headings to articles and sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan; (h) subject to the provisions of any contract, certificates of incorporation, by-laws, similar constituent documents, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the rights and obligations arising under the Plan will be governed by, and construed and enforced in accordance with, federal law, including the Bankruptcy Code and the Bankruptcy Rules; and (i) the rules of construction set forth in section 102 of the Bankruptcy Code will apply.

2. COMPUTATION OF TIME

In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) will apply.

ARTICLE II

CLASSES OF CLAIMS AND EQUITY INTERESTS

All Claims and Equity Interests, except Administrative Expense Claims and Priority Tax Claims, are placed in the Classes described below for all purposes, including voting and Distribution pursuant to the Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims, as described in Section III.A, have not been classified and, thus, are excluded from the Classes described below. A Claim or Equity Interest is classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and is classified in other Classes to the extent that any remainder of the Claim or Equity Interest qualifies within the description of such other Classes.

<TABLE>

<CAPTION>

CLASS	DESIGNATION	IMPAIRMENT	ENTITLED TO VOTE
<C> Class 1	<C> Priority Non-Tax Claims	<C> Unimpaired	<C> No (deemed to accept)
Class 2	Secured Claims	Unimpaired	No (deemed to accept)
Class 3	Senior Secured Note Claims	Impaired	Yes
Class 4	Convenience Claims	Unimpaired	No (deemed to accept)



Class 5	CPFilms Claims	Impaired	Yes
Class 6	NRD Claims	Unimpaired	No (deemed to accept)
Class 7	Insured Claims	Unimpaired	No (deemed to accept)
Class 8	Tort Claims	Unimpaired	No (deemed to accept)
Class 9	Legacy Site Claims	Unimpaired	No (deemed to accept)
Class 10	Equity Interests in all Debtors other than Solutia	Unimpaired	No (deemed to accept)
Class 11	Monsanto Claim	Impaired	Yes
Class 12	Noteholder Claims	Impaired	Yes
Class 13	General Unsecured Claims	Impaired	Yes
Class 14	Retiree Claim	Impaired	Yes
Class 15	Pharmacia Claims	Impaired	Yes
Class 16	Non-Debtor Intercompany Claims	Impaired	No (deemed to accept)
Class 17	Debtor Intercompany Claims	Impaired	No (deemed to accept)
Class 18	Axio Claims	Impaired	No (deemed to reject)
Class 19	Security Claims	Impaired	No (deemed to reject)
Class 20	Equity Interests in Solutia	Impaired	Yes

</TABLE>

### ARTICLE III

#### TREATMENT OF CLAIMS AND EQUITY INTERESTS

##### A. UNCLASSIFIED CLAIMS

###### 1. PAYMENT OF ADMINISTRATIVE EXPENSE CLAIMS

###### a. ADMINISTRATIVE EXPENSE CLAIMS IN GENERAL

Except as specified in this Section III.A, and subject to the Administrative Expense Claim Bar Date provisions herein, unless otherwise agreed to by the Holder of an Administrative Expense Claim and the applicable Debtor or Reorganized Debtor, each Holder of an Allowed Administrative Expense Claim will receive, in full satisfaction of its Administrative Expense Claim, Cash equal to the amount of such Allowed Administrative Expense Claim either (i) on the Effective Date or as soon thereafter as reasonably practicable or (ii) if the Administrative Expense Claim is not Allowed as of the Effective Date, 30 days after the date on which an order allowing such Administrative Expense Claim becomes a Final Order.

###### b. ORDINARY COURSE LIABILITIES

Allowed Administrative Expense Claims based on liabilities incurred by a Debtor in the ordinary course of its business will be paid by the applicable Reorganized Debtor pursuant to the terms and conditions of the particular transaction giving rise to such Allowed Administrative Expense Claims, without any further action by the Holders of such Allowed Administrative Expense Claims.

###### c. DIP CLAIMS

On the Effective Date, or as soon thereafter as reasonably practicable, unless otherwise agreed to by the DIP Lenders pursuant to the DIP

Credit Facility, Allowed DIP Claims will be paid in Cash in amounts equal to the amount of such Allowed DIP Claims.

d. BAR DATES FOR ADMINISTRATIVE EXPENSE CLAIMS

i. GENERAL ADMINISTRATIVE EXPENSE CLAIM BAR DATE PROVISIONS

Except as otherwise provided in this Section III.A, unless a request for the payment of an Administrative Expense Claim previously was filed with the Bankruptcy Court, requests for payment of an Administrative Expense Claim must be filed with the Bankruptcy Court and served on the Reorganized Debtors, pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order, no later than 45 days after the Effective Date. Any Holder of an Administrative Expense Claim that is required to file and serve a request for payment of such Administrative Expense Claim and that does not file and serve such a request within the time established by this Section III.A of the Plan will be forever barred from asserting such Administrative Expense Claim against the Debtors, the Reorganized Debtors or their respective property and such Administrative Expense Claim will be deemed discharged as of the Effective Date. Objections to such requests for payment of an Administrative Expense Claim must be filed with the Bankruptcy Court and served on the Debtors or the Reorganized Debtors, as applicable, and the requesting party by the later of (A) 120 days after the Effective Date or (B) 60 days after the filing of the applicable request for payment of the Administrative Expense Claims with the Bankruptcy Court.

21

ii. BAR DATES FOR CERTAIN ADMINISTRATIVE EXPENSE CLAIMS

a. PROFESSIONAL COMPENSATION

(i) FINAL FEE APPLICATIONS. All final requests for payment of Professional Fee Claims must be filed with the Bankruptcy Court and served on Reorganized Solutia no later than 45 days after the Effective Date. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and prior orders of the Bankruptcy Court in the Chapter 11 Cases, the allowed amounts of such Professional Fee Claims shall be determined by the Bankruptcy Court.

(ii) PAYMENT OF INTERIM AMOUNTS. Subject to the Holdback Amount, on the Effective Date, the Debtors or Reorganized Debtors shall pay all amounts owing to Professionals for all outstanding amounts payable relating to prior periods through the Effective Date. To receive payment on the Effective Date for unbilled fees and expenses incurred through such date, the Professionals shall reasonably estimate fees and expenses due for periods that will not have been billed as of the Effective Date and shall deliver such estimate to the Debtors and the United States Trustee prior to the Effective Date. The Debtors or Reorganized Debtors, as applicable, shall pay the Professionals' reasonably estimated amount of such fees and expenses as soon as reasonably practicable after receiving the estimate, but in no event prior to the Effective Date. Within forty-five (45) days after the Effective Date, a Professional receiving payment for the estimated period shall submit a detailed invoice covering such period in the manner and providing the detail as set forth in the Professional Fee Order. If the estimated payment received by any Professional exceeds the actual fees and expenses for such period, as ultimately approved by the Bankruptcy Court in connection with the relevant final fee application, such excess amount will be credited against the Holdback Amount for such Professional or, if the award of the Holdback Amount for such matter is insufficient, disgorged by such Professional within 45 days after the issuance of the Order approving the relevant final fee application. If the estimated payment received by any Professional is lower than the actual fees and expenses for such period as ultimately approved by the Bankruptcy Court in connection with the relevant final fee application, the difference between the amount approved and the estimated payment shall promptly be paid to such Professional.

(iii) HOLDBACK AMOUNT. On the Effective Date, the Debtors or the Reorganized Debtors shall fund the Holdback Escrow Account with Cash equal to the aggregate Holdback Amount for all Professionals. The Reorganized Debtors shall maintain the Holdback Escrow Account in trust for the Professionals with respect to whom fees have been held back pursuant to the Professional Fee Order. Such funds shall not be considered property of the

Debtors, or the Reorganized Debtors. The remaining Holdback Amount owing to each Professional shall be paid to such Professional by Reorganized Solutia from the Holdback Escrow Account when such Professional's Professional Fee Claim is finally allowed by the Bankruptcy Court. When all Professional Fee Claims have been paid in full, amounts remaining in the Holdback Escrow Account, if any, shall be paid to the Reorganized Debtors.

b. ORDINARY COURSE LIABILITIES

Notwithstanding the provisions of Section III.A.1.d.i above, Holders of Administrative Expense Claims based on liabilities incurred by a Debtor in the ordinary course of its business will not be required to file or serve any request for payment of such Administrative Expense Claims. Such Administrative Expense Claims will be satisfied pursuant to Section III.A.1.a.

22

2. PAYMENT OF PRIORITY TAX CLAIMS

Pursuant to section 1129(a)(9)(C) of the Bankruptcy Code, unless otherwise agreed to by the Holder of a Priority Tax Claim and the applicable Debtor or Reorganized Debtor, each Holder of an Allowed Priority Tax Claim will receive, in full satisfaction of its Priority Tax Claim, deferred Cash payments totaling 100% of the principal amount of such Allowed Priority Tax Claim, plus interest as provided herein, over a period not exceeding 6 years from the date of assessment of such Priority Tax Claim. Payments will be made in equal annual installments of principal, plus simple interest accruing from the Effective Date at the interest rate equal to the applicable federal rate as determined in accordance with Section 1274(d) of the Internal Revenue Code. Unless otherwise agreed to by the Holder of a Priority Tax Claim and the applicable Debtor or Reorganized Debtor, the first payment on account of such Priority Tax Claim will be payable 1 year after the Effective Date or, if the Priority Tax Claim is not allowed within 1 year after the Effective Date, the first Quarterly Distribution Date after the date on which an order allowing such Priority Tax Claim becomes a Final Order; provided, however, that the

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Reorganized Debtors will have the right to pay any Allowed Priority Tax Claim, or any remaining balance of such Priority Tax Claim, in full at any time on or after the Effective Date, without premium or penalty.

B. CLASSES OF CLAIMS

1. PRIORITY NON-TAX CLAIMS (CLASS 1)

a. TREATMENT:

On the later of (i) the Effective Date or as soon thereafter as reasonably practicable, (ii) the date on which a Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, or as soon thereafter as reasonably practicable or (iii) such other date as may be ordered by the Bankruptcy Court, each Holder of an Allowed Priority Non-Tax Claim will receive payment in full in Cash of such Allowed Priority Non-Tax Claim.

b. VOTING:

Class 1 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed Priority Non-Tax Claim in Class 1 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

2. SECURED CLAIMS (CLASS 2)

a. TREATMENT:

On the later of (i) the Effective Date or as soon thereafter as reasonably practicable, (ii) the date on which a Secured Claim becomes an Allowed Secured Claim, or as soon thereafter as reasonably practicable or (iii) such other date as may be ordered by the Bankruptcy Court, each Allowed Secured Claim shall be, at the election of the applicable Debtor (a) Reinstated, (b) paid in full, in Cash, in full satisfaction, settlement, release and discharge of such Allowed Secured Claim, together with accrued post-Petition Date interest to the extent allowable under section 506 of the Bankruptcy Code, (c) satisfied by the Debtors' surrender of the collateral

securing such Allowed Secured Claim, (d) offset against, and to the extent of, the Debtors' claims against the Holder of such Allowed Secured Claim or (e) otherwise rendered Unimpaired, except to the extent that the Debtors and a Holder of an Allowed Secured Claim may agree to a different treatment. Each Secured Claim shall be deemed to be in a separate sub-class of Class 2 for all purposes hereunder.

23

b. VOTING:

Class 2 and each sub-class thereof is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed Secured Claim in Class 2 and each sub-class thereof is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

3. SENIOR SECURED NOTE CLAIM (CLASS 3)

a. TREATMENT:

On the Effective Date or as soon thereafter as reasonably practicable, Reorganized Solutia shall pay to the Senior Secured Notes Trustee, for the benefit of the Holders of the Senior Secured Note Claims, Cash in the amount of the Allowed Senior Secured Note Claims.

b. VOTING:

Class 3 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code, each Holder of an Allowed Senior Secured Note Claim in Class 3 is entitled to vote to accept or reject the Plan.

4. CONVENIENCE CLAIMS (CLASS 4)

a. TREATMENT:

On the later of (i) the Effective Date or as soon thereafter as reasonably practicable, or (ii) such other date as may be ordered by the Bankruptcy Court, each Holder of an Allowed Convenience Claim will receive Cash equal to the amount of such Claim (as reduced if applicable, pursuant to an election by the Holder thereof).

b. VOTING:

Class 4 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of a Convenience Claim in Class 4 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

5. CPFILMS CLAIMS (CLASS 5)

a. TREATMENT:

On the Effective Date, or as soon thereafter as reasonably practicable, each Holder of an Allowed CPFilms Claim shall receive Cash in the amount of such Holder's Allowed CPFilms Claim plus simple interest at a rate of 8% per annum.

b. VOTING:

Class 5 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code, each Holder of an Allowed CPFilms Claim in Class 5 is entitled to vote to accept or reject the Plan.

24

6. NRD CLAIMS (CLASS 6)

a. TREATMENT:

On the Effective Date, the NRD Claims shall be Reinstated. After the Effective Date, the NRD Claims shall be liquidated and paid pursuant

to applicable law and in the ordinary course of business. Payment of the NRD Claims will be allocated between Reorganized Solutia and Monsanto pursuant to the terms of the Relationship Agreement, provided, however, that such

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allocations are solely as between Solutia and Monsanto and nothing in the Relationship Agreement shall impair or adversely affect the NRD Claims.

b. VOTING:

Class 6 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed NRD Claim in Class 6 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

7. INSURED CLAIMS (CLASS 7)

a. TREATMENT:

Each Holder of an Allowed Insured Claim shall be entitled to receive the proceeds of any insurance policies available to cover such Insured Claim. In the event that insurance coverage proceeds are insufficient to completely satisfy any Allowed Claim that is partially an Insured Claim, the Holder of such Insured Claim shall be entitled to an Allowed General Unsecured Claim (or Claim in such other Class as may be applicable) in an amount equal to the difference between the Allowed amount of the relevant Claim and the amount of insurance coverage proceeds available to pay such Claim.

b. VOTING:

Class 7 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed Insured Claim in Class 7 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

8. TORT CLAIMS (CLASS 8)

a. TREATMENT:

On the Effective Date, the Tort Claims shall be Reinstated. After the Effective Date, the Tort Claims shall be liquidated pursuant to applicable law and in the ordinary course of business. Payment of the Tort Claims, in accordance with the Monsanto Tort Management, will be allocated between Reorganized Solutia and Monsanto pursuant to the terms of the Relationship Agreement, provided, however, that such allocations are solely as

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between Solutia and Monsanto and nothing in the Relationship Agreement shall impair or adversely affect the Tort Claims. For the sake of clarity, pursuant to the Relationship Agreement, Monsanto shall take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Tort Claims, including all costs related to the defense, mediation, arbitration, settlement, and any judgment with respect to the Tort Claims.

25

b. VOTING:

Class 8 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed Tort Claim in Class 8 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

9. LEGACY SITE CLAIMS (CLASS 9)

a. TREATMENT:

On the Effective Date, in accordance with the Relationship Agreement, Monsanto shall take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Legacy Site Claims. Reorganized Solutia shall use all reasonable efforts to enforce against Monsanto the provisions of the Relationship Agreement and other Plan documents pertaining to the Legacy Sites. Notwithstanding any other provision of the Plan, Relationship Agreement, Confirmation Order, or other Plan Documents, including but not limited to Article X of the Plan, any governmental unit holding Claims related to Environmental Liabilities with

respect to Legacy Sites may apply to any court of competent jurisdiction for an order to require Solutia to enforce against Monsanto the provisions of the Relationship Agreement pertaining to the Legacy Site Claims subject to all applicable defenses, counterclaims, offsets and other rights of Monsanto; provided, however, that Reorganized Solutia's financial situation or ability -----

to pay shall not be a defense to any such action.

b. VOTING:

Class 9 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of an Allowed Legacy Site Claim in Class 9 is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

10. EQUITY INTERESTS IN ALL DEBTORS OTHER THAN SOLUTIA (CLASS 10)

a. TREATMENT:

To preserve the Debtors' corporate structure, Equity Interests in all Debtors other than Solutia shall, subject to the Restructuring Transactions Agreement, be Reinstated as Equity Interests in the respective Reorganized Debtors as of the Effective Date.

b. VOTING:

Class 10 is Unimpaired by the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, Holders of Equity Interests in all Debtors other than Solutia are conclusively presumed to have accepted the Plan and are not entitled to vote to accept or reject the Plan.

11. MONSANTO CLAIM (CLASS 11)

a. TREATMENT:

On the Effective Date, Monsanto shall receive 20% of the New Common Stock, which Distribution will not be subject to dilution on account of the Rights Offering. In addition, Monsanto shall have an Allowed Administrative Claim for all documented out of pocket Environmental Liabilities spent by Monsanto related to the Retained Sites, and to the Shared Sites in excess of \$50 million during the Chapter 11 Cases.

26

b. VOTING:

Class 11 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code, the Holder of the Monsanto Claim in Class 11 is entitled to vote to accept or reject the Plan.

12. NOTEHOLDER CLAIMS (CLASS 12)

a. TREATMENT:

On the Effective Date, or as soon as practicable after Disputed General Unsecured Claims are resolved, each Holder of an Allowed Noteholder Claim shall receive its Pro Rata share, inclusive of the General Unsecured Claims, of the Stock Pool. In addition, each Holder of an Allowed Noteholder Claim that is an Eligible Holder shall be deemed entitled to participate in the Rights Offering pursuant to the terms of the Rights Offering Procedures.

b. VOTING:

Class 12 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code, Holders of Noteholder Claims in Class 12 are entitled to vote to accept or reject the Plan.

13. GENERAL UNSECURED CLAIMS (CLASS 13)

a. TREATMENT:

On the Effective Date, or as soon as practicable after Disputed General Unsecured Claims are resolved, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share, inclusive of the Noteholder

Claims, of the Stock Pool. In addition, each Holder of an Allowed General Unsecured Claim that is an Eligible Holder shall be entitled to participate in the Rights Offering pursuant to the terms of the Rights Offering Procedures.

b. VOTING:

Class 13 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code, Holders of General Unsecured Claims in Class 13 are entitled to vote to accept or reject the Plan.

14. RETIREE CLAIM (CLASS 14)

a. TREATMENT:

Subject to the terms of the Retiree Settlement Agreement, on the Effective Date Reorganized Solutia shall contribute 2.2% of the New Common Stock to a trust established for the benefit of the Retirees pursuant to the terms of the Retiree Settlement Agreement. In accordance with the terms of the Retiree Settlement Agreement, all Claims filed by individual Retirees on account of reductions in benefits shall be deemed to be disallowed and expunged in their entirety. Furthermore, in accordance with the Retiree Settlement Agreement and the Retiree Approval Order, the Retirees' Committee is deemed to be the Holder of the Retiree Claim.

b. VOTING:

Class 14 is Impaired by the Plan. Pursuant to section 1126(a) of the Bankruptcy Code and in accordance with the Retiree Settlement Agreement and the Retiree Approval Order, the Retirees' Committee or its duly authorized agent is entitled to vote to accept or reject the Plan.

27

15. PHARMACIA CLAIMS (CLASS 15)

a. TREATMENT:

Holders of Pharmacia Claims will receive Distributions in the form of a limited indemnity and release under the Plan on account of such Claims.

b. VOTING:

Class 15 is Impaired by the Plan. Pursuant to Section 1126(a) of the Bankruptcy Code, Holders of Pharmacia Claims in Class 15 shall be entitled to vote to accept or reject the Plan.

16. NON-DEBTOR INTERCOMPANY CLAIMS (CLASS 16)

a. TREATMENT:

On the Effective Date or as soon thereafter as reasonably practicable, the amount of each Allowed Non-Debtor Intercompany Claim will be reduced by 60% and the remaining 40% of each such Claim shall be Reinstated by virtue of book entries without a Distribution of Cash or other consideration on account of such Claim.

b. VOTING:

Class 16 is Impaired by the Plan. Notwithstanding the foregoing, the Holders of Non-Debtor Intercompany Claims, by virtue of their status as non-Debtor Affiliates of Solutia, are deemed to accept the Plan.

17. DEBTOR INTERCOMPANY CLAIMS (CLASS 17)

a. TREATMENT:

On the Effective Date or as soon thereafter as reasonably practicable, the Debtor Intercompany Claims will be (a) eliminated or waived based on accounting entries in the Debtors' books and records and other corporate activities by the Debtors in their discretion or (b) discharged with no Distributions thereon. There will be no Distributions on account of any of the Debtor Intercompany Claims.

b. VOTING:

Class 17 is Impaired by the Plan. Holders of Debtor Intercompany Claims shall receive no Distributions under the Plan. Notwithstanding the foregoing, the Holders of Debtor Intercompany Claims, by virtue of their status as Debtors and their authorization to file this Plan, are deemed to accept the Plan.

18. AXIO CLAIMS (CLASS 18)

a. TREATMENT:

Holders of Axio Claims will receive no Distributions under the Plan on account of such Claims.

28

b. VOTING:

Class 18 is Impaired by the Plan. Holders of Axio Claims shall receive no Distributions under the Plan. Therefore, each Holder of an Axio Claim in Class 18 is conclusively presumed to have rejected the Plan. Pursuant to section 1126(g) of the Bankruptcy Code, Holders of Axio Claims are not entitled to vote to accept or reject the Plan.

19. SECURITY CLAIMS (CLASS 19)

a. TREATMENT:

The Holders of Security Claims will receive no Distributions under the Plan on account of such Claims.

b. VOTING:

Class 19 is Impaired by the Plan. Holders of Security Claims shall receive no Distributions under the Plan. Therefore, each Holder of a Security Claim in Class 19 is conclusively presumed to have rejected the Plan. Pursuant to section 1126(g) of the Bankruptcy Code, Holders of Security Claims are not entitled to vote to accept or reject the Plan.

20. EQUITY INTERESTS IN SOLUTIA (CLASS 20)

a. TREATMENT:

Each Holder of an Allowed Equity Interest in Solutia shall receive its Pro Rata share of the Warrants, provided that Classes 11, 12, 13, 14, 15, and 20 vote to accept the Plan. If any of Classes 11, 12, 13, 14, 15 or 20 vote to reject the Plan, then the Holders of Equity Interests in Solutia in Class 20 will not receive any Distributions under the Plan on account of their Equity Interests in Solutia. As of the Effective Date, all existing Equity Interests in Solutia will be cancelled pursuant to the Plan.

b. VOTING:

Class 20 is Impaired by the Plan. Pursuant to Section 1126(a) of the Bankruptcy Code, Holders of Equity Interests in Solutia, whose ownership interest would entitle them to receive at least one Warrant, shall be entitled to vote to accept or reject the Plan.

29

ARTICLE IV

ACCEPTANCE OR REJECTION OF THE PLAN

A. SPECIAL PROVISIONS GOVERNING UNIMPAIRED CLAIMS

Except as otherwise provided in the Plan, nothing shall affect the Debtors' rights and defenses with respect to any Unimpaired Claims, including all rights with respect to legal and equitable defenses to set-offs and recoupments against such Unimpaired Claims.



B. CLASSES ENTITLED TO VOTE

Classes 3, 5, 11, 12, 13, 14, 15 and 20 are Impaired Classes and are entitled to vote to accept or reject the Plan. By operation of law, each Unimpaired Class of Claims is deemed to have accepted the Plan and is not entitled to vote to accept or reject the Plan. Classes 1, 2, 4, 6, 7, 8, 9 and 10 are Unimpaired Classes and are deemed to have accepted the Plan. By operation of law, any Class of Claims or Equity Interests that is not entitled to receive or retain any property of the Debtors under the Plan is deemed to have rejected the Plan. Classes 18 and 19 are not entitled to receive or retain any property of the Debtors, are not entitled to vote and are deemed to have rejected the Plan. Classes 16 and 17 are Impaired Classes and deemed to have accepted the Plan.

C. CRAMDOWN

The Debtors request Confirmation under section 1129(b) of the Bankruptcy Code with respect to any Impaired Class that does not accept the Plan pursuant to section 1126 of the Bankruptcy Code. The Debtors reserve the right, subject to the consent of Monsanto and the Creditors' Committee, which consent shall not be unreasonably withheld, to modify the Plan to the extent, if any, that Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification.

30

ARTICLE V

MEANS FOR IMPLEMENTATION OF THE PLAN

A. GENERAL SETTLEMENT OF CLAIMS

As discussed in detail in Article VI of the Disclosure Statement and as otherwise provided herein, pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the classification, Distributions, releases and other benefits provided under the Plan, upon the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims and Equity Interests and controversies resolved pursuant to the Plan. Subject to Article VII, all Distributions made to Holders of Allowed Claims in any Class are intended to be and shall be final.

B. SETTLEMENT AMONG THE DEBTORS, MONSANTO, PHARMACIA, THE RETIREES, THE CREDITORS' COMMITTEE AND THE AD HOC TRADE COMMITTEE

As discussed in detail in Article VIII of the Disclosure Statement, as set forth in the Confirmation Order, and as otherwise provided herein, pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the Monsanto Contribution, the Pharmacia Contribution, and as a result of arm's-length negotiations with the Retirees' Committee and the Creditors' Committee, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims and controversies between the Estates and (a) Monsanto, including the Monsanto Claim and all causes of action asserted in the Equity Committee Adversary Proceeding, (b) Pharmacia, including the Pharmacia Claims and all causes of action asserted in the Equity Committee Adversary Proceeding, and (c) the Retirees including all Claims to post-employment and other benefits asserted by the Retirees; provided,

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however, that the provisions of the Plan shall not settle or resolve any

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claims, obligations, suits, damages, demands, debts, rights, causes of action or liabilities as between Monsanto and Pharmacia under the Separation Agreement.

1. THE DISTRIBUTION AGREEMENT

The Distribution Agreement and any amendments thereto shall be deemed to be a prepetition, non-executory contract. The Distribution Agreement and any amendments thereto shall not survive the Chapter 11 Cases and, except as provided herein or in the Plan Documents, any Claims, or other liabilities or obligations of the Debtors arising thereunder or related thereto shall be (a) discharged, (b) released and not survive the Chapter 11 Cases and (c)

deemed to be included in the Monsanto Claim and the Pharmacia Claims. Notwithstanding any provision to the contrary herein, this Article V shall have no effect whatsoever on the rights, defenses, obligations, or claims between Monsanto and Pharmacia arising from or existing under the Separation Agreement, and Solutia's assumption of debts, liabilities, guarantees, assurances, commitments and obligations under the Distribution Agreement shall be deemed to survive the Chapter 11 Cases solely with respect to the rights, defenses, obligations or claims as between Monsanto and Pharmacia and their respective Affiliates under the Separation Agreement, and those rights, defenses, obligations or claims shall continue to exist as if the Distribution Agreement survives the Chapter 11 Cases; notwithstanding the foregoing, but subject to any rights under the Plan, the Relationship Agreement and the Plan Documents, neither Monsanto, Pharmacia nor any other Person or Entity shall be entitled to assert any claim or Claim against any of the Debtors or Reorganized Debtors or their respective property with respect to any debts, liabilities, guarantees, assurances, commitments or obligations assumed by Solutia under the Distribution Agreement.

31

## 2. RELATIONSHIP AGREEMENT

On the Effective Date, Reorganized Solutia, Monsanto and Funding Co shall enter into the Relationship Agreement. As an element of the Monsanto Contribution, Monsanto shall, pursuant to the Relationship Agreement, agree to (a) as between itself and Solutia only, fund various environmental remediation projects and perform various environmental remediation activities related to the Legacy Sites and the Shared Sites, (b) take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Tort Claims, all as more fully set forth in the Relationship Agreement, and (c) take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Legacy Site Claims, all as more fully set forth in the Relationship Agreement. Subject to the terms of the Relationship Agreement, the Relationship Agreement and the Commercial and Operating Agreements shall constitute an integrated and unitary executory contract. The funding allocations in the Relationship Agreement are solely as between Solutia and Monsanto and do not impair or adversely affect any claim, cause of action, or right of a government agency related to Environmental Liabilities with respect to the Retained Sites or the Shared Sites.

## 3. COMMERCIAL AND OPERATING AGREEMENTS

On the Effective Date, the Commercial and Operating Agreements (as amended by the Chocolate Bayou settlement) shall be assumed by Reorganized Solutia.

On the Effective Date, the Master Operating Agreement shall be deemed to be amended so that the "initial term" described in section 5.1 thereof shall be extended from twenty years from the effective date of the Master Operating Agreement to twenty-three years from such effective date, with all other terms remaining the same.

## 4. MONSANTO TORT MANAGEMENT

As of the Effective Date, Monsanto shall take financial responsibility, as between itself and Reorganized Solutia only, for the management and payment of the Tort Claims and be solely responsible, as between itself and Reorganized Solutia only, for all costs related to the defense, mediation, arbitration, judgment and settlement of the Tort Claims and shall indemnify Reorganized Solutia, pursuant to the terms of the Relationship Agreement, with respect to such Tort Claims. In addition, since the Petition Date, Monsanto has paid all costs arising in connection with the Tort Claims.

## 5. MONSANTO'S SETTLEMENT OF ADVERSARY PROCEEDINGS, CONTESTED MATTERS, DISPUTES AND MONSANTO CLAIMS

Subject to the terms of the Plan, the Relationship Agreement and the Plan Documents, Monsanto and Solutia agree to (a) resolve all matters related to the Distribution Agreement, (b) withdraw the Settled Adversary Proceedings with prejudice, and resolve all claims asserted therein (where applicable, with the consent of Pharmacia and the Retirees' Committee), and (c) settle the Monsanto Claim.

6. MONSANTO'S PROFESSIONALS

Reorganized Solutia shall pay the reasonable fees and reimburse the reasonable expenses of Monsanto's Professionals, for work substantially related to the Chapter 11 Cases, in an amount equal to the lesser of (a) Monsanto's actual out of pocket costs with respect to such reasonable fees and expenses and (b) the aggregate fees of the Creditors' Committee's professionals, as approved by the Bankruptcy Court. Monsanto shall not be required to file any fee application or other request with the

32

Bankruptcy Court in connection with the payment of such fees and expenses; provided, however, that if any dispute between Solutia and Monsanto or the

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Creditors' Committee and Monsanto regarding Monsanto's professional fees cannot be resolved in a reasonable period of time, then the Bankruptcy Court shall determine the amount of reasonable fees to be paid to Monsanto.

7. MONSANTO ADMINISTRATIVE CLAIM

Monsanto shall have an Allowed Administrative Claim for all documented out of pocket Environmental Liabilities spent by Monsanto related to the Retained Sites and to the Shared Sites in excess of \$50 million during the Chapter 11 Cases.

8. PHARMACIA CONTRIBUTION

Pursuant to the Confirmation Order, and except for the limited indemnities in favor of Pharmacia expressly set forth in the Relationship Agreement, Pharmacia shall be deemed to have released and shall release, the Debtors and the Reorganized Debtors from any and all claims, Claims and obligations of the Debtors and the Reorganized Debtors under the Distribution Agreement, including the Legacy Claims and related indemnity obligations arising under the Distribution Agreement or otherwise, and any other Claims or liabilities it holds, has held or may, in the future, hold against the Debtors and the Reorganized Debtors, related to the Distribution Agreement and the Legacy Claims. Pharmacia's release herein shall have no effect whatsoever on the rights, defenses, obligations or claims between Monsanto and Pharmacia arising from or existing under the Separation Agreement. In addition, Pharmacia agrees to waive the Pharmacia Claims in their entirety with prejudice and such Pharmacia Claims shall be expunged with prejudice, and Solutia's assumption of debts, liabilities, guarantees, assurances, commitments and obligations under the Distribution Agreement shall be deemed to survive the Chapter 11 Cases solely with respect to the rights, defenses, obligations or claims as between Monsanto and Pharmacia and their respective Affiliates under the Separation Agreement, and those rights, defenses, obligations or claims shall continue to exist as if the Distribution Agreement survives the Chapter 11 Cases; notwithstanding the foregoing, but subject to any rights under the Plan, the Relationship Agreement and the Plan Documents, neither Monsanto, Pharmacia nor any other Person or Entity shall be entitled to assert any claim or Claim against any of the Debtors or Reorganized Debtors or their respective property with respect to any debts, liabilities, guarantees, assurances, commitments or obligations assumed by Solutia under the Distribution Agreement.

9. SETTLEMENT WITH RETIREES

The terms of the settlement regarding modifications to post employment and other benefits provided to Retirees are set forth in the Retiree Settlement Agreement, attached as Exhibit B hereto.

10. SETTLED ADVERSARY PROCEEDINGS

By agreement among the various parties to the Settled Adversary Proceedings, on the Effective Date, all of the Settled Adversary Proceedings shall be deemed dismissed or withdrawn with prejudice.

11. SOLUTIA'S ASSUMPTION OF CERTAIN ENVIRONMENTAL LIABILITIES

Any Claim, cause of action, or right of a governmental agency related to Environmental Liabilities with respect to the Shared Sites

which shall constitute and be treated as a General Unsecured Claim for all purposes and be in Class 13, shall be reinstated and unaffected by the Chapter 11 Cases and shall be liquidated or adjudicated pursuant to applicable law and in the ordinary course of business. Reorganized Solutia shall be receiving a discharge from the Claims held by governmental agencies related to Environmental Liabilities Costs with respect to the Legacy Sites. As stated above and described in the Relationship Agreement, Monsanto, as between itself and Reorganized Solutia only, shall be financially responsible for Environmental Liability Costs with respect to the Legacy Sites. Pursuant to the Relationship Agreement, Reorganized Solutia shall be financially responsible, as between itself and Monsanto only, for Environmental Liability Costs with respect to the Retained Sites and Reorganized Solutia and Monsanto shall, subject to a sharing mechanism set forth in the Relationship Agreement, be financially responsible, as between themselves, for Environmental Liability Costs with respect to the Shared Sites. Nothing in the Relationship Agreement's provisions for the Retained Sites or Shared Sites shall impair or adversely affect any claim, cause of action, or right of a governmental agency related to Environmental Liabilities with respect to the Retained Sites or the Shared Sites.

#### C. RESTRUCTURING TRANSACTIONS

On the Effective Date, and pursuant to the Restructuring Transactions Agreement, the applicable Debtors or Reorganized Debtors shall enter into the Restructuring Transactions and shall take any actions as may be necessary or appropriate to effect a corporate restructuring of their respective businesses or a corporate restructuring of the overall corporate structure of the Reorganized Debtors, as and to the extent provided therein. The Restructuring Transactions may include one or more mergers, consolidations, restructurings, conversions, dissolutions, transfers or liquidations as may be determined by the Debtors or the Reorganized Debtors, with the consent of Monsanto and the Creditors' Committee, which consent shall not be unreasonably withheld, to be necessary or appropriate, in each case as and to the extent provided in the Restructuring Transactions Agreement. The actions to effect the Restructuring Transactions may include, in each case as and to the extent provided in the Restructuring Transactions Agreement: (1) the execution and delivery of appropriate agreements or other documents of merger, consolidation, restructuring, conversion, disposition, transfer, dissolution or liquidation containing terms that are consistent with the terms of the Plan and that satisfy the applicable requirements of applicable law and any other terms to which the applicable Entities may agree; (2) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, debt or obligation on terms consistent with the terms of the Plan and having other terms for which the applicable parties agree; (3) the filing of appropriate certificates or articles of incorporation, reincorporation, merger, consolidation, conversion or dissolution pursuant to applicable state law; and (4) all other actions that the applicable Entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable law in connection with the Restructuring Transactions.

#### D. CONTINUED CORPORATE EXISTENCE AND VESTING OF ASSETS IN THE REORGANIZED DEBTORS

Except as otherwise provided herein, or in the Restructuring Transactions Agreement, each Debtor will, as a Reorganized Debtor, continue to exist after the Effective Date as a separate corporate entity, with all the powers of a corporation under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, dissolution or otherwise) under applicable state law. Except as otherwise provided herein, as of the Effective Date, all property of the respective Estates of the Debtors, and any property acquired by a Debtor or Reorganized Debtor under the Plan, will vest in the applicable Reorganized Debtor, free and clear of all Claims, Liens, charges, other encumbrances and Equity Interests, except for obligations assumed or created under the Plan or the Plan Documents. On and after the Effective Date, each Reorganized Debtor may operate its businesses and may use, acquire and dispose of property and compromise or settle any claims

Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs after the Effective Date for Professionals' fees, disbursements, expenses or related support services (including reasonable fees relating to the preparation of Professional fee applications) without application to the Bankruptcy Court.

E. EXECUTION OF PLAN DOCUMENTS

On the Effective Date, the Reorganized Debtors and the other parties thereto shall execute and deliver the Plan Documents, as applicable.

F. CORPORATE GOVERNANCE, DIRECTORS AND OFFICERS AND CORPORATE ACTION OF THE REORGANIZED DEBTORS

1. NEW CERTIFICATES OF INCORPORATION AND NEW BY-LAWS

On or immediately prior to the Effective Date, the Reorganized Debtors will file their respective New Certificates of Incorporation with the applicable Secretaries of State and/or other applicable authorities in their respective states of incorporation in accordance with the corporate laws of the respective states of incorporation. After the Effective Date, the Reorganized Debtors may amend and restate their respective New Certificates of Incorporation and New By-laws and other constituent documents as permitted by the laws of their respective states of incorporation and their respective New Certificates of Incorporation and New By-laws.

2. DIRECTORS AND OFFICERS OF THE REORGANIZED DEBTORS

As of the Effective Date, the initial board of directors and the officers of each of the Reorganized Debtors shall be appointed in accordance with the respective New Certificates of Incorporation and New By-laws. The initial Board of Directors of Reorganized Solutia shall consist of nine (9) members. One (1) member shall be the Chief Executive Officer of Reorganized Solutia, Jeffry N. Quinn, one (1) member shall be designated by Solutia from among the members of the current Solutia Board, and one (1) member shall be designated by Monsanto. The remaining six (6) members shall be designated by the Creditors' Committee in consultation with Solutia and Monsanto. Solutia will retain a nationally recognized executive search firm to assist in the selection of members of the initial Board of Directors of Reorganized Solutia. All members of the Reorganized Solutia Board of Directors (other than the Chief Executive Officer) shall satisfy the independence standards that are applicable for purposes of the securities exchange or quotation system on which the shares of Reorganized Solutia will be listed. Pursuant to section 1129(a)(5) of the Bankruptcy Code, the Debtors will disclose in the Plan Supplement, the identity and affiliations of any Person proposed to serve on the initial board of directors or be an officer of each of the Reorganized Debtors. To the extent any such director or officer of Reorganized Solutia is an "insider" under the Bankruptcy Code, the nature and amount of any compensation to be paid to such director or officer will also be disclosed. Each such director and officer shall serve from and after the Effective Date pursuant to the terms of the New Certificates of Incorporation, New By-laws and other constituent documents of the Reorganized Debtors.

3. CORPORATE ACTION

As of the Effective Date, the adoption and filing of the New Certificates of Incorporation, the approval of the New By-laws, the resignation of all directors of the Debtors, the appointment of directors and officers for Reorganized Debtors, and all actions contemplated hereby shall be deemed to be authorized and approved in all respects (subject to the provisions herein), without the need for any further

corporate, shareholder, director or other action. All matters provided for herein involving the corporate structure of Reorganized Debtors, and any corporate action required by the Debtors or Reorganized Debtors in connection with the Plan, shall be deemed to have occurred and shall be in effect, pursuant to applicable law, without any requirement of further action by the security holders or directors of the Debtors or Reorganized Debtors. On the Effective Date, the appropriate officers of the Reorganized Debtors and members of the board of directors of the Reorganized Debtors are authorized and directed to issue, execute and deliver the agreements, documents, securities and instruments contemplated by the Plan in the name of and on behalf of Reorganized Debtors, if no such other date is specified in such other documents, and will be authorized and approved in all respects and for all purposes without any requirement of further action by stockholders or directors of any of the Debtors or Reorganized Debtors.

#### 4. THE NEW COMMON STOCK

The New Common Stock shall represent all of the equity interests in Reorganized Solutia as of the Effective Date, subject to dilution in connection with the Incentive Plan. Reorganized Solutia will cause the New Common Stock to be listed on the NYSE on or as soon as practicable after the Effective Date; provided, however, that in the event the New Common Stock is

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not listed on the NYSE, Reorganized Solutia shall list the New Common Stock on another National Securities Exchange or inter-dealer quotation system. All Persons receiving Distributions of New Common Stock or rights to purchase New Common Stock in whatever form shall take any and all reasonable actions necessary, as requested by the Debtors, to enable Reorganized Solutia to comply with the listing requirements for the NYSE or any other applicable securities exchange or quotation system.

#### 5. SHAREHOLDERS AGREEMENT

The Shareholders Agreement between Reorganized Solutia and Monsanto, attached as Exhibit L hereto, will govern certain of Monsanto's rights and obligations as a shareholder of Reorganized Solutia.

#### G. EXIT FINANCING FACILITY, OBTAINING CASH FOR DISTRIBUTIONS AND TRANSFERS OF FUNDS AMONG THE DEBTORS

On the Effective Date, the Reorganized Debtors are authorized to execute and deliver those documents necessary or appropriate to obtain the Exit Financing Facility, subject to the reasonable consent of Monsanto and the Creditors' Committee. All Cash necessary for the Reorganized Debtors to make payments required pursuant to the Plan will be obtained from the Reorganized Debtors' Cash balances or the Exit Financing Facility. Cash payments to be made pursuant to the Plan will be made by the Reorganized Debtors; provided,

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however, that the Debtors and the Reorganized Debtors will be entitled to

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transfer funds between and among themselves as they determine to be necessary or appropriate to enable the Reorganized Debtors to satisfy their obligations under the Plan. Except as set forth herein, any changes in intercompany account balances resulting from such transfers will be accounted for and settled in accordance with the Debtors' historical intercompany account settlement practices and will not violate the terms of the Plan.

#### H. THE RIGHTS OFFERING

##### 1. USE OF RIGHTS OFFERING PROCEEDS

The proceeds of the Rights Offering will be used to provide (a) \$175 million in Cash funding for the Retiree Trust (as defined in the Retiree Settlement Agreement), and (b) \$75 million in funding to Funding Co.

36

##### 2. RIGHTS OFFERING PROCEDURES

Eligible Holders will be entitled to participate in the Rights Offering, in accordance with the terms of the Rights Offering Procedures and as approved by the Bankruptcy Court in the Disclosure Statement Order.

I. FUNDING CO

In accordance with the terms of the Relationship Agreement, on the Effective Date, Reorganized Solutia will establish Funding Co with \$75 million in proceeds from the Rights Offering remaining after funding the Retiree Trust (as defined in the Retiree Settlement Agreement). In accordance with the terms of the Relationship Agreement, \$50 million of these funds will be used to pay for Environmental Liabilities related to the Shared Sites and \$25 million will remain in an unallocated account to be used to offset Reorganized Solutia's legacy environmental, OPEB liabilities and other legacy liabilities.

J. INCENTIVE PLAN

As of the Effective Date, the Incentive Plan shall be adopted and deemed adopted by Reorganized Solutia. The terms of the Incentive Plan will be contained in the Plan Supplement.

K. RELEASE OF LIENS AND GUARANTEE CLAIMS

Except as otherwise provided herein or in any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, on the Effective Date and concurrently with the applicable Distributions made to Holders of Allowed DIP Claims, Secured Claims and Senior Secured Note Claims pursuant to Article III herein, all Liens, other security interests or Claims on account of guarantees of such indebtedness against the property of any Estate related to such Claims (except for Claims that are Reinstated) will be fully released and discharged, and all of the right, title and interest of any holder of such Liens, other security interests or Claims on account of guarantees of such indebtedness, including any rights to any collateral thereunder, will revert to the applicable Reorganized Debtor and its successors and assigns.

As a condition to the receipt of Distributions hereunder, Holders of Allowed DIP Claims, Secured Claims and Senior Secured Note Claims shall be required to deliver all documents necessary to effectuate the release of the Liens securing such Claims. Pursuant to Article 9 of the Uniform Commercial Code, all Holders of Allowed DIP Claims, Secured Claims and Senior Secured Note Claims are deemed to have appointed the Debtors as their respective agents with authority to make the relevant filings required by the Uniform Commercial Code or other filings necessary to cause the release of such Liens and security interests of record.

L. CANCELLATION OF EXISTING SECURITIES AND AGREEMENTS

Unless otherwise agreed to by the Debtors, on the Effective Date, except to the extent otherwise provided herein, all notes, instruments, certificates and other documents evidencing (1) the DIP Claims, (2) the Secured Claims, (3) the Senior Secured Note Claims, (4) the Noteholder Claims and (5) Equity Interests in Solutia and those Debtors whose stock is to be canceled pursuant to the Restructuring Transactions, other than a Claim that is Reinstated, shall be cancelled and the obligations of the Debtors or the Reorganized Debtors in any way related thereto (except for obligations provided for under this Plan) shall be discharged. On the Effective Date, except to the extent otherwise provided herein, the Prepetition Indenture shall be deemed to be cancelled as permitted by section 1123(a)(5)(F) of the Bankruptcy Code and the obligations of the Debtors thereunder shall be discharged.

37

M. EFFECTUATING DOCUMENTS

The Chief Executive Officer, President, Chief Financial Officer, General Counsel, Senior Vice Presidents or any Vice Presidents of each Debtor or Reorganized Debtor will be authorized to execute, deliver, file or record such contracts, instruments, releases and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and implement the provisions of the Plan. The Secretary or any Assistant Secretary of each Debtor or Reorganized Debtor will be authorized to certify or attest to any of the foregoing actions.

N. EMPLOYMENT AND OTHER BENEFITS PROGRAMS

All employment, retirement, indemnification and other agreements, or

arrangements in place as of the Effective Date with the Debtors' directors, officers and employees who will continue in such capacities (or similar capacities) after the Effective Date, or retirement income plans, welfare benefit plans and other plans for such persons, shall remain in place after the Effective Date, and the Reorganized Debtors will continue to honor such agreements, programs, and plans as modified or amended during the Chapter 11 Cases; provided, however, that the Directors' and Officers Indemnity Claims

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shall be waived and the Reorganized Debtors shall have no obligations with respect thereto, as of the Effective Date. On the Effective Date, Solutia will be authorized to elect to exercise its existing options to purchase tail coverage in connection with its (a) directors and officers liability and (b) fiduciary liability insurance policies.

After the Effective Date, the Reorganized Debtors shall each have the authority, consistent with the applicable agreements, to terminate, amend or enter into employment, retirement, indemnification and other agreements with their respective active directors, officers and employees and to terminate, amend or implement retirement income plans, welfare benefit plans and other plans for active employees.

As of the Effective Date, the Retiree Benefits shall be modified in accordance with the Retiree Settlement Agreement.

38

## ARTICLE VI

### TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

#### A. ASSUMPTION AND REJECTION OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

On the Effective Date, except as otherwise provided herein, all Executory Contracts or Unexpired Leases, not previously assumed or rejected pursuant to an order of the Bankruptcy Court, will be deemed rejected, in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code, other than those Executory Contracts or Unexpired Leases that are (1) to be assumed pursuant to the terms of this Article VI, or Section V.B.3 of the Plan, (2) listed on Exhibit G, (3) the subject of a motion to assume Executory Contracts or Unexpired Leases that is pending on the Effective Date or (4) subject to a motion to reject an Executory Contract or Unexpired Lease pursuant to which the requested effective date of such rejection is after the Effective Date. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejections and the assumption of the Executory Contracts or Unexpired Leases listed on Exhibit G hereto pursuant to sections 365(a) and 1123 of the Bankruptcy Code. Any motions to assume Executory Contracts or Unexpired Leases pending on the Effective Date shall be subject to approval by the Bankruptcy Court on or after the Effective Date by a Final Order. Each Executory Contract and Unexpired Lease assumed pursuant to this Section VI.A or by any order of the Bankruptcy Court, which has not been assigned to a third party prior to the Effective Date, shall revert in and be fully enforceable by the Reorganized Debtors in accordance with its terms, except as such terms are modified by the provisions of the Plan or any order of the Bankruptcy Court authorizing and providing for its assumption under applicable federal law.

#### B. CLAIMS BASED ON REJECTION OF EXECUTORY CONTRACTS OR UNEXPIRED LEASES

All proofs of Claim with respect to Claims arising from the rejection of Executory Contracts or Unexpired Leases, pursuant to the Plan or the Confirmation Order, if any, must be filed with the Bankruptcy Court within thirty days after the date of entry of an order of the Bankruptcy Court (including the Confirmation Order) approving such rejection. Any Claims arising from the rejection of an Executory Contract or Unexpired Lease not filed with the Bankruptcy Court within such time will be forever barred from assertion against the Debtors or the Reorganized Debtors, their Estates, Monsanto, Pharmacia or their property.

#### C. CURE OF DEFAULTS FOR EXECUTORY CONTRACTS AND UNEXPIRED LEASES ASSUMED

Any monetary defaults under each Executory Contract and Unexpired Lease



to be assumed pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the default amount in Cash on the Effective Date or on such other terms as the parties to such Executory Contracts or Unexpired Leases may otherwise agree. In the event of a dispute regarding (1) the amount of any payments to cure such a default, (2) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed or (3) any other matter pertaining to assumption, the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order or orders resolving the dispute and approving the assumption. At least 20 days prior to the Confirmation Hearing, the Debtors shall provide for notices of proposed assumption and proposed cure amounts to be sent to applicable third parties and for procedures for objecting thereto and resolution of disputes by the Bankruptcy Court. Any objection by a counterparty to an Executory Contract or Unexpired Lease to a proposed assumption or related cure amount must be

39

filed, served and actually received by the Debtors at least 10 days prior to the Confirmation Hearing. Any counterparty to an Executory Contract and Unexpired Lease that fails to object timely to the proposed assumption or cure amount will be deemed to have assented to such matters.

#### D. INSURANCE POLICIES

All of the Debtors' insurance policies and any agreements, documents or instruments relating thereto, are treated as Executory Contracts under the Plan. On the Effective Date, the Debtors shall be deemed to have assumed all insurance policies and any agreements, documents and instruments relating to coverage of all Insured Claims. Notwithstanding the foregoing, Distributions under the Plan to any Holder of an Allowed Insured Claim shall be in accordance with the treatment provided under Article III of the Plan.

##### 1. ACE SETTLEMENT

Notwithstanding anything to the contrary in the Plan or the Confirmation Order: (a) on the Effective Date, the Debtors and the Reorganized Debtors shall assume the ACE Insurance Program; and within 15 days of the Effective Date, the Debtors and the Reorganized Debtors shall pay the cure costs related to such assumption, as set forth in the ACE Settlement Agreement; (b) subject to entry of an order by the Bankruptcy Court approving the ACE Settlement Agreement, (i) the ACE Insurance Program will survive and shall not be amended, modified, waived or impaired in any respect by the Plan, the Confirmation Order, the Relationship Agreement or otherwise without the prior written agreement of the ACE Companies; (ii) the claims of the ACE Companies arising under the ACE Insurance Program shall be Allowed Administrative Expense Claims, which are payable in the ordinary course of business, and shall not be discharged or released by the Plan or the Confirmation Order; (iii) the ACE Companies shall not be required to file or serve a request for payment of any Administrative Expense Claim and shall not be subject to the Administrative Expense Claim Bar Date; and (iv) to the extent of any inconsistency between the ACE Settlement Agreement and the Plan, the Disclosure Statement, the Confirmation Order or any other document, agreement or order, the terms of the ACE Settlement Agreement will control; and (c) nothing in the Plan or the Confirmation Order shall be construed as, or is, a determination as to coverage under the ACE Insurance Program.

#### E. ANNISTON SETTLEMENT

Reorganized Solutia shall assume its obligations under the Anniston Global Settlement Agreement, the Anniston Side Letter and all related agreements, and shall continue to pay the \$5 million annual installments of the settlement amount, as set forth in the Anniston Side Letter, together with all education fund and related obligations; provided, however, if Solutia's

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obligations set forth in this sentence are in any way inconsistent with the Relationship Agreement, the Relationship Agreement shall control. To the extent provided in the Relationship Agreement, Reorganized Solutia shall indemnify Monsanto and its Affiliates, and Pharmacia and its Affiliates against any Reorganized Solutia default in performing its obligations under the Anniston Global Settlement Agreement and the Anniston Side Letter.

F. ASSUMPTION OF PENSION OBLIGATIONS

Pursuant to the Plan, the Debtors shall assume and continue the Pension Plan in accordance with its terms, satisfy the minimum funding standards pursuant to 26 U.S.C. Section 412 and 29 U.S.C. Section 1082, and administer the Pension Plan in accordance with its terms and the provisions of ERISA. Furthermore, nothing in the Plan shall be construed as discharging, releasing or relieving the Debtors or the Debtors' successors, including the Reorganized Debtors, or any party, in any capacity, from any liability imposed under any law or regulatory provision with respect to the Pension Plan or the PBGC. The PBGC and the

40

Pension Plan shall not be enjoined or precluded from seeking to enforce such liability as a result of any provision of the Plan or the Confirmation Order. Notwithstanding any provision of the Plan to the contrary, the Pension Plan shall be assumed and administered in accordance with ERISA and the Internal Revenue Code.

G. CONTRACTS AND LEASES ENTERED INTO AFTER THE PETITION DATE

Contracts and leases entered into after the Petition Date by any Debtor, including any Executory Contracts and Unexpired Leases assumed by such Debtor, will be performed by the Debtor or Reorganized Debtor liable thereunder in the ordinary course of its business. Accordingly, such contracts and leases (including any assumed Executory Contracts and Unexpired Leases) will survive and remain unaffected by entry of the Confirmation Order.

41

ARTICLE VII

PROVISIONS GOVERNING DISTRIBUTIONS

A. DISTRIBUTIONS FOR CLAIMS ALLOWED AS OF THE EFFECTIVE DATE

Except as otherwise provided herein or as may be ordered by the Bankruptcy Court, Distributions to be made on account of Claims that are Allowed as of the Effective Date shall be made on the Effective Date, or as soon as reasonably practicable thereafter. Unless otherwise specifically provided for or contemplated in the Plan or Confirmation Order, or required by applicable bankruptcy law, postpetition interest shall not accrue or be paid on any Claims and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date. For tax purposes, Distributions received in respect of Allowed Claims shall be allocated first to the principal amount of the Allowed Claims with any excess allocated to unpaid interest that accrued on such Claims.

B. DELIVERY OF DISTRIBUTIONS

Reorganized Solutia shall make all Distributions required to be distributed under the Plan. Any Distribution required to be made pursuant to this Plan on a day other than a Business Day shall be made on the next succeeding Business Day or as soon thereafter as reasonably practicable. Reorganized Solutia may employ or contract with other Entities to assist in or make the Distributions required by the Plan without further order of the Court.

C. DELIVERY AND DISTRIBUTIONS AND UNDELIVERABLE OR UNCLAIMED DISTRIBUTIONS

1. DELIVERY OF DISTRIBUTIONS IN GENERAL

Distributions to Holders of Allowed Claims shall be made at the address of the Holder of such Claim as indicated on the claims register maintained by the Debtors' duly appointed claims agent, as of the Voting Record Date (as defined in the Disclosure Statement Order). Nonetheless, if such Holder holds such Claims through a Nominee, Distributions with respect to such Claims will be made to such Nominee and such Nominee shall, in turn, make

appropriate Distributions and book entries to reflect such Distributions to such Holders; provided, however, that Distributions on account of the

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Noteholder Claims shall be made to the Prepetition Indenture Trustee for distribution, subject to the terms and conditions of the Prepetition Indenture, to the Holders of such Claims.

## 2. UNDELIVERABLE DISTRIBUTIONS

### a. TREATMENT OF UNDELIVERABLE DISTRIBUTIONS

Reorganized Solutia shall distribute any Undeliverable Distribution of New Common Stock to the Disputed Claims Reserve. Subject to Article VII(c)(2)(b), the Reorganized Debtors shall retain any Undeliverable Distribution of Cash and may use such Cash for general corporate purposes.

### b. FAILURE TO CLAIM UNDELIVERABLE DISTRIBUTIONS

Any Holder of an Allowed Claim that does not assert a claim pursuant to the Plan for an unclaimed or Undeliverable Distribution within one year after the date such Distribution is due shall be deemed to have forfeited its claim to such unclaimed or Undeliverable Distribution and shall be

42

forever barred from asserting any such claim against any of the Debtors, their Estates, the Reorganized Debtors, Monsanto, Pharmacia, or their property, or any party that has received Distributions under the Plan. Nothing contained herein shall require Reorganized Solutia, or any other party, to attempt to locate any Holder of an Allowed Claim.

## D. COMPLIANCE WITH TAX REQUIREMENTS/ALLOCATIONS

In connection with the Plan, to the extent applicable, Reorganized Solutia shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, and all Distributions pursuant hereto shall be subject to such withholding and reporting requirements. In addition, Reorganized Solutia will pay taxes on the taxable net income or gain allocable to Holders of Disputed Claims on behalf of such Holders and, when such Disputed Claims are ultimately resolved, Holders whose Disputed Claims are determined to be Allowed Claims will receive Distributions from Reorganized Solutia net of the taxes that Reorganized Solutia had paid previously on their behalf.

## E. RECORD DATE FOR DISTRIBUTION

At the close of business on the Distribution Record Date, the transfer register for the Holders of any Claims shall be closed and there shall be no further changes in the record of Holders of any Claims. Moreover, Reorganized Solutia shall have no obligation to recognize the transfer of any 2027/2037 Notes occurring after the Distribution Record Date, and shall be entitled for all purposes herein to recognize and deal only with those Holders of record as of the close of business on the Distribution Record Date.

## F. DISTRIBUTIONS OF WHOLE SHARES AND WARRANTS ONLY

Notwithstanding any other provision of this Plan, only whole numbers of shares of the New Common Stock and whole numbers of Warrants will be issued. When any Distribution on account of an Allowed Claim or Equity Interests in Solutia would otherwise result in the issuance of a number of shares of New Common Stock or Warrants that is not a whole number, the actual Distribution of shares of such stock or Warrants will be rounded as follows: (i) fractions equal to or greater than one half will be rounded to the next higher whole number and (ii) fractions less than one half will be rounded to the next lower number. The total number of shares of the New Common Stock and Warrants to be distributed to Holders of Allowed Claims or Equity Interests in Solutia will be adjusted as necessary to account for the rounding provided for in this Section. If such rounding results in Distributions of New Common Stock or Warrants totaling less than the authorized number of shares of New Common Stock or Warrants, then any excess New Common Stock or Warrants shall not be issued. No consideration shall be provided in lieu of fractional shares or Warrants that are rounded down pursuant to this Section.

G. SET-OFFS AND RECOUPMENTS

The Debtors or Reorganized Solutia may, but shall not be required to, set-off against or recoup from the Holder of any Allowed Claim on which payments or Distributions are to be made pursuant to the Plan, any claims of any nature whatsoever that the Debtors or the Reorganized Debtors may have against the Holder of such Allowed Claim that are not released under Article X of the Plan and the Distributions to be made pursuant hereto on account of such Allowed Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors of any such claim, right of setoff or recoupment that the Debtors may have against the Holder of such Allowed Claim.

43

H. SURRENDER OF CANCELLED INSTRUMENTS OR SECURITIES

Unless otherwise agreed to by the Debtors or the Reorganized Debtors, as applicable, as a condition precedent to receiving any Distribution pursuant to the Plan on account of an Allowed Claim, the Holder of such Claim shall tender the applicable instruments, securities or other documentation evidencing such Claim to Reorganized Solutia, and in the case of the DIP Credit Facility, the agent under the DIP Credit Facility shall have either (1) delivered such release documents as requested by the Debtors (at the Debtors' expense) or (2) provided a letter of authorization to the Debtors to execute and release any instruments, securities or other documentation securing the DIP Credit Facility. Any Distribution to be made pursuant to the Plan on account of any such Claim shall, pending such surrender, be treated as an Undeliverable Distribution pursuant to Section VII.C.2 hereof. Any Holder of such Claim that fails to (1) surrender such instrument, security, note or other documentation evidencing such Claim or (2) execute and deliver an affidavit of loss and/or indemnity, before the first anniversary of the Effective Date, shall be deemed to have forfeited all rights and Claims and may not participate in any Distribution under the Plan, and any Distributions to which such Holder would have been entitled shall be treated as Undeliverable Distributions.

I. DISPUTED CLAIMS RESERVE

1. DEPOSIT OF CASH ON THE EFFECTIVE DATE

On the Effective Date (or as soon thereafter as is reasonably practicable), Reorganized Solutia shall deposit Cash in the Disputed Claim Reserve that would have been distributed to the Holders of Disputed Claims (other than Disputed General Unsecured Claims and Noteholder Claims) if such Disputed Claims had been Allowed Claims on the Effective Date. This amount will be determined based on the lesser of (a) the asserted amount of the Disputed Claim filed with the Bankruptcy Court (if no proof of such Claim was filed) scheduled by the Debtors, (b) the amount, if any, estimated by the Bankruptcy Court pursuant to Section 502(c) of the Bankruptcy Code or (c) the amount otherwise agreed to by the Debtors and the Holder of such Disputed Claims.

2. DISTRIBUTION AFTER ALLOWANCE

Reorganized Solutia shall distribute from the Disputed Claims Reserve to the Holder of any Disputed CP Films Claim that has become an Allowed Claim, no later than the fifth (5th) Business Day after the end of the calendar month in which such Disputed Claim becomes an Allowed Claim in an amount equal to the Allowed Claim if such Claim had been an Allowed Claim on the Effective Date.

3. DISTRIBUTIONS AFTER DISALLOWANCE

If a Disputed Claim is disallowed, in whole or in part, Reorganized Solutia shall on a quarterly basis (and in no event later than the fifth (5th) Business Day after the end of each calendar quarter) distribute the Cash reserved in respect of such disallowed Disputed Claim to Reorganized Solutia for use in the ordinary course of business without further restrictions or limitations.

4. PROPERTY HELD IN THE DISPUTED CLAIMS RESERVE

a. DISTRIBUTIONS

Cash held in the Disputed Claim Reserve as a result of such Distributions

will (i) be deposited and held in trust pending distribution by Reorganized Solutia for the benefit of Holders of Allowed Claims (other than Allowed General Unsecured Claims and Allowed Noteholder Claims), (ii) be

44

accounted for separately and (iii) not constitute property of the Reorganized Debtors. Reorganized Solutia will also place in the Disputed Claim Reserve, the proceeds, net of any applicable fees, from such investment of Cash, and Distributions to Holders of Allowed Claims who had previously held Disputed Claims will include a proportionate share from such investment of Cash from the Disputed Claim Reserve.

b. RECOURSE

Each Holder of a Disputed Claim that ultimately becomes an Allowed Claim will have recourse only to the Cash and their proportionate share of the proceeds from the investment of Cash, if any, held in the Disputed Claim Reserve for satisfaction of the Distributions to which Holders of Allowed Claims are entitled under the Plan, and not to any Reorganized Debtor, Pharmacia, Monsanto, its property or any assets previously distributed on account of any Allowed Claim.

J. THE DISPUTED GENERAL UNSECURED CLAIMS RESERVE

1. DEPOSIT OF NEW COMMON STOCK ON THE EFFECTIVE DATE

On the Effective Date (or as soon thereafter as is reasonably practicable), Reorganized Solutia shall deposit from the Stock Pool in the Disputed General Unsecured Claims Reserve the number of shares of New Common Stock that would have been distributed to the Holders of Disputed General Unsecured Claims if such Disputed General Unsecured Claims had been Allowed General Unsecured Claims on the Effective Date to ensure that the Holders of Allowed Noteholder Claims and General Unsecured Claims receive the same percentage recovery on account of their individual Claims at all times. The amount of New Common Stock to be deposited in the Disputed General Unsecured Claims Reserve will be determined based on the lesser of (a) the asserted amount of the Disputed General Unsecured Claim filed with the Bankruptcy Court or (if no proof of such Claim was filed) scheduled by the Debtors, (b) the amount, if any, estimated by the Bankruptcy Court pursuant to section 502(c) of the Bankruptcy Code or (c) the amount otherwise agreed to by the Debtors and the Holder of such Disputed General Unsecured Claims.

2. DISTRIBUTIONS AFTER ALLOWANCE

Reorganized Solutia shall distribute from the Disputed General Unsecured Claims Reserve to the Holder of any Disputed General Unsecured Claim that has become an Allowed General Unsecured Claim, no later than the fifth (5th) Business Day after the end of the calendar month in which such Disputed General Unsecured Claim becomes an Allowed General Unsecured Claim, New Common Stock (including any Cash dividends and other Distributions earned on the New Common Stock) in an amount equal to the New Common Stock that such Holder would have received an account of such Claim if such Claim had been an Allowed General Unsecured Claim on the Effective Date.

3. DISTRIBUTIONS AFTER DISALLOWANCE.

If a Disputed General Unsecured Claim is disallowed, in whole or in part, Reorganized Solutia shall on a quarterly basis (and in no event later than the fifth (5th) Business Day after the end of each calendar quarter) distribute the New Common Stock (including any Cash dividends and other Distributions earned on account of the New Common Stock), reserved in respect of such disallowed Disputed General Unsecured Claim from the Stock Pool to Holders of Allowed Noteholder Claims and Allowed General Unsecured Claims in a manner designed to ensure that the Holders of Allowed Noteholder Claims and Allowed General Unsecured Claims receive the same percentage recovery on account of their individual Claims at all times.

45

4. PROPERTY HELD IN DISPUTED GENERAL UNSECURED CLAIMS RESERVE

a. DIVIDENDS AND DISTRIBUTIONS

Cash dividends and other Distributions earned on account of the New Common Stock to be held in the Disputed General Unsecured Claims Reserve will be transferred to the Disputed General Unsecured Claims Reserve, concurrently with the transfer of such dividends and other Distributions to other holders of New Common Stock. Cash held in the Disputed General Unsecured Claims Reserve as a result of such dividends and other Distributions will (i) be deposited and held in trust pending distribution by Reorganized Solutia for the benefit of Holders of Allowed General Unsecured Claims and Noteholder Claims, (ii) be accounted for separately and (iii) not constitute property of the Reorganized Debtors. Reorganized Solutia will invest the Cash held in the Disputed General Unsecured Claims Reserve in a manner consistent with the Reorganized Debtors' investment and deposit guidelines. Reorganized Solutia also will place in the Disputed General Unsecured Claims Reserve, the proceeds, net of any applicable fees, from such investment of Cash, and Distributions to Holders of Allowed General Unsecured Claims and Allowed Noteholder Claims will include a proportionate share from such investment of Cash from the Disputed General Unsecured Claims Reserve.

b. RECOURSE

Each Holder of an Allowed General Unsecured Claim (or a Disputed General Unsecured Claim that ultimately becomes an Allowed General Unsecured Claim) or Noteholder Claim will have recourse only to the undistributed New Common Stock and their proportionate share of the proceeds from the investment of Cash and dividends, if any, held in the Disputed General Unsecured Claims Reserve for satisfaction of the Distributions to which Holders of Allowed General Unsecured Claims and Noteholder Claims are entitled under the Plan, and not to any Reorganized Debtor, Pharmacia, Monsanto, its property or any assets previously distributed on account of any Allowed Claim.

c. VOTING RIGHTS

The shares of the New Common Stock held in the Disputed General Unsecured Claims Reserve shall be voted in accordance with, and in direct proportion to, the votes cast by those shareholders, excluding Monsanto and the Entity holding the New Common Stock issued on account of the Retiree Claim, voting on any and all matters for which a vote of the shareholders of the New Common Stock is taken or required.

46

ARTICLE VIII

PROCEDURES FOR TREATING DISPUTED GENERAL UNSECURED CLAIMS

A. OBJECTIONS TO CLAIMS

After the Effective Date and on or before the Claims Objection Deadline, the Reorganized Debtors shall have the authority to file objections to Claims or Equity Interests. The Reorganized Debtors may settle, compromise, withdraw or litigate to judgment objections to Claims. The Reorganized Debtors shall consult with the Creditors' Committee (until the Creditors' Committee is dissolved under the terms of this Plan) in the process of reconciling, objecting to and/or allowing General Unsecured Claims.

B. GENERAL UNSECURED CLAIMS MONITOR

Upon the Effective Date, an entity selected by the Creditors' Committee and approved by the Bankruptcy Court shall serve as an independent claims monitor. The claims monitor shall be paid by the Reorganized Debtors on a monthly basis in an amount agreed to, prior to the Confirmation Hearing, between the Debtors and the claims monitor, with the reasonable consent of the Creditors' Committee, and approved by the Bankruptcy Court, until the General Unsecured Claims reconciliation process is concluded. The claims monitor shall be authorized to retain counsel of its choice and shall have standing to raise and appear on issues concerning the General Unsecured Claims reconciliation process. The Reorganized Debtors shall be responsible for compensating the claim monitor's counsel for all reasonable fees and expenses incurred, in accordance with the claim monitor's counsel's normal billing practices;

provided, however, that the total amount of the claim monitor's counsel's fees

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and expenses in connection with the General Unsecured Claims reconciliation process for which the Reorganized Debtors shall be responsible shall not exceed an amount in the aggregate agreed to, prior to the Confirmation Hearing, between the Debtors and the claims monitor, with the reasonable consent of the Creditors' Committee, and approved by the Bankruptcy Court. If the claims monitor believes that the Reorganized Debtors are failing to administer the General Unsecured Claims reconciliation process adequately and, as a result, intends to take action, then the claims monitor shall provide the Reorganized Debtors and the Creditors' Committee until it is dissolved in accordance with the terms hereof within five (5) Business Days' written notice of its intent to take such proposed action. During the notice period, the Reorganized Debtors may either consent to the relief sought, agree to proceed in good faith with the proposed action on their own, or petition the Bankruptcy Court for an order declaring that such proposed action is unreasonable. If the Reorganized Debtors do not so petition the Bankruptcy Court or the Bankruptcy Court determines that the proposed action is reasonable, the Reorganized Debtors shall be responsible for compensating the claims monitor's counsel for all reasonable fees and expenses incurred in taking the proposed action and in seeking Bankruptcy Court approval of payment with respect to such proposed action. To the extent the Bankruptcy Court determines that such proposed action is unreasonable, then the claim monitor's counsel shall not be reimbursed for any fees or expenses incurred in connection with such proposed action or its attempt to take such proposed action. Notwithstanding the foregoing, the Reorganized Debtors reserve their right to dispute the reasonableness of compensation sought by the claim monitor's counsel for services performed and expenses incurred following the Effective Date by the filing of an appropriate motion with the Bankruptcy Court. The Reorganized Debtors will retain primary responsibility of the General Unsecured Claims reconciliation process and will provide monthly reports of the status of the General Unsecured Claims reconciliation process to the claims monitor, and, if it has not been dissolved in accordance with the terms hereof, the Creditors' Committee.

47

C. NO DISTRIBUTIONS PENDING ALLOWANCE

Notwithstanding any other provision herein, if any portion of a Claim is a Disputed Claim, no payment or Distribution provided hereunder shall be made on account of such Claim unless and until such Disputed Claim becomes an Allowed Claim, in whole or in part. No interest shall accrue on such Disputed Claim until the date that such Disputed Claim, as applicable, becomes an Allowed Claim.

D. ESTIMATION OF CLAIMS

The Debtors (prior to the Effective Date) or Reorganized Debtors (after the Effective Date), the Creditors' Committee, if it has not been dissolved in accordance with the terms hereof, and the General Unsecured Claims Monitor, if the Creditors' Committee has been dissolved at the time, may, at any time, and from time to time, request that the Bankruptcy Court estimate any Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether an objection was previously filed with the Bankruptcy Court with respect to such Claim, or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any Disputed Claim, that estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim against any party or Entity, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Debtors (prior to the Effective Date) or the Reorganized Debtors (after the Effective Date), the Creditors' Committee, if it has not been dissolved in accordance with the terms hereof, and the General Unsecured Claims Monitor, if the Creditors' Committee has been dissolved at the time, may elect to pursue any supplemental proceedings to object to any ultimate Distribution on such Claim. All of the objection, estimation, settlement and resolution procedures set forth in the Plan are cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, objected to, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

## ARTICLE IX

CONDITIONS PRECEDENT TO CONFIRMATION  
AND CONSUMMATION OF THE PLAN

## A. CONDITION PRECEDENT TO CONFIRMATION

The Bankruptcy Court will not enter the Confirmation Order unless and until the following conditions have been satisfied or duly waived pursuant to Section IX.D of this Plan:

1. The Confirmation Order shall be reasonably acceptable in form and substance to the Debtors, Monsanto, Pharmacia (solely with respect to provisions directly affecting Pharmacia) and the Creditors' Committee.
2. The Confirmation Order shall:
  - a. authorize the Debtors and the Reorganized Debtors to take all actions necessary or appropriate to enter into, implement and consummate the contracts, instruments, releases, leases, indentures and other agreements or documents created in connection with the Plan;
  - b. decree that the provisions of the Confirmation Order and the Plan are nonseverable and mutually dependent;
  - c. authorize the Reorganized Debtors to (a) issue the New Common Stock, the Rights and the Warrants pursuant to the exemption from "Registration" under the Securities Act provided by section 1145 of the Bankruptcy Code and (b) enter into the Plan Documents;
  - d. approve the releases and injunctions, including the Monsanto/Pharmacia Injunction, as contemplated and to the extent set forth in Article X herein;
  - e. decree that the Confirmation Order shall supersede any Bankruptcy Court orders issued prior to the Confirmation Date that may be inconsistent with the Confirmation Order;
  - f. authorize the implementation of the Plan in accordance with its terms;
  - g. approve the Monsanto Settlement;
  - h. provide that, pursuant to section 1146(c) of the Bankruptcy Code, the assignment or surrender of any lease or sublease, and the delivery of any deed or other instrument or transfer order, in furtherance of, or in connection with this Plan, including any deeds, bills of sale or assignments executed in connection with any disposition or transfer of assets contemplated by this Plan, shall not be subject to any stamp, real estate transfer, mortgage recording or other similar tax (including, without limitation, any mortgages or security interest filing to be recorded or filed in connection with the Exit Financing Facility);
  - i. provide, in accordance with the Monsanto Settlement, that the Settled Adversary Proceedings shall be withdrawn or dismissed with prejudice; and
  - j. provide that, pursuant to the settlements of claims embodied in the Plan, the Equity Committee Adversary Proceeding is dismissed with prejudice.
3. The Debtors shall have received the Exit Financing Facility Commitment Letter, which shall be in form and substance and with a lender reasonably acceptable to the Debtors, Monsanto and the Creditors' Committee.



4. The Retiree Approval Order shall have been entered by the Bankruptcy Court.

B. CONDITIONS PRECEDENT TO EFFECTIVE DATE

The Effective Date will not occur and the Plan will not be consummated unless and until each of the following conditions have been satisfied or duly waived pursuant to Section IX.D of this Plan:

1. The Confirmation Order shall (i) be in form and substance reasonably acceptable to the Debtors, Monsanto, Pharmacia (solely with respect to provisions directly affecting Pharmacia) and the Creditors' Committee, (ii) be consistent with the terms described in Section IX.A above, and (iii) have been entered by the Bankruptcy Court.
2. All actions, documents, instruments, and agreements necessary to implement and effectuate the Plan, including the New Certificates of Incorporation, the New By-laws and the Plan Documents, shall have been taken or executed and delivered, as the case may be, and each agreement shall be reasonably acceptable to Monsanto and the Creditors' Committee.
3. The Debtors shall have received all authorizations, consents, regulatory approvals, rulings or documents that are necessary to implement and effectuate the Plan.
4. The initial boards of directors of the Reorganized Debtors shall have been appointed.
5. The Debtors shall have entered into the Exit Facility Financing reasonably acceptable to the Creditors' Committee and Monsanto.
6. The Retiree Approval Order shall have become a Final Order.
7. If the issuance or Distribution of any New Common Stock to Monsanto hereunder is subject to notification requirements under the HSR Act, any waiting period relating to such notification shall have expired or otherwise been terminated.
8. All unliquidated General Unsecured Claims shall have been estimated for Distribution purposes pursuant to section 502(c) of the Bankruptcy Code, disallowed or fixed by an agreement between the Debtors and any relevant Holders of General Unsecured Claims, which agreement shall have been approved by the Bankruptcy Court.
9. The Confirmation Order shall have become a Final Order.
10. The Chocolate Bayou Settlement shall have been executed and shall have received all necessary approvals.
11. The Relationship Agreement shall have been executed and shall have received all necessary approvals.

50

12. From the proceeds of the Rights Offering, \$175 million will be used to fund the Retiree Trust (as defined in the Retiree Settlement Agreement) and \$75 million will be used to fund Funding Co.

C. EFFECT OF FAILURE OF CONDITIONS

If the Consummation of the Plan does not occur, the Plan shall be null and void in all respects and nothing contained in the Plan or the Disclosure Statement shall: (1) constitute a waiver or release of any Claims by or against, or any Equity Interests in, the Debtors; (2) prejudice in any manner the rights of the Debtors or any creditors; or (3) constitute an admission, acknowledgment, offer or undertaking by the Debtors or any creditors in any respect.

D. WAIVER OF CONDITIONS

Each of the Debtors, Monsanto, Pharmacia (solely with respect to provisions directly affecting Pharmacia), the Creditors' Committee, and the Retirees' Committee (solely with respect to Section IX. B. 12), may waive,

with the consent of each of such other parties, one or more of the conditions precedent to Confirmation or Consummation set forth in Sections IX.A and IX.B of this Plan.

ARTICLE X

INJUNCTIONS, RELEASES, EXCULPATION AND DISCHARGE

A. INJUNCTIONS

1. DEBTORS' INJUNCTION

ALL INJUNCTIONS OR STAYS PROVIDED FOR IN THE CHAPTER 11 CASES PURSUANT TO SECTIONS 105 AND/OR 362 OF THE BANKRUPTCY CODE OR OTHERWISE AND IN EFFECT ON THE CONFIRMATION DATE, SHALL REMAIN IN FULL FORCE AND EFFECT UNTIL THE EFFECTIVE DATE. SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE, THE CONFIRMATION ORDER SHALL PERMANENTLY ENJOIN ALL PERSONS, INCLUDING PHARMACIA AND MONSANTO, THAT HAVE HELD, CURRENTLY HOLD OR MAY HOLD A CLAIM, INCLUDING A LEGACY SITE CLAIM, AGAINST OR AN EQUITY INTEREST IN THE DEBTORS FROM TAKING ANY OF THE FOLLOWING ACTIONS BASED ON SUCH CLAIM OR EQUITY INTEREST, WHETHER DIRECTLY, INDIRECTLY, DERIVATIVELY, CONTRACTUALLY, STATUTORILY OR OTHERWISE, OTHER THAN PHARMACIA'S, MONSANTO'S AND OTHER PARTIES' RIGHTS TO ENFORCE THE TERMS OF THE PLAN, THE RELATIONSHIP AGREEMENT OR THE PLAN DOCUMENTS: (a) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING OF ANY KIND AGAINST ANY OR ALL OF THE DEBTORS OR THE REORGANIZED DEBTORS, OR THEIR RESPECTIVE PROPERTY OR ASSETS; (b) ENFORCING, LEVYING, ATTACHING, COLLECTING OR OTHERWISE RECOVERING IN ANY MANNER OR BY ANY MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER AGAINST ANY OR ALL OF THE DEBTORS, THE REORGANIZED DEBTORS OR THEIR RESPECTIVE PROPERTY OR ASSETS; (c) CREATING, PERFECTING OR ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY LIEN AGAINST ANY OR ALL OF THE DEBTORS, THE REORGANIZED DEBTORS OR THEIR RESPECTIVE PROPERTY OR ASSETS; (d) EXERCISING ANY SETOFF, RIGHT OF SUBROGATION OR RECOUPMENT OF ANY KIND, DIRECTLY OR INDIRECTLY, AGAINST ANY DEBT, LIABILITY OR OBLIGATION DUE TO THE DEBTORS, THE REORGANIZED DEBTORS OR THEIR RESPECTIVE PROPERTY; OR (e) PROCEEDING IN ANY MANNER IN ANY PLACE WHATSOEVER THAT DOES NOT CONFORM TO OR COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN; PROVIDED,

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HOWEVER, THAT THE TERMS OF THIS INJUNCTION SHALL NOT PREVENT THE REORGANIZED  
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DEBTORS, MONSANTO, PHARMACIA OR, UNLESS THE CREDITORS' COMMITTEE HAS BEEN DISSOLVED, THE CREDITORS' COMMITTEE, FROM ENFORCING THE TERMS OF THIS PLAN AND THE PLAN DOCUMENTS; PROVIDED, FURTHER, HOWEVER, THAT TERMS OF THE INJUNCTION

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SHALL NOT PREVENT THE HOLDERS OF TORT CLAIMS, NRD CLAIMS OR CLAIMS, CAUSES OF ACTION, OR RIGHTS RELATING TO ENVIRONMENTAL LIABILITY ARISING FROM THE RETAINED SITES OR THE SHARED SITES FROM EXERCISING THEIR RIGHTS AGAINST REORGANIZED SOLUTIA WITH RESPECT THERETO.

2. MONSANTO/PHARMACIA INJUNCTION

SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE, AND BASED ON THE MONSANTO CONTRIBUTION AND THE PHARMACIA CONTRIBUTION, THE CONFIRMATION ORDER SHALL PERMANENTLY ENJOIN ALL PERSONS, INCLUDING THE PLAINTIFFS (AND ANY MEMBERS OF A CLASS RAISING THE SAME OR SIMILAR CLAIMS) IN THE MATTERS ENTITLED DAVIS V. SOLUTIA INC. EMPLOYEES' PENSION PLAN, NO. 3:05CV736, SCHARRINGHAUSEN V. SOLUTIA INC. EMPLOYEES' PENSION PLAN, NO. 3:06CV00099 AND COMPLAINANTS IN LARRY PROBST V. MONSANTO COMPANY AND SOLUTIA, INC, EEOC CHARGE NOS. 280 A 00618 THROUGH 280 A 00652, BUT NOT PHARMACIA AND MONSANTO, THAT HAVE HELD, CURRENTLY HOLD OR MAY HOLD A CLAIM AGAINST PHARMACIA OR MONSANTO RELATING TO ANY OF THE DEBTORS, INCLUDING A LEGACY CLAIM, WHETHER SUCH CLAIM IS REDUCED TO JUDGMENT OR NOT, LIQUIDATED OR UNLIQUIDATED, CONTINGENT OR NONCONTINGENT, ASSERTED OR UNASSERTED, FIXED OR NOT, MATURED OR UNMATURED, DISPUTED OR UNDISPUTED, LEGAL OR EQUITABLE, KNOWN OR UNKNOWN, FROM TAKING ANY OF THE FOLLOWING ACTIONS RELATED TO SUCH CLAIM, WHETHER DIRECTLY, INDIRECTLY, DERIVATIVELY, CONTRACTUALLY, STATUTORILY OR OTHERWISE: (a) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING OF ANY KIND

AGAINST MONSANTO OR PHARMACIA, THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, PROFESSIONALS, ADVISORS, EMPLOYEE BENEFIT PLANS, OR ANY OF THEIR RESPECTIVE PROPERTY OR ASSETS; (b) ENFORCING, LEVYING, ATTACHING, COLLECTING OR OTHERWISE RECOVERING IN ANY MANNER OR BY ANY MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER AGAINST MONSANTO OR PHARMACIA, THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, PROFESSIONALS, ADVISORS, EMPLOYEE BENEFIT PLANS, OR ANY OF THEIR RESPECTIVE PROPERTY OR ASSETS; (c) CREATING, PERFECTING OR ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY LIEN AGAINST MONSANTO OR PHARMACIA, THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, PROFESSIONALS, ADVISORS, EMPLOYEE BENEFIT PLANS, OR ANY OF THEIR RESPECTIVE PROPERTY OR ASSETS; (d) ASSERTING ANY SETOFF, RIGHT OF SUBROGATION OR RECOUPMENT OF ANY KIND, DIRECTLY OR INDIRECTLY, AGAINST ANY DEBT, LIABILITY OR OBLIGATION DUE TO MONSANTO OR PHARMACIA; AND (e) PROCEEDING IN ANY MANNER IN ANY PLACE WHATSOEVER THAT DOES NOT CONFORM TO OR COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN; PROVIDED, HOWEVER, THAT THE

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 TERMS OF THIS INJUNCTION SHALL NOT PREVENT THE REORGANIZED DEBTORS, MONSANTO, PHARMACIA OR, UNLESS THE CREDITORS' COMMITTEE HAS BEEN DISSOLVED, THE CREDITORS' COMMITTEE FROM ENFORCING THE TERMS OF THIS PLAN AND THE PLAN DOCUMENTS; PROVIDED, FURTHER, HOWEVER, THAT TERMS OF THIS INJUNCTION SHALL NOT

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 PREVENT THE HOLDERS OF TORT CLAIMS, NRD CLAIMS OR CLAIMS, CAUSES OF ACTION, OR RIGHTS RELATING TO ENVIRONMENTAL LIABILITY FROM EXERCISING THEIR RIGHTS AGAINST MONSANTO OR PHARMACIA WITH RESPECT THERETO.

#### B. RELEASES

The following releases are hereby granted pursuant to the Plan and the Confirmation Order:

##### 1. RELEASES BY THE DEBTORS

AS OF THE EFFECTIVE DATE, FOR GOOD AND VALUABLE CONSIDERATION, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, THE DEBTORS, THEIR ESTATES AND THE REORGANIZED DEBTORS WILL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION AND LIABILITIES WHETHER DIRECT OR DERIVATIVE, LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, DISPUTED OR UNDISPUTED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THEN EXISTING OR THEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE CHAPTER 11 CASES, THE PLAN, OR THE DISCLOSURE STATEMENT, INCLUDING ANY SUCH CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION AND LIABILITIES ARISING OUT OF OR IN CONNECTION WITH RELEASE OF HAZARDOUS SUBSTANCES, OTHER TYPES OF CONTAMINATION OR OTHER ENVIRONMENTAL MATTERS (INCLUDING CLAIMS UNDER CERCLA OR SIMILAR ENVIRONMENTAL LAWS) ARISING OUT OF OR IN CONNECTION WITH ANY ASSETS TRANSFERRED OR DEBTS, LIABILITIES, GUARANTEES, ASSURANCES, COMMITMENTS OR OBLIGATIONS ASSUMED PURSUANT TO THE DISTRIBUTION AGREEMENT OR OTHER TRANSACTIONS OCCURRING IN CONNECTION WITH THE DISTRIBUTION AGREEMENT, AND THAT COULD HAVE BEEN ASSERTED AT ANY TIME, PAST OR PRESENT OR FUTURE BY OR ON BEHALF OF THE DEBTORS, OR THEIR ESTATES AGAINST (a) THE CURRENT OR FORMER REPRESENTATIVES, DIRECTORS, OFFICERS AND EMPLOYEES OF THE DEBTORS AND THE DEBTORS' AGENTS, ADVISORS AND PROFESSIONALS, IN EACH CASE IN THEIR CAPACITY AS SUCH, (b) THE CURRENT AND FORMER MEMBERS OF THE CREDITORS' COMMITTEE, EXCEPT FOR THE PREPETITION INDENTURE TRUSTEE, AND THE ADVISORS AND ATTORNEYS FOR THE CREDITORS' COMMITTEE, EXCEPT FOR ADVISORS TO THE PREPETITION INDENTURE TRUSTEE, IN EACH CASE IN THEIR CAPACITY AS SUCH, (c) MONSANTO, (d) PHARMACIA, (e) ANY EMPLOYEE BENEFIT PLANS OF MONSANTO OR PHARMACIA, (f) THE AD HOC TRADE COMMITTEE, (g) THE RETIREES' COMMITTEE AND (h) THE RESPECTIVE AFFILIATES AND CURRENT OR FORMER REPRESENTATIVES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, MEMBERS, DIRECT AND INDIRECT SHAREHOLDERS, ADVISORS, ATTORNEYS AND PROFESSIONALS OF THE FOREGOING, IN EACH CASE IN THEIR CAPACITY AS SUCH; PROVIDED, HOWEVER, THAT THE TERMS OF THIS RELEASE SHALL NOT

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 PREVENT THE REORGANIZED DEBTORS FROM ENFORCING THE TERMS OF THIS PLAN AND THE PLAN DOCUMENTS; PROVIDED,

FURTHER, HOWEVER, THAT WITH RESPECT TO FORMER DIRECTORS AND OFFICERS OF THE  
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DEBTORS, NOTHING IN THIS PARAGRAPH SHALL BE CONSTRUED TO RELEASE SUCH FORMER DIRECTORS AND OFFICERS FROM CLAIMS FOR FRAUD, GROSS NEGLIGENCE, WILLFUL MISCONDUCT, CRIMINAL CONDUCT, VIOLATION OF FIDUCIARY DUTY, INCLUDING THE UNAUTHORIZED USE OF CONFIDENTIAL INFORMATION, THAT CAUSES DAMAGES OR FOR PERSONAL GAIN, TO (AND ONLY TO) THE EXTENT SUCH PERSONS ARE NOT EXCULPATED THEREFROM BY ANY PROVISION OF APPLICABLE LAW OR ANY CERTIFICATE OF INCORPORATION OR SIMILAR ORGANIZATIONAL DOCUMENT OF SOLUTIA, REORGANIZED SOLUTIA, ANY OTHER DEBTOR OR ANY OTHER REORGANIZED DEBTOR, OR ULTRA VIRES ACTS.

## 2. RELEASES BY HOLDERS OF CLAIMS AND EQUITY INTERESTS

AS OF THE EFFECTIVE DATE, EACH HOLDER OF A CLAIM OR EQUITY INTEREST SHALL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS OR EQUITY INTERESTS, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES, WHETHER DIRECT OR DERIVATIVE, LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, DISPUTED OR UNDISPUTED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THEN EXISTING OR THEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE RELATING TO THE DEBTORS, THE CHAPTER 11 CASES, THE PLAN, THE DISCLOSURE STATEMENT OR ANY EMPLOYEE BENEFIT PLANS ADMINISTERED BY OR ON BEHALF OF SOLUTIA, OR ANY LEGACY CLAIM OR LEGACY SITE CLAIMS OR OTHER OBLIGATIONS ASSUMED BY SOLUTIA UNDER THE DISTRIBUTION AGREEMENT, BUT NOT INCLUDING CLAIMS FOR ENVIRONMENTAL LIABILITY WHICH ARE RELATED TO RETAINED SITES OR SHARED SITES, AGAINST (a) THE CURRENT OR FORMER REPRESENTATIVES, DIRECTORS, OFFICERS AND EMPLOYEES OF THE DEBTORS, (b) THE DEBTORS' AGENTS, ADVISORS AND PROFESSIONALS, IN EACH CASE IN THEIR CAPACITY AS SUCH, (c) THE CURRENT AND FORMER MEMBERS OF THE CREDITORS' COMMITTEE, EXCEPT FOR THE PREPETITION INDENTURE TRUSTEE, AND THE ADVISORS AND ATTORNEYS FOR THE CREDITORS' COMMITTEE, EXCEPT FOR ADVISORS TO THE PREPETITION INDENTURE TRUSTEE, IN EACH CASE IN THEIR CAPACITY AS SUCH, (d) MONSANTO, (e) PHARMACIA, (f) THE AD HOC TRADE COMMITTEE, (g) THE RETIREES' COMMITTEE AND (h) THE RESPECTIVE AFFILIATES AND CURRENT OR FORMER REPRESENTATIVES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, MEMBERS, DIRECT AND INDIRECT SHAREHOLDERS, ADVISORS, EMPLOYEE BENEFIT PLANS, ATTORNEYS AND PROFESSIONALS OF THE FOREGOING, IN EACH CASE IN THEIR CAPACITY AS SUCH. NOTWITHSTANDING THE FOREGOING, THE HOLDERS OF TORT CLAIMS, AS A RESULT OF THE MONSANTO TORT MANAGEMENT, AND THE HOLDERS OF LEGACY SITE CLAIMS, AS A RESULT OF THE RELATIONSHIP AGREEMENT, SHALL NOT BE DEEMED TO RELEASE THE DEBTORS, MONSANTO OR PHARMACIA ON ACCOUNT OF ANY LIABILITY ARISING FROM OR RELATED TO THE TORT CLAIMS, OR MONSANTO OR PHARMACIA ON ACCOUNT OF THE LEGACY SITE CLAIMS. FURTHERMORE, THE HOLDERS OF NRD CLAIMS SHALL NOT BE DEEMED TO RELEASE THE DEBTORS, MONSANTO OR PHARMACIA ON ACCOUNT OF ANY LIABILITY ARISING FROM OR RELATED TO THE NRD CLAIMS. IN ADDITION, AS PROVIDED IN SECTION XII.C. HERETO, GOVERNMENTAL ENTITIES SHALL NOT BE DEEMED TO RELEASE MONSANTO OR PHARMACIA ON ACCOUNT OF ANY CLAIMS, CAUSES OF ACTION, OR RIGHTS; PROVIDED, HOWEVER, THAT

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THE TERMS OF THIS RELEASE SHALL NOT PREVENT MONSANTO OR PHARMACIA FROM ENFORCING THE TERMS OF THIS PLAN AND THE PLAN DOCUMENTS; PROVIDED, FURTHER,

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HOWEVER, THAT NOTHING IN THIS PARAGRAPH SHALL AFFECT THE RIGHTS, DEFENSES,

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OBLIGATIONS OR CLAIMS ARISING BETWEEN MONSANTO AND PHARMACIA, INCLUDING RIGHTS, DEFENSES, OBLIGATIONS OR CLAIMS ARISING FROM OR EXISTING UNDER THE SEPARATION AGREEMENT; PROVIDED, FURTHER STILL, HOWEVER, THAT WITH RESPECT TO

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FORMER DIRECTORS AND OFFICERS OF THE DEBTORS, NOTHING IN THIS PARAGRAPH SHALL BE CONSTRUED TO RELEASE SUCH FORMER DIRECTORS AND OFFICERS FROM CLAIMS FOR FRAUD, GROSS NEGLIGENCE, WILLFUL MISCONDUCT, CRIMINAL CONDUCT, VIOLATION OF FIDUCIARY DUTY, INCLUDING THE UNAUTHORIZED USE OF CONFIDENTIAL INFORMATION, THAT CAUSES DAMAGES OR FOR PERSONAL GAIN, TO (AND ONLY TO) THE EXTENT SUCH PERSONS ARE NOT EXCULPATED THEREFROM BY ANY PROVISION OF APPLICABLE LAW OR ANY CERTIFICATE OF INCORPORATION OR SIMILAR ORGANIZATIONAL DOCUMENT OF SOLUTIA, REORGANIZED SOLUTIA, ANY OTHER DEBTOR OR ANY OTHER REORGANIZED DEBTOR, OR ULTRA VIRES ACTS; AND [PROVIDED, EVEN FURTHER STILL, HOWEVER, THAT THE TERMS

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OF THIS RELEASE SHALL NOT APPLY TO CLAIMS FOR BREACHES OF FIDUCIARY DUTY, AS SUCH TERM IS DEFINED UNDER ERISA, WITH RESPECT TO THE SIP PLAN AGAINST CURRENT AND FORMER DIRECTORS, OFFICERS AND EMPLOYEES OF THE DEBTORS.]

## 3. RETIREE RELEASE AND INJUNCTION

AS OF THE EFFECTIVE DATE, THE RETIREES' COMMITTEE, ITS MEMBERS AND PROFESSIONALS, THE RETIREES AND EACH OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, HEIRS, EXECUTORS, ADMINISTRATORS SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "RETIREE PARTIES") SHALL HEREBY BE DEEMED TO HAVE RELEASED AND DISCHARGED THE DEBTORS, MONSANTO, PHARMACIA, ANY EMPLOYEE BENEFIT PLANS OF MONSANTO OR PHARMACIA, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AFFILIATES, SUCCESSORS, ASSIGNS, REPRESENTATIVES, AGENTS, ADVISORS AND PROFESSIONALS (COLLECTIVELY, THE "RELEASED PARTIES") FROM, AND THE CONFIRMATION ORDER AND THE RETIREE SETTLEMENT ORDER SHALL OPERATE AS AN INJUNCTION AGAINST, THE COMMENCEMENT OR CONTINUATION OF ANY ACTION, THE EMPLOYMENT OF PROCESS, OR ANY ACT TO COLLECT, RECOVER OR OFFSET, ANY "CLAIM" (AS DEFINED IN SECTION 101(5) OF THE BANKRUPTCY CODE) AND ANY "DEBT" (AS THAT TERM IS DEFINED IN SECTION 101(12) OF THE BANKRUPTCY CODE), RELATED TO "RETIREE BENEFITS" (AS DEFINED IN SECTION 1114(a) OF THE BANKRUPTCY CODE), INCLUDING THE PARTIAL RESERVATION OF CLAIMS IN THE CLASS ACTION SETTLEMENT APPROVED BY THE U.S. DISTRICT COURT FOR THE NORTHERN DISTRICT OF FLORIDA, PENSACOLA DIVISION, IN SOLUTIA INC. V. FORSBERG, NO. 3:98CV237, WHETHER SUCH CLAIM IS REDUCED TO JUDGMENT OR NOT, LIQUIDATED OR UNLIQUIDATED, CONTINGENT OR NONCONTINGENT, ASSERTED OR UNASSERTED, FIXED OR NOT, MATURED OR UNMATURED, DISPUTED OR UNDISPUTED, LEGAL OR EQUITABLE, KNOWN OR UNKNOWN THAT THE RETIREE PARTIES HAD, HAVE OR MAY HAVE AGAINST THE RELEASED PARTIES; PROVIDED, HOWEVER,

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 THAT THE FOREGOING SHALL NOT RELEASE AND DISCHARGE (a) THE REORGANIZED DEBTORS FROM THE PERFORMANCE OF THEIR OBLIGATIONS UNDER THE RETIREE SETTLEMENT AGREEMENT OR (b) MONSANTO FROM THE PERFORMANCE OF ITS OBLIGATIONS UNDER THE RETIREE SETTLEMENT AGREEMENT.

## C. EXCULPATION AND LIMITATION OF LIABILITY

EXCEPT AS PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, NONE OF THE DEBTORS, MONSANTO, PHARMACIA, THE CREDITORS' COMMITTEE NOR THE CURRENT OR FORMER INDIVIDUAL MEMBERS THEREOF, EXCEPT FOR THE PREPETITION INDENTURE TRUSTEE, THE RETIREES' COMMITTEE NOR THE CURRENT INDIVIDUAL MEMBERS THEREOF, THE AD HOC TRADE COMMITTEE NOR THE CURRENT INDIVIDUAL MEMBERS THEREOF, NOR ANY OF THEIR RESPECTIVE PRESENT MEMBERS, REPRESENTATIVES, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, ADVISORS, ATTORNEYS, AFFILIATES OR AGENTS ACTING IN SUCH CAPACITY, EXCEPT FOR ADVISORS TO THE PREPETITION INDENTURE TRUSTEE, SHALL HAVE OR INCUR ANY LIABILITY TO, OR BE SUBJECT TO ANY RIGHT OF ACTION BY, ANY HOLDER OF A CLAIM, INCLUDING, BUT NOT LIMITED TO, A LEGACY CLAIM, OR AN EQUITY INTEREST, OR ANY OTHER PARTY IN INTEREST, OR ANY OF THEIR RESPECTIVE AGENTS, DIRECT OR INDIRECT SHAREHOLDERS, EMPLOYEES, REPRESENTATIVES, FINANCIAL ADVISORS, ATTORNEYS OR AFFILIATES, OR ANY OF THEIR RESPECTIVE SUCCESSORS OR ASSIGNS, FOR ANY ACT OR OMISSION IN CONNECTION WITH, RELATING TO, OR ARISING OUT OF, THE CHAPTER 11 CASES, THE PURSUIT OF CONFIRMATION OF THE PLAN, THE CONSUMMATION OF THE PLAN, OR THE ADMINISTRATION OF THE PLAN OR THE PROPERTY TO BE DISTRIBUTED UNDER THE PLAN, EXCEPT FOR THEIR WILLFUL MISCONDUCT, CRIMINAL CONDUCT, MISUSE OF CONFIDENTIAL INFORMATION THAT CAUSES DAMAGES, FRAUD, ULTRA VIRES ACTS OR GROSS NEGLIGENCE, AND IN ALL RESPECTS SHALL BE ENTITLED TO RELY REASONABLY UPON THE ADVICE OF COUNSEL WITH RESPECT TO THEIR DUTIES AND RESPONSIBILITIES UNDER THE PLAN; PROVIDED, HOWEVER, THAT NOTHING IN THIS

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 PARAGRAPH SHALL AFFECT THE RIGHTS, DEFENSES, OBLIGATIONS OR CLAIMS ARISING BETWEEN MONSANTO AND PHARMACIA. [NOTWITHSTANDING ANY OTHER PROVISION HEREIN, ANY AND ALL CLAIMS FOR BREACHES OF FIDUCIARY DUTY, AS SUCH TERM IS DEFINED UNDER ERISA, WITH RESPECT TO THE SIP PLAN SHALL BE LIMITED TO AVAILABLE PROCEEDS OF INSURANCE POLICIES COVERING SUCH CLAIMS, IF ANY.]

## D. DISCHARGE OF CLAIMS AND TERMINATION OF EQUITY INTERESTS

EXCEPT AS PROVIDED IN THIS PLAN, THE PLAN DOCUMENTS OR THE CONFIRMATION ORDER, PURSUANT TO SECTION 1141(D) OF THE BANKRUPTCY CODE, (1) THE RIGHTS AFFORDED UNDER THE PLAN AND THE TREATMENT OF ALL CLAIMS, INCLUDING THE LEGACY SITE CLAIMS, AND EQUITY INTERESTS SHALL BE IN EXCHANGE FOR AND IN

COMPLETE SATISFACTION, DISCHARGE AND RELEASE OF SUCH CLAIMS AND EQUITY

INTERESTS OF ANY NATURE WHATSOEVER, INCLUDING ANY INTEREST ACCRUED ON SUCH CLAIMS FROM AND AFTER THE PETITION DATE, AGAINST ANY DEBTOR OR ANY OF THEIR ASSETS OR PROPERTIES, (2) ON THE EFFECTIVE DATE, ALL SUCH CLAIMS AND EQUITY INTERESTS IN, ANY DEBTOR SHALL BE SATISFIED, DISCHARGED AND RELEASED IN FULL AND (3) ALL PERSONS AND ENTITIES SHALL BE PRECLUDED FROM ASSERTING AGAINST THE REORGANIZED DEBTORS AND THEIR RESPECTIVE SUCCESSORS OR THEIR ASSETS OR PROPERTIES ANY OTHER OR FURTHER SUCH CLAIMS OR EQUITY INTERESTS BASED UPON ANY ACT OR OMISSION, TRANSACTION OR OTHER ACTIVITY OF ANY KIND OR NATURE THAT OCCURRED PRIOR TO THE EFFECTIVE DATE; PROVIDED, HOWEVER, THAT THE REORGANIZED DEBTORS SHALL NOT RECEIVE A DISCHARGE, RELEASE OR SATISFACTION FROM TORT CLAIMS, NRD CLAIMS OR ANY ENVIRONMENTAL LIABILITY OR ENVIRONMENTAL LIABILITY COSTS RELATED TO THE RETAINED SITES OR THE SHARED SITES; PROVIDED, FURTHER, HOWEVER, THAT NOTHING IN THE PLAN SHALL DISCHARGE, RELEASE OR SATISFY ANY LIABILITIES TO A GOVERNMENTAL ENTITY OF THE DEBTORS, OR REORGANIZED DEBTORS, AS THE CASE MAY BE, ARISING AFTER THE CONFIRMATION DATE OR THAT IS NOT OTHERWISE A CLAIM WITHIN THE MEANING OF SECTION 101(5) OF THE BANKRUPTCY CODE, NOR SHALL THE PLAN PRECLUDE A GOVERNMENTAL ENTITY FROM ASSERTING ANY SUCH LIABILITIES AGAINST THE REORGANIZED DEBTORS AND NOTHING IN THE PLAN SHALL DISCHARGE, RELEASE OR SATISFY ANY LIABILITY TO A GOVERNMENTAL ENTITY UNDER APPLICABLE ENVIRONMENTAL LAWS THAT A REORGANIZED DEBTOR OR ANY OTHER PERSON OR ENTITY MAY HAVE AS THE OWNER OR OPERATOR OF REAL PROPERTY ON AND AFTER THE CONFIRMATION DATE; PROVIDED, FURTHER STILL, HOWEVER, THAT NOTHING IN THE PLAN SHALL ADVERSELY AFFECT IN ANY WAY THE RIGHTS AND REMEDIES OF THE UNITED STATES WITH RESPECT TO THE ANNISTON PARTIAL CONSENT DECREE (C.V. -01-PT-0749-E, EFFECTIVE AUGUST 4, 2003), NOR SHALL ANYTHING IN THE PLAN DIVEST OR LIMIT THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ALABAMA OVER SUCH ANNISTON PARTIAL CONSENT DECREE, WHICH SHALL SURVIVE THE CHAPTER 11 CASES AND MAY BE ENFORCED IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ALABAMA AND NOTHING IN THE PLAN SHALL ADVERSELY AFFECT IN ANY WAY THE RIGHTS AND REMEDIES OF THE UNITED STATES WITH RESPECT TO THE ADMINISTRATIVE ORDERS RELATING TO THE SAUGET, ILLINOIS AREA 1 AND AREA 2 SITES, V-W-99-C-554, EFFECTIVE JANUARY 21, 1999; V-W-99-C-554, ISSUED MAY 31, 2000; V-W-01-C-622, EFFECTIVE NOVEMBER 24, 2000; AND V-W-02-C-716, ISSUED SEPTEMBER 30, 2002), WHICH SHALL SURVIVE THE BANKRUPTCY CASE AND MAY BE ENFORCED IN ANY TRIBUNAL WITH JURISDICTION.

56

## ARTICLE XI

### RETENTION OF JURISDICTION

#### A. RETENTION OF JURISDICTION

The Bankruptcy Court shall have jurisdiction of all matters arising out of, and related to, the Chapter 11 Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

1. To hear and determine any applications for the assumption or rejection of Executory Contracts or Unexpired Leases and the allowance of cure amounts and Claims resulting therefrom;
2. To hear and determine any and all adversary proceedings, applications and contested matters;
3. To hear and determine any objection to any Administrative Expense Claims, or any objection to or request to estimate any Claim;
4. To estimate any Claim at any time, including during litigation concerning any objection to such Claim or during the pendency of any appeal relating to any such objection;
5. To enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated;
6. To issue such orders in aid of execution and consummation of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code;
7. To consider any amendments to, or modifications of, the Plan, to cure any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order or

in the Plan;

8. To hear and determine all applications for compensation and reimbursement of expenses of Professionals under sections 328, 330, 331 and 503(b) of the Bankruptcy Code;
9. To hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan and the Plan Documents, including the Relationship Agreement and the Confirmation Order;
10. To recover all assets of the Debtors and property of the Debtors' Estates, wherever located;
11. To hear and determine all Avoidance Actions and Causes of Action that may be brought by Reorganized Solutia;
12. To hear and determine all disputes relating to the injunctions, including the Monsanto/Pharmacia Injunction and the other releases described in Article X of the Plan;

57

13. To hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;
14. To examine, pursuant to Bankruptcy Rule 2004, any party whose contribution is necessary to effectuate the Plan;
15. To hear any other matter not inconsistent with the Bankruptcy Code; and
16. To enter a final decree or decrees closing the Chapter 11 Cases.

58

## ARTICLE XII

### MISCELLANEOUS PROVISIONS

#### A. BINDING EFFECT

The Plan shall be binding upon and inure to the benefit of the Debtors, the Reorganized Debtors, all Holders of Claims and Equity Interests and their prospective successors and assigns, including all parties in interest in the Chapter 11 Cases and their Professionals.

#### B. PRESERVATION OF AVOIDANCE ACTIONS

On and after the Effective Date, any and all Avoidance Actions (other than the Avoidance Action against Monsanto and Pharmacia, which shall be resolved pursuant to the terms of the settlement among Solutia, Monsanto and Pharmacia) shall be preserved and retained by the Reorganized Debtors, which shall have the exclusive right to enforce, settle and prosecute any such Avoidance Actions. Reorganized Solutia may pursue, abandon, settle or release any or all retained Avoidance Actions, as it deems appropriate, subject to the reasonable consent of Monsanto and the Creditors' Committee and Bankruptcy Court approval. Any recovery received on account of an Avoidance Action may be retained by the Reorganized Debtors. Reorganized Solutia may offset any claim supporting an Avoidance Action against any payment or Distribution due to any Holder of a Claim under the Plan. In addition, if a Distribution is made in error, the Reorganized Debtors can bring an action pursuant to section 502(d) of the Bankruptcy Code to recoup such Distribution.

#### C. CLAIMS OF THE UNITED STATES OF AMERICA

Nothing in this Plan and the transactions approved hereby is intended to or shall release any non-Debtor of any claims, rights or causes of action arising in favor of the United States of America, including all federal agencies, or any states thereof; provided, however, that nothing in this Plan

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or otherwise shall prevent any party from asserting defenses, counterclaims or other rights against the United States of America or any states thereof under applicable non-bankruptcy law.

D. APPLICABILITY OF SECTION 1125(e) OF THE BANKRUPTCY CODE

The protection afforded by section 1125(e) of the Bankruptcy Code with regard to the solicitation of acceptances or rejections of the Plan and with regard to the offer, issuance, sale or purchase of the New Common Stock, or any other security, shall apply to the full extent provided by law, and the entry of the Confirmation Order shall constitute the determination by the Bankruptcy Court that the Debtors, Monsanto, the Creditors' Committee and the Retirees' Committee and each of their respective officers, directors, partners, employees, members, agents, attorneys, accountants, financial advisors, investment bankers, dealer-managers, placement agents, and other professionals, shall have acted in good faith and in compliance with the applicable provisions of the Bankruptcy Code pursuant to section 1125(e) of the Bankruptcy Code and that the Plan has been proposed in good faith and not by any means forbidden by law.

E. DISSOLUTION OF THE CREDITORS' COMMITTEE, RETIREES' COMMITTEE AND EQUITY COMMITTEE

On the Effective Date, the Creditors' Committee, the Retirees' Committee and the Equity Committee shall be dissolved and the members thereof shall be released and discharged of and from all further authority, duties, responsibilities and obligations relating to and arising from and in connection

59

with the Chapter 11 Cases, and the retention and employment of their attorneys or other Professionals shall terminate; provided, however, that the Creditors'

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Committee, the Retirees' Committee and the Equity Committee shall continue to exist after such date and their professional fees and expenses shall be reimbursed by the Debtors or Reorganized Debtors, as applicable, solely with respect to applications filed with the Bankruptcy Court pursuant to sections 328, 330 and 331 of the Bankruptcy Code seeking payment of Professional Fee Claims and for any appeals related thereto; provided, further that (a) the

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Creditors' Committee shall continue to exist after the Effective Date so long as there is an appeal or other litigation pending in connection with the JPM Adversary Proceeding, the Equity Committee Adversary Proceeding, the Plan, the Confirmation Order or any proceeding that may materially affect recoveries to unsecured creditors, and (b) the professional fees and expenses of the Creditors' Committee in connection with (a) above shall be reimbursed by the Debtors or Reorganized Debtors without application to the Bankruptcy Court consistent with Article V.D hereof.

F. PAYMENT OF STATUTORY FEES

All fees payable pursuant to section 1930 of title 28 of the United States Code, shall be paid, by the Debtors or the Reorganized Debtors, as applicable, for each quarter (including any fraction thereof) until the Chapter 11 Cases are converted, dismissed or closed, whichever occurs first.

G. MODIFICATION OF THE PLAN

Subject to the limitations contained in the Plan, (1) the Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to alter, amend or modify the Plan prior to the entry of the Confirmation Order, provided, however, that any material alteration, amendment or modification of

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the Plan shall be subject to the consent of Monsanto, Pharmacia (if such provision directly affects Pharmacia) and the Creditors' Committee, which shall not be unreasonably withheld, and (2) after the entry of the Confirmation Order, the Debtors and the Reorganized Debtors may, upon order of the Bankruptcy Court and with the consent of Monsanto and, unless the Creditors' Committee has been dissolved, the Creditors' Committee, which consent shall not be unreasonably withheld, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, or remedy any defect



or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A Holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as altered, amended or modified, if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim of such Holder.

#### H. SEVERABILITY

In the event that the Bankruptcy Court determines that any provision of the Plan is invalid, void or unenforceable, such provision shall be invalid, void or unenforceable with respect to the Holder or Holders of such Claims or Equity Interests as to which the provision is determined to be invalid, void or unenforceable. The invalidity, voidness or unenforceability of any such provision shall, with the consent of the Debtors, Monsanto and the Creditors' Committee, which such consent shall not be unreasonably withheld, in no way limit or affect the enforceability and operative effect of any other provision of the Plan.

#### I. REVOCATION OR WITHDRAWAL OF THE PLAN

The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date; provided, however, that any such revocation or withdrawal  
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shall be subject to the consent of Monsanto and the Creditors' Committee, which consent shall not be unreasonably withheld. If the Debtors revoke or withdraw the Plan prior to the Confirmation Date, then the Plan shall be deemed null and void. In such

60

event, nothing contained in the Plan shall constitute or be deemed a waiver or release of any Claims by or against the Debtors or any other Person or Entity or to prejudice in any manner the rights of the Debtors or any Person or Entity in any further proceedings involving the Debtors.

#### J. SECTION 1145 EXEMPTION

Section 1145(a) of the Bankruptcy Code provides that, subject to certain limitations, certain federal, state and local requirements regarding registration of securities do not apply to securities that are offered or sold under a plan of reorganization. The New Common Stock, the Rights and the Warrants issued pursuant to the Plan will be issued without "Registration" under the Securities Act to the extent permitted by section 1145 of the Bankruptcy Code, and may not be offered or sold except in compliance with the Securities Act. The Debtors have not obtained, and do not intend to obtain, a "no-action" letter from the Securities and Exchange Commission to the effect that the Securities and Exchange Commission will not take enforcement action if the New Common Stock is issued in accordance with the provisions of the Plan without registration under the Securities Act.

#### K. SECTION 1146 EXEMPTION

Pursuant to section 1146(c) of the Bankruptcy Code, any transfers of property pursuant hereto shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forgo the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax, recordation fee or governmental assessment.

#### L. NOTICES

All notices, requests and demands to or upon the Debtors or, on and after the Effective Date, the Reorganized Debtors, the Creditors' Committee, the Retirees' Committee, the Equity Committee, the DIP Lenders, the Office of the United States Trustee, Monsanto and Pharmacia to be effective shall be in writing and, unless otherwise expressly provided in the Plan, shall be deemed to have been duly given or made when actually delivered by messenger or overnight courier service or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

1. THE DEBTORS AND THE REORGANIZED DEBTORS

Rosemary L. Klein, Esq. (General Counsel)  
Solutia Inc.  
575 Maryville Centre Dr.  
St. Louis, MO 63141

Richard M. Cieri, Esq.  
Jonathan S. Henes, Esq.  
Kirkland & Ellis LLP  
Citigroup Center  
153 East 53rd Street  
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Fax: (212) 446-4900

(Counsel to the Debtors and Reorganized Debtors)

61

2. THE CREDITORS' COMMITTEE

Daniel H. Golden, Esq.  
Ira S. Dizengoff, Esq.  
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1333 New Hampshire Avenue N.W.  
Washington, D.C. 20036  
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(Counsel to the Creditors' Committee)

3. THE RETIREES' COMMITTEE

Daniel D. Doyle, Esq.  
Nicholas A. Franke, Esq.  
David M. Brown, Esq.  
Spencer Fane Britt & Browne LLP  
1 North Brentwood Boulevard, 10th Floor  
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Fax: (314) 862-4656

R. Scott Williams, Esq.  
Haskell Slaughter Young & Rediker, LLC  
400 Park Place Tower  
2001 Park Place  
North Birmingham, AL 35203  
Fax: (205) 324-1133

(Counsel to the Retirees' Committee)

4. THE EQUITY COMMITTEE

Craig A. Barbarosh, Esq.  
Pillsbury Winthrop Shaw Pittman LLP  
650 Town Center Drive, 7th Floor  
Costa Mesa, CA 92626  
Fax: (714) 436-2800

(Counsel to the Equity Committee)

62

5. THE DIP LENDERS

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Citicorp USA, Inc.

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Seth Jacobson, Esq.  
Timothy R. Pohl, Esq.  
Skadden, Arps, Slate, Meagher & Flom LLP  
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Chicago, IL 60606-1285  
Fax: (312) 407-0411

(Counsel to the DIP Lenders)

6. THE UNITED STATES TRUSTEE

Greg M. Zipes, Esq.  
OFFICE OF THE UNITED STATES TRUSTEE  
33 Whitehall Street, 21st Floor  
New York, NY 10004  
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7. MONSANTO

David Snively, Esq. (General Counsel)  
Monsanto Company  
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211 N. Broadway  
St. Louis, MO 63102-2750  
Fax: 314-259-2020

(Counsel to Monsanto)

63

8. PHARMACIA

Bruce R. Zirinsky, Esq.  
John H. Bae, Esq.  
Cadwalader, Wickersham & Taft LLP  
One World Financial Center  
New York, NY 10281  
Fax: 212-504-6666

(Counsel to Pharmacia)

M. GOVERNING LAW

Except to the extent the Bankruptcy Code, the Bankruptcy Rules or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law of such jurisdiction.

64

Dated: New York, New York  
July 9, 2007

Respectfully submitted,  
SOLUTIA INC., on behalf of itself and  
all of the Debtors

By: /s/ Jeffrey N. Quinn  
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Name: Jeffrey N. Quinn  
Title: President & Chief Executive Officer

65

EXHIBIT B

EXECUTION COPY

FIRST AMENDED & RESTATED RETIREE SETTLEMENT AGREEMENT  
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This first amended and restated retiree settlement agreement (this "Agreement") presents the material terms of a settlement (the "Retiree Settlement") among: (a) Solutia Inc. ("Solutia") and its domestic subsidiaries (collectively with Solutia, the "Company"); (b) those retirees, including their surviving spouses, dependent spouses and dependent children, and those employees receiving disability benefits, who worked for Pharmacia Corporation (f/k/a Monsanto) or one of its domestic subsidiaries ("Pharmacia") and who retired, or became disabled, prior to Solutia's spin-off from Pharmacia in 1997, and whose post-employment benefit or disability liabilities were transferred to Solutia as a result of such spin-off (collectively, the "Pre-Spin Retirees"); (c) those retirees, including their surviving spouses, dependent spouses and dependent children, and those employees receiving disability benefits, who retired from Solutia or became disabled after Solutia's spin-off from Pharmacia in 1997, including those retirees (and their surviving spouses, dependent spouses and dependent children) and disabled persons who worked for Pharmacia prior to Solutia's spin-off from Pharmacia in 1997, and, thereafter worked for Solutia, other than those retirees covered by a collective bargaining agreement who retired on January 1, 2003, or later (collectively, the "Post-Spin Retirees"); (d) any other person having a claim against Solutia for "retiree benefits" as such term is defined in section 1114(a) of the Bankruptcy Code (collectively, the "Retiree Claimants" and, together with the Pre-Spin Retirees and the Post-Spin Retirees, the "Retirees"); (1) (e) Monsanto Company ("Monsanto") (2); (f) the official committee of unsecured creditors (the "Creditors' Committee") appointed on January 6, 2004, in the Company's chapter 11 cases currently pending before the Honorable Prudence C. Beatty in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"); and (e) the official committee of retirees (the "Retirees' Committee") appointed on February 20, 2004, in the Company's chapter 11 cases. The terms of the Retiree Settlement described herein are intended to amend and supersede any previous offer made during the Company's chapter 11 cases, constitute an integrated offer, are indivisible except as described herein, are subject to the terms and conditions hereof, and are not intended to be binding unless executed in writing.

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- (1) To "retire" from the Company means to incur a termination of employment from Pharmacia prior to September 1, 1997, or from the Company thereafter, in either case having met the eligibility requirements of a retiree medical plan sponsored by Pharmacia or Solutia, as the case may be.

- (2) Monsanto was created on February 9, 2000, under the name "Monsanto Ag", as a wholly-owned subsidiary of Pharmacia, and changed its name to Monsanto Company on March 31, 2000. The Separation Agreement between Monsanto and Pharmacia was entered into as of September 1, 2000.

#### SETTLEMENT OVERVIEW

#### RETIREE TRUST & FUNDING CO. CONTRIBUTIONS

On the effective date (the "Effective Date") of the Company's plan of reorganization (the "Plan"), and subject to the terms of the Plan and the Relationship Agreement (as defined below), through the offering of rights (the "Rights Offering") to acquire shares of new common stock (the "New Common Stock") in the reorganized successor to Solutia ("Reorganized Solutia"), Solutia will raise \$250 million, which will be distributed as follows: (a) \$175 million in cash will be contributed to a trust (the "Retiree Trust") intended to qualify as a "voluntary employees' beneficiary association" under Section 501(c)(9) of the Internal Revenue Code of 1986 and all of the rules and regulations promulgated thereunder, as amended (the "Internal Revenue Code"); and (b) \$75 million in cash will be contributed to fund a new entity ("Funding Co."), which will be a special purpose, tax-efficient, bankruptcy-remote affiliate of Reorganized Solutia.(3)

Funding Co. shall create two separate accounts for its funds: (a) an environmental liabilities account containing \$50 million (the "Environmental Account"); and (b) an account containing \$25 million of unallocated funds (the "Unallocated Account").

#### RETIREE TRUST SUB ACCOUNTS

The Retiree Trust shall be comprised of two sub accounts: (a) "Sub Account 1"; and (b) "Sub Account 2". Sub Account 1 shall be funded by the Company with the \$175 million of cash contributed by the participants in the Rights Offering, and shall be used to reimburse Reorganized Solutia for costs associated with providing Other Post-Employment Benefits (as defined below) to Pre-Spin Retirees in accordance with the terms of this Agreement. Sub Account 2 shall be funded with the Retiree Shares (as defined below) and the proceeds of the sales thereof, and shall be used to reimburse Reorganized Solutia for costs associated with providing Other Post-Employment Benefits to Pre- and Post-Spin Retirees subject to and in accordance with the terms of this Agreement.

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- (3) It is a condition precedent to the Effective Date that from the proceeds of the Rights Offering, \$175 million shall fund the Retiree Trust and \$75 million shall fund Funding Co.

## THE RELATIONSHIP AGREEMENT

The mechanism by which Funding Co. will make contributions to Reorganized Solutia from the Environmental Account and the Unallocated Account shall be governed by an agreement (the "Relationship Agreement"), which will be executed by Reorganized Solutia, Funding Co., and Monsanto, and which will be reasonably acceptable to the Creditors' Committee.

## INVESTMENT OF RETIREE TRUST FUNDS

Cash held by the Retiree Trust shall, subject to the requirements of the Employee Retirement Income Security Act of 1974 and all of the rules and regulations promulgated thereunder, as amended ("ERISA") and the Internal Revenue Code, be invested by the Trustee (as defined below) in short-term, well-diversified, high quality investment instruments, with a primary objective of capital preservation, that are reasonably acceptable to Reorganized Solutia, including one or more of: (a) interest bearing accounts with a commercial bank having at least \$10 billion in assets (a "Qualified Financial

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Institution"); (b) direct obligations of  
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the United States; (c) obligations for which the full faith and credit of the United States is pledged to provide for the payment of principal and interest; (d) commercial paper rated in one of the four highest debt rating categories of Moody's Investor Services, Inc. and Standard & Poor's Corporation (without regard to gradation); (e) certificates of deposit issued by Qualified Financial Institutions; (f) bankers' acceptances issued by Qualified Financial Institutions; (g) repurchase agreements with Qualified Financial Institutions; (h) floating rate notes rated at least AA; (i) tax exempt municipal bonds and notes rated at least AA; and (j) money market funds (collectively, the "Permitted Investments").

## REIMBURSEMENT OF OTHER POST-EMPLOYMENT BENEFITS

Following the Effective Date and subject to the terms of the Retiree Trust Agreement (as defined below), every two weeks, the Retiree Trust shall reimburse Reorganized Solutia or its successors in cash from Sub Account 1 for its actual out-of-pocket costs, including all administrative costs, net of, among other things, Medicare reimbursements and Pre-Spin Retirees' medical expense contributions ("Net Costs"), for providing retiree medical, retiree life insurance and disability benefits (collectively, "Other Post-Employment Benefits" or "OPEB") to Pre-Spin Retirees following the Effective Date. The reimbursement shall be for 100% of such Net Costs for the first twelve (12) months after the Effective Date, and for 90% of such Net Costs thereafter until the funds in Sub Account 1 have been exhausted.

In addition, following the Effective Date

and subject to the terms of the Retiree Trust Agreement, every two weeks, the Retiree

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Trust shall reimburse Reorganized Solutia from Sub Account 2 for 100% of its actual out-of-pocket costs, including all administrative costs, net of, among other things, Medicare reimbursements and Pre and Post-Spin Retirees' medical expense contributions, for providing Other Post-Employment Benefits to Pre- and Post-Spin Retirees following the Effective Date until the funds in Sub Account 2 are exhausted; provided, however, that

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Reorganized Solutia may only seek the reimbursements described above when cash or other securities or investments constituting Permitted Investments are available in Sub Account 2 and; provided

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further that, to the extent that

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Reorganized Solutia has not been reimbursed from Sub Account 1 for the same cost or expense, the funds in Sub Account 2 shall be used to reimburse Reorganized Solutia for such current costs and expenses and shall be reserved in the following proportion: (a) 58% of all amounts deposited in Sub Account 2 during the term of the Retiree Trust Agreement, for Pre-Spin Retirees; and (b) 42% of all amounts deposited in Sub Account 2 during the term of the Retiree Trust Agreement, for Post-Spin Retirees.

MODIFICATION OF OTHER POST-EMPLOYMENT BENEFITS (4)

In consideration for the reduction in credit risk for Retirees in connection with OPEB benefits, as a result of (a) the formation, structure and pre-funding of the Retiree Trust and the Unallocated Account and (b) Reorganized Solutia's improved creditworthiness (as compared to that of Solutia), Reorganized Solutia shall retain the rights and benefits reflected in the Company's 2005 budget and long range plan, including its rights and benefits under the "Forsberg Settlement". (5)

All rights and benefits provided to the Retirees and the Company under the Forsberg Settlement and the Post-Settlement Plan (as defined herein) shall be preserved and not changed, unless specifically modified or eliminated by the terms of this Agreement, or as otherwise permitted to be modified or eliminated under the terms of the Forsberg Settlement or the Post-Settlement Plan. The Retirees' continuing post-employment rights and benefits shall be incorporated into a comprehensive post-employment medical and other benefits plan (the "2007 Retiree Welfare Plan").

In accordance with the foregoing, Reorganized Solutia shall be

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- (4) Capitalized terms, used but not defined in this section, shall have the meanings ascribed to them in the Forsberg Plan (as defined below) or the 2007 Retiree Welfare Plan.
- (5) On November 1, 2001, Solutia, Monsanto, Pharmacia and representatives of the Retirees agreed to settle litigation related to medical benefits provided to Retirees (the "Forsberg Settlement"). Under the terms of the Forsberg Settlement, Solutia adopted and implemented the Solutia Inc. Medical Benefits Plan For Retirees (2002) (the "Forsberg Plan").

4

permitted to implement the following changes to medical benefits for Medicare Eligible Retirees due to age:

DEDUCTIBLE AMOUNT	50% of Medicare Part A Deductible.
COVERED PROPORTION	Plan pays 80%.
RETAIL PRESCRIPTION DRUGS (UP TO 30 DAY SUPPLY) CO-PAYMENT AMOUNT	Participant pays 20% up to a \$50 maximum per prescription or refill.
MAIL ORDER PRESCRIPTION DRUGS (UP TO 90 DAY SUPPLY) CO-PAYMENT AMOUNT	Participant pays 20% per prescription or refill.
INDIVIDUAL MAXIMUM AGGREGATE BENEFIT FOR EXPENSES INCURRED AFTER AGE 65	\$65,000.
PARTICIPANT MEDICAL EXPENSE CONTRIBUTION(6)	For all Forsberg Groups and Post-Settlement Retirees (Group VI in the 2007 Retiree Welfare Plan)(7), the greater of 20% of the Annual Cost Per Covered Group or the Defined Dollar Limit Amount(8) as specified in Exhibit A hereto.

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Subject to its rights under the terms of the Forsberg Settlement and the Post-Settlement Plan, Reorganized Solutia will not reduce the "Solutia Defined Dollar Limit" set forth on Exhibit A hereto.

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FORSBERG PLAN(9)

The Company's right to modify its Other Post-Employment Benefits as permitted by the terms of the Forsberg Settlement shall be retained by Reorganized Solutia and shall be implemented on the Effective Date or any date thereafter. Specifically, Reorganized Solutia intends to exercise its absolute right to amend or terminate the Forsberg Plan as it applies on and after January 1, 2007, to any member of Groups IIB or V except as to a Participant or covered Dependent Spouse who is

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- (6) Capitalized terms, used but not defined in this section, shall have the meanings ascribed to them in the Forsberg Plan.
- (7) Solutia is not waiving any of its rights pursuant to the Solutia Inc.



Medical Benefits Plan for Retirees (Post-Settlement) (the "Post-Settlement Plan") to make changes to the Participant Medical Expense Contribution or other provisions therein.

- (8) The Defined Dollar Limit Amount shall be the difference between the Annual Cost Per Covered Group and the Solutia Defined Dollar Limit applicable to a Covered Group as delineated in Exhibit A.

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- (9) Capitalized terms, used but not defined in this section, shall have the meanings ascribed to them in the Forsberg Plan or the 2007 Retiree Welfare Plan.

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not then a Medicare Eligible Participant. Reorganized Solutia intends to exercise its right to amend or terminate the Forsberg Plan as it applies to any Participant or covered Dependent Spouse who is a member of Groups IIB or V on the earlier of (a) the date such Participant or covered Dependent Spouse becomes a Medicare Eligible Participant if such date is after January 1, 2007, or (b) the fifteenth anniversary of the Settlement Date (October 19, 2016). Reorganized Solutia intends to exercise its right to amend or terminate the Forsberg Plan as to any covered Dependent Child of a Retired Employee on or after the later of (a) the date Reorganized Solutia could amend or terminate the Forsberg Plan as to such Retired Employee, or (b) the date Reorganized Solutia could amend or terminate the Forsberg Plan as to such Retired Employee's covered Dependent Spouse. (10)

In addition, for Participants who are not Medicare Eligible Participants, any Deductible Amount, any Covered Proportion until a Maximum Out-of-Pocket Amount is reached, any Covered Proportion after a Maximum Out-of-Pocket Amount is reached, and any Maximum Out-of-Pocket Amounts for a Plan Year shall be determined under the Solutia Inc. Salaried and Non-Union Hourly Employees' Medical Benefits Plan, and its successors (the "Active Plan") and Medical Plan Choice elected by the Covered Group. Covered Medical Expenses with respect to a Participant or Covered Dependent who is not a Medicare Eligible Participant shall be determined under the Active Plan. Participants who are not Medicare Eligible Participants and whose benefits were subject to a collective bargaining agreement and the Covered Dependents of such Participants shall receive prescription drug benefits on the same terms and conditions as under the Active Plan.

The terms of the OPEB benefits provided under the Forsberg Plan that are not otherwise modified by the terms hereof shall be included in the 2007 Retiree Welfare Plan, subject to the terms and conditions set forth in the Forsberg Plan.

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(10) Pursuant to the terms of that certain Stipulation And Order Between Solutia Inc. And the Official Committee Of Retirees of Solutia Inc. Pursuant to Section 1114 of the Bankruptcy Code, dated November 28, 2006 (Docket No. 3541) (the "Stipulation"), the Company was authorized, effective January 1, 2007, to terminate medical benefits for Retirees or participants in groups IIB and V of the Forsberg Plan and all Post-Settlement Plan participants who were Medicare Eligible. For such persons who were not Medicare Eligible as of this date, the Stipulation authorized the Company to terminate medical benefits on the earlier of (a) the date such Retirees or participants become Medicare Eligible if such date is on or after January 1, 2007, or (b) October 19, 2016. The treatment of these classes of Retirees was pursuant to Solutia's prepetition rights under the Forsberg Plan.

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POST-SETTLEMENT PLAN                   The Company's right to make modifications permitted by the terms of the Post-Settlement Plan for Retirees who were not part of the Forsberg Settlement shall be retained by Reorganized Solutia and shall be implemented on the Effective Date or on any date thereafter.

MEDICARE PART D                        Reorganized Solutia shall retain 100% of any subsidy related to Medicare prescription drug coverage ("Medicare Part D"). Any reimbursement received by Reorganized Solutia will not be applied to determine the Medical Expense Contribution required of Retirees for participation in the 2007 Retiree Welfare Plan.

NOTIFICATION OF MAXIMUM AGGREGATE BENEFIT                   Medicare Eligible Retirees who exceed 60 percent and 85 percent of the Maximum Aggregate Benefit will receive a notification of the medical and pharmacy benefits applied toward the Maximum Aggregate Benefit. Upon reaching the Maximum Aggregate Benefit, Retirees will receive a notice of coverage termination. Such notices shall include a summary of medical and pharmacy benefits applied toward the Maximum Aggregate Benefit through December 31, 2001, and annual amounts applied thereafter. Such Retirees shall retain their rights under ERISA to appeal any such calculation, although the calculations shall bind any Retiree who fails to timely appeal such calculation. Amounts paid by the Company for each Retiree shall be included in the calculation of the Maximum Aggregate Benefit, even if such amounts are later reimbursed by government subsidies under Medicare.

2007 RETIREE WELFARE PLAN                   The 2007 Retiree Welfare Plan will modify, amend and supersede the terms of the Forsberg and Post-Settlement Plans as provided in this Agreement.

The 2007 Retiree Welfare Plan will be filed with the Bankruptcy Court at least 10 days prior to the hearing on confirmation of the Plan (the "Confirmation Hearing"), and the terms thereof shall be reasonably acceptable to the Retirees' Committee.

PLAN SPONSORSHIP                        The Company and the Retirees each reserve all of their rights, if any, with respect to Reorganized Solutia's sponsorship of

LIFE INSURANCE

The 2007 Retiree Welfare Plan shall provide life insurance benefits to former employees covered under Solutia's retiree life insurance plan on the Effective Date consistent with the following:

- a) for each former employee covered on the Effective Date who retired prior to January 1, 1986, such former employee's current life insurance coverage, up to a maximum coverage limit of \$12,500;
- b) for each former employee covered on the Effective Date who retired from January 1, 1986 through December 31, 2001, such former employee's current life insurance coverage, up to a maximum coverage limit of \$10,000; and
- c) for each former employee covered on the Effective Date who retired after December 31, 2001, the life insurance benefit will be eliminated.

These life insurance benefits shall not be subject to change. These life insurance benefits shall continue in the event that any recipient is not covered for medical benefits under the 2007 Retiree Welfare Plan or any subsequent retiree medical benefit plans.

RETIREE TRUST

The Retiree Trust shall be established on the Effective Date. To the extent permitted under ERISA and the Internal Revenue Code, the Retiree Trust shall hold in trust all assets contributed thereto.

The trustee for the Retiree Trust (the "Trustee") shall be a qualified institutional trustee selected by the Company and reasonably acceptable to the Retirees' Committee and the Creditors' Committee.

At least 10-days prior to the Confirmation Hearing, the Retirees' Committee shall appoint a 3-person liaison committee (the "Retiree Liaison Committee"). The duties of the Retiree Liaison Committee shall be set forth in the 2007 Retiree Welfare Plan. Subject to the requirements of, and solely to the extent permitted by, ERISA and the Internal Revenue Code, the Trustee shall have the authority to reimburse all reasonable, actual, out-of-pocket expenses incurred by the members of the Retiree Liaison Committee in the performance of their duties; provided, however, that such ----- reimbursements shall not exceed \$3,000 in the aggregate in any calendar year.

The duties and powers of the Trustee shall be enumerated in a

trust instrument (the "Retiree Trust Agreement") subject to the requirements of ERISA and the Internal Revenue Code and reasonably acceptable to the Company, Monsanto, the Creditors' Committee and the Retirees' Committee. The Retiree Trust Agreement shall provide for:

1. Payment (within 10 days from the submission of detailed invoices to the Trustee) of Reorganized Solutia's requests for reimbursement from the Retiree Trust in compliance with the terms of this Agreement and the 2007 Retiree Welfare Plan.
2. The Trustee's ability to sell the Retiree Shares (defined below) and use the proceeds of such sales to reimburse Reorganized Solutia in accordance with the terms of this Agreement and the 2007 Retiree Welfare Plan. Neither Reorganized Solutia, Monsanto, Funding Co., nor any of their respective agents, directors, officers or employees, shall have or assume any liability with respect to any decision by the Trustee to sell or not sell the Retiree Shares held in the Retiree Trust at any given time.
3. In the event that no Pre-Spin Retirees are participating in the 2007 Retiree Welfare Plan, any amounts remaining in the Retiree Trust shall be used to reimburse Reorganized Solutia for costs incurred in connection with providing Other Post-Employment Benefits to Post-Spin Retirees. In the event that no Pre-Spin Retirees and fewer than 100 Post-Spin Retirees are participating in the 2007 Retiree Welfare Plan, the amounts remaining in the Retiree Trust shall be used to reimburse Reorganized Solutia for costs incurred in providing Other Post-Employment Benefits to Post-Spin Retirees and medical and other welfare benefits to Reorganized Solutia's active employees.

#### RETIREE CLAIM

The Retirees, as a class, shall be entitled to an Allowed(11) non-priority unsecured claim in the aggregate amount of \$35 million (the "Retiree Claim"), based on reductions in OPEB that the Company could not have unilaterally imposed on Retirees pursuant to the terms of the Forsberg Settlement and its other rights.

In full and complete satisfaction of the Retiree Claim, and for the benefit of all Retirees, Reorganized Solutia shall contribute to the Retiree Trust, subject to any consents or approvals required under ERISA and the Internal Revenue Code (including, for the

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- (11) "Allowed" shall mean any claim that is determined to be a valid claim in the Company's chapter 11 cases based on the Company's schedules or through settlement, litigation or otherwise.

avoidance of doubt, the obtaining of an exemption from any "prohibited transactions", as defined in Section 4975 of the Internal Revenue Code or Section 406 of ERISA), the number of shares of New Common Stock necessary to provide a recovery on account of the Retiree Claim that is equal to the implied recovery for all General Unsecured Creditors (as defined in the Plan) who do not participate in the Rights Offering. The recovery on account of the Retiree Claim (the "Retiree Recovery") shall be computed based on (i) the aggregate equity value in Reorganized Solutia distributable to General Unsecured Creditors approved by the Bankruptcy Court (or the mid-point of the range of values established by the Bankruptcy Court), and (ii) the mid-point of the range of projected final aggregate amounts of General Unsecured Claims, as set forth in the disclosure statement filed in connection with the Plan and approved by the Bankruptcy Court, after accounting for the discount in the Rights Offering and prior to any dilution in General Unsecured Creditor recoveries resulting from the resolution of Disputed General Unsecured Claims (as defined in the Plan), provided,

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however, that the number of shares of New

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Common Stock distributed to the Retiree Trust in satisfaction of the Retiree Claim (collectively, the "Retiree Shares") shall be subject to pro-rata dilution on account of the Incentive Plan (as defined in the Plan).

Notwithstanding anything contained in the preceding paragraph to the contrary, in the event that the consents and approvals described above have not been obtained within 30 days from the Effective Date (which period may be extended upon the mutual written consent of Reorganized Solutia and the Retiree Liaison Committee), in full and complete satisfaction of the Retiree Claim, Reorganized Solutia shall deposit Retiree Shares in the Retiree Trust equal to 10% of the value of the Retiree Trust on such date and all proceeds (net of sales commissions and other transaction fees) from the sale of the balance of the Retiree Shares that would have been deposited on account of the Retiree Claim had the consents and approvals been received; provided that the total number of

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shares of New Common Stock deposited in the Retiree Trust or sold in accordance with the foregoing shall not exceed the number of Retiree Shares distributed on account of the Retiree Recovery; and provided further

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that if the contribution of Retiree Shares to the Retiree Trust in accordance with the

foregoing and/or the holding of the Retiree Shares by the Retiree Trust would constitute or result in a "prohibited transaction", as defined in Section 4975 of the Internal Revenue Code or Section 406 of ERISA, the Retiree Shares shall be sold and the proceeds (net of sales commissions and other transaction

10

fees) of such sale shall be contributed to the Retiree Trust in lieu of the Retiree Shares under circumstances reasonably agreed to between the Retirees' Committee and the Company.

The Retiree Shares and the proceeds from sales thereof shall be held in Sub Account 2 and shall be used to reimburse Reorganized Solutia in accordance with the terms of this Agreement and the 2007 Retiree Welfare Plan.

The Company and the Retirees' Committee agree to use their reasonable efforts to assist in seeking any exemption of the application of the "prohibited transactions" rules described in this section with respect to the number of Retiree Shares to be distributed to the Retiree Trust.

The Retiree Claim and all rights and obligations associated therewith shall be held and managed by the Retirees' Committee as the authorized representative for the Retirees. The Retirees' Committee may authorize its counsel to act as the agent for the Retirees' Committee with respect to the Retiree Claim.

Any and all claims filed by individual Retirees on account of reductions in their OPEB benefits as a result of the Company's chapter 11 cases, shall be disallowed and expunged from the Company's claims register on the Effective Date as duplicative of the Retiree Claim.

RELEASE

In consideration of Monsanto's agreement to, among other things, enter into the Monsanto Settlement (as defined in the Plan) and Pharmacia's agreement to waive certain indemnity claims against the Company, which will collectively enable Reorganized Solutia to satisfy its OPEB obligations to Retirees as modified by the Retiree Settlement, and improve Reorganized Solutia's creditworthiness, which consideration is integral to the effectuation of the Plan, the consummation of any transactions contemplated thereby and Reorganized Solutia's ability to perform its prospective obligations, upon the Effective Date, the Retirees' Committee, its members and professionals, the Retirees and each of their respective officers, directors, employees, heirs, executors, administrators, successors and assigns (collectively, the "Retiree Parties") shall hereby be deemed to have

released and discharged the Company, Monsanto, Pharmacia, any employee benefit plans of Monsanto or Pharmacia and their respective officers, directors, employees, affiliates, successors, assigns, representatives, agents, advisors and professionals (collectively, the "Released Parties") from, and the order confirming the Plan (the "Confirmation Order") and the order approving the terms of this Agreement (the "Retiree Approval

11

Order") shall operate as an injunction against, the commencement or continuation of any action, the employment of process, or any act to collect, recover or offset, any "claim" (as defined in section 101(5) of the Bankruptcy Code) and any "debt" (as that term is defined in section 101(12) of the Bankruptcy Code), related to "retiree benefits" (as defined in section 1114(a) of the Bankruptcy Code), including the partial reservation of claims in the class action settlement approved by the U.S. District Court for the Northern District of Florida, Pensacola Division, in Solutia Inc. v. Forsberg, et al., No. 3:98CV237, whether such claim is reduced to judgment or not, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or not, matured or unmatured, disputed or undisputed, legal or equitable, known or unknown that the Retiree Parties had, have or may have against the Released Parties. This Agreement, the Plan and any order approving the Retiree Settlement shall provide for and effectuate a discharge of the Released Parties to the fullest extent permitted by applicable law with respect to any and all claims of the Retiree Parties related to "retiree benefits" (as defined in section 1114(a) of the Bankruptcy Code); provided, however,

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that the foregoing shall not release and discharge (a) Reorganized Solutia from the performance of its obligations under this Agreement, or (b) Monsanto from the performance of its obligations under this Agreement.

EXCULPATION  
AND LIMITATION OF LIABILITY

The Plan and Confirmation Order shall provide that the Retirees' Committee and each of its current and former members, agents, advisors and professionals, in each case in their capacity as such, shall not have or incur any liability to, or be subject to any right of action by, any Holder of a Claim (as defined in the Plan), or any other party in interest, or any of their respective agents, direct or indirect shareholders, employees, representatives, financial advisors, attorneys or affiliates, or any of their respective successors or assigns, for any act or omission in connection with, relating to, or arising out of, the Chapter 11 Cases, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except

for their willful misconduct, criminal conduct, misuse of confidential information that causes damages, fraud, ultra vires acts or gross negligence, and in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to their duties and responsibilities under the Plan.

12

STAY OF APPEAL

On or about February 16, 2006, the Company and the Retirees' Committee jointly sought to stay the appeal, captioned Solutia Inc. et al. v. Official Committee of Retirees (Civil no. 04-CIV-9587 (KMK)), pending before the United States District Court for the Southern District of New York, pending approval of the Retiree Settlement. On the Effective Date, this appeal shall be deemed withdrawn with prejudice.

WITHDRAWAL OF ADVERSARY PROCEEDINGS

On the Effective Date, that certain adversary proceeding, captioned, The Official Committee of Retirees v. Solutia, Inc., Pharmacia Corporation and Monsanto Company (Adv. Proc. no. 04-03057 (PCB)) shall be deemed withdrawn with prejudice.

RETIREE APPROVAL ORDER

The Retiree Approval Order shall (i) approve the terms of this Agreement, including all releases, injunctions, exculpations and limitations of liability contained herein, pursuant to section 1114 of the Bankruptcy Code, Bankruptcy Rule 9019 and any other applicable provisions of the Bankruptcy Code and Bankruptcy Rules; (ii) direct the Company and the Retirees' Committee to file a copy of this Agreement and the Retiree Approval Order with the U.S. District Court for the Northern District of Florida, Pensacola Division, in Solutia Inc. v. Forsberg, et al., No. 3:98CV237; (iii) specify that the prior order approving the Forsberg Settlement and the Forsberg Plan has been superseded in all respects by the terms of this Agreement; (iv) provide that the Retirees' Committee is authorized and empowered to execute and deliver this Agreement on behalf of the Retirees pursuant to section 1114(e) (1) (B) of the Bankruptcy Code; and (v) expressly reserve exclusive jurisdiction for the enforcement of the terms of this Agreement and the Retiree Settlement in the United States Bankruptcy Court for the Southern District of New York.

13

SUPPORT

The Retirees' Committee agrees to support confirmation of the Plan filed by Solutia with the Bankruptcy Court.

The Company, the Retirees' Committee, Monsanto and the Creditors' Committee agree to support the Retiree Settlement



consistent with the terms set forth herein, including by, among other things, seeking Bankruptcy Court approval of the Retiree Settlement, pursuant to Bankruptcy Rule 9019. In addition, the Retirees' Committee will assist the Company and Monsanto in ensuring proper service of such motion and the terms of this Agreement is made on all Retirees.

CHANGED CIRCUMSTANCES

Notwithstanding anything contained herein to the contrary, this Agreement shall terminate and be of no further force or effect if, and only if, prior to the Effective Date: (i) that certain adversary proceeding, captioned Official Committee of Equity Security Holders of Solutia, Inc., v. Monsanto Company, and Pharmacia Corporation (Case Nos. 03-17949 (PCB)) results in a final, binding and non-appealable determination by a court of competent jurisdiction that Monsanto and/or Pharmacia are solely responsible for liabilities in connection with Pre-Spin OPEB benefits, and the Company is fully and unconditionally discharged from any and all direct or indirect obligations with respect to the OPEB benefits or the Pre-Spin Retirees; (ii) Solutia's chapter 11 cases currently pending before the Bankruptcy Court are converted to a case under chapter 7 of the Bankruptcy Code; or (iii) the Plan is modified such that the holders of General Unsecured Claims against the Company, other than the holders of Convenience Claims (as defined in the Plan), are to receive cash from Reorganized Solutia totaling more than 2% of the aggregate Allowed amount of General Unsecured Claims on account of such claims and the Retirees do not.

14

IN WITNESS WHEREOF, the undersigned, intending to be bound by the terms of this Agreement, have caused this Agreement to be executed by its duly authorized officer, in each case as of this 10th day of July, 2007.

SOLUTIA INC.

/s/Jeffry N. Quinn

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By: Jeffry N. Quinn  
Its: President & Chief Executive Officer

[Signatures Continue on the Next Page]

15

THE OFFICIAL COMMITTEE OF RETIREES OF  
SOLUTIA INC.

/s/Daniel D. Doyle

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By: Spencer Fane Britt Browne LLP  
Its: Co-counsel

/s/R. Scott Williams

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By: Haskell Slaughter Young & Rediker  
Its: Co-counsel

[Signatures Continue on the Next Page]

16

THE OFFICIAL COMMITTEE OF RETIREES  
OF SOLUTIA INC.

/s/Kenneth M. Kettler

-----  
By: Kenneth M. Kettler  
Its: Chairman

[Signatures Continue on the Next Page]

17

MONSANTO COMPANY

/s/David F. Snively

-----  
By: David F. Snively  
Its: Senior Vice President, Secretary and  
General Counsel

18

THE OFFICIAL COMMITTEE OF UNSECURED  
CREDITORS OF SOLUTIA INC.

/s/James R. Savin

-----  
By: Akin Gump Strauss Hauer & Feld LLP  
Its: Counsel

19

## Exhibit A

-----

For each Plan Year, each Participant of Groups IA and IIIA shall pay an annual Medical Expense Contribution equal to the greater of 20% of the Annual Cost Per Covered Group, or the applicable Defined Dollar Limit Amount(12) as determined by the following table:

<TABLE>  
<CAPTION>

SOLUTIA DEFINED DOLLAR LIMIT		
COVERED GROUP	RETIREE (OR SURVIVING SPOUSE) BEFORE AGE 65	RETIREE (OR SURVIVING SPOUSE) AFTER AGE 65
<C>	<C>	<C>
Retiree Only	\$6,600	\$2,000
Surviving Spouse Only	\$5,100	\$1,650
Retiree and Spouse (under 65)	\$11,700	\$7,100
Retiree and Spouse (over 65)	\$7,950	\$3,650
Retiree and Child(ren)	\$9,000	\$4,400
Retiree, Spouse (under 65) and Child(ren)	\$14,100	\$9,500
Retiree, Spouse (over 65) and Child(ren)	\$10,350	\$6,050

</TABLE>

For each Plan Year, each Participant of Groups IB and IIIB shall pay an annual Medical Expense Contribution equal to the greater of 20% of the Annual Cost Per Covered Group, or the applicable Defined Dollar Limit Amount as determined by the following table:

<TABLE>  
<CAPTION>

SOLUTIA DEFINED DOLLAR LIMIT		
COVERED GROUP	RETIREE (OR SURVIVING SPOUSE) BEFORE AGE 65	RETIREE (OR SURVIVING SPOUSE) AFTER AGE 65
<C>	<C>	<C>
Retiree Only	\$6,600	\$1,800
Surviving Spouse Only	\$5,100	\$1,475
Retiree and Spouse (under 65)	\$11,700	\$6,900
Retiree and Spouse (over 65)	\$7,950	\$3,275
Retiree and Child(ren)	\$9,000	\$4,200
Retiree, Spouse (under 65) and Child(ren)	\$14,100	\$9,300
Retiree, Spouse (over 65) and Child(ren)	\$10,350	\$5,675

</TABLE>

<FN>

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(12) The Defined Dollar Limit Amount shall be the difference between the Annual Cost Per Covered Group and the Solutia Defined Dollar Limit applicable to a Covered Group as delineated in this Exhibit A.  
-----

-1-

For each Plan Year, each Participant of Groups IIA, IIB, IV and V and Post-Settlement Participants shall pay an annual Medical Expense Contribution equal to the greater of 20% of the Annual Cost Per Covered Group, or the applicable Defined Dollar Limit Amount(13) as determined by the following table:

<TABLE>  
<CAPTION>

SOLUTIA DEFINED DOLLAR LIMIT		
COVERED GROUP	RETIREE (OR SURVIVING SPOUSE) BEFORE AGE 65	RETIREE (OR SURVIVING SPOUSE) AFTER AGE 65
<C>	<C>	<C>
Retiree Only	\$6,600	\$1,650
Surviving Spouse Only	\$5,100	\$1,350
Retiree and Spouse (under 65)	\$11,700	\$6,750
Retiree and Spouse (over 65)	\$7,950	\$3,000
Retiree and Child(ren)	\$9,000	\$4,050
Retiree, Spouse (under 65) and Child(ren)	\$14,100	\$9,150
Retiree, Spouse (over 65) and Child(ren)	\$10,350	\$5,400

</TABLE>

<FN>

-----  
(13) Solutia is not waiving any of its rights pursuant to the Post-Settlement Plan to make changes to the Participant Medical Expense Contribution or other provisions therein.

-2-

THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT. THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION (THE "AMENDED PLAN") ANNEXED HERETO. ACCEPTANCES OR REJECTIONS OF THE AMENDED PLAN MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT.

THE UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

-----x  
:  
IN RE : Chapter 11  
:  
SOLUTIA INC., ET AL., : Case No. 03-17949 (PCB)  
:  
Debtors. : (Jointly Administered)  
:  
-----x

THIS DISCLOSURE STATEMENT APPLIES TO:

X All Debtors Axio Research Corporation  
---  
Solutia Inc. Solutia Investments, LLC  
---  
Solutia Business Enterprises Inc. Beamer Road Management Company  
---  
Solutia Systems, Inc. Monchem, Inc.  
---  
Solutia Overseas, Inc. Solutia Inter-America, Inc.  
---  
CPFilms Inc. Solutia International Holding, LLC  
---  
Solutia Management Company, Inc. Solutia Taiwan, Inc.  
---  
Monchem International, Inc. Solutia Greater China, Inc.  
---

-----  
DEBTORS' SECOND AMENDED DISCLOSURE STATEMENT PURSUANT  
TO SECTION 1125 OF THE BANKRUPTCY CODE  
-----

KIRKLAND & ELLIS LLP  
Citigroup Center  
153 East 53rd Street  
New York, New York 10022-4611  
(212) 446-4800

Attorneys for Debtors and Debtors in Possession

Dated: July 9, 2007

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	PAGE
	----
<C>	<C>
I. INTRODUCTION.....	1
II. EXECUTIVE SUMMARY.....	2
A. CORPORATE HISTORY AND EVENTS LEADING TO THE FILING OF THE CHAPTER 11 CASES.....	2
B. EVENTS DURING THE CHAPTER 11 CASES.....	3
C. REORGANIZED SOLUTIA.....	5
D. HEARING TO APPROVE THE LEGACY LIABILITY SETTLEMENT WITH MONSANTO AND THE RETIREES.....	6
E. KEY ELEMENTS OF THE AMENDED PLAN.....	8
1. Reallocation of the Legacy Liabilities.....	8
2. Resolution of Outstanding Adversary Litigations and Claims.....	10
3. Chapter 11 Claims.....	12
(a) Asserted and Scheduled Claims.....	12
(b) Estimates of Certain Classes of Claims.....	12
(c) Implied Equity Value Available For Distribution.....	15
(d) Distributions to Creditors Under the Amended Plan.....	15
(i) Certain Creditors Will Be Paid In Full.....	15
(ii) Certain Creditors Will Receive Shares of New Common Stock.....	15
4. Distributions to Holders of Common Stock in Solutia Inc.....	17
5. Releases.....	17
6. The Exit Financing Facility.....	18
F. SUMMARY OF CLASSIFICATION AND TREATMENT OF ALLOWED CLAIMS AND EQUITY INTERESTS UNDER THE AMENDED PLAN.....	19
G. PARTIES ENTITLED TO VOTE ON THE AMENDED PLAN.....	22
H. SOLICITATION PACKAGE.....	23
I. VOTING INSTRUCTIONS.....	24
J. THE CONFIRMATION HEARING.....	28
K. CONFIRMATION OF THE PLAN IS THE CULMINATION OF THE CHAPTER 11 CASES.....	28
L. EFFECT OF THE AMENDED PLAN ON SOLUTIA'S ONGOING BUSINESS.....	29
III. IMPORTANT INFORMATION.....	29
IV. EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES.....	33
A. OVERVIEW OF SOLUTIA'S BUSINESS.....	33
B. SOLUTIA'S CORPORATE HISTORY.....	34
1. The Creation of Solutia.....	34
2. The Spinoff.....	34
3. The Monsanto Spinoff - Old Monsanto Becomes Pharmacia.....	35
4. Pfizer's Acquisition of Pharmacia.....	36
C. THE ASSUMPTION OF LEGACY LIABILITIES.....	36
1. Legacy OPEB Liabilities.....	36
2. Legacy Environmental Liabilities.....	37
3. Legacy Tort Liabilities.....	38
4. Legacy Pension Liabilities.....	38
5. Legacy Liability Allocation.....	38
D. EVENTS LEADING UP TO BANKRUPTCY.....	39
1. The Initial Period Following the Spinoff.....	39
2. Beginning of the Economic Downturn.....	40
3. Continued Decline in Results, Burden of the Legacy Liabilities and Difficulties Obtaining Favorable Financing.....	41
4. The Period Prior to Filing Bankruptcy.....	42
5. Prepetition Attempts to Restructure the Business.....	44
(a) Anniston PCB Cases Settlement.....	44
(b) Anniston Partial Consent Decree.....	45
(c) The Bank Credit Agreement.....	45
(d) Negotiations with Monsanto, Pharmacia and Noteholders.....	46

	(e)	Restructuring of the Euro Notes.....	46
E.		THE COMMENCEMENT OF THE CHAPTER 11 CASES.....	46
V.		EVENTS DURING THE CHAPTER 11 CASES.....	47
	A.	STABILIZATION OF BUSINESS OPERATIONS.....	47
		1. First Day Relief.....	47
		2. DIP Financing.....	48
		3. Employee Retention.....	48
		4. Retention of Restructuring and Other Professionals.....	49
	B.	NEW SENIOR MANAGEMENT TEAM.....	50
		-ii-	
	C.	REORGANIZATION STRATEGY.....	53
		1. Enhancing the Performance of Solutia's Businesses.....	54
		(a) New Corporate Culture.....	54
		(b) Strategic Review of Solutia's Material Businesses.....	54
		(c) Proactive Commercial Perspective.....	54
		(d) Cost Reduction and Efficiency Initiatives.....	55
		(e) Operational Excellence Initiative.....	55
		(f) Headcount Reductions.....	55
		(g) Changes to Employee and Retiree Benefit Programs.....	55
		(i) Changes in Active Employee Welfare Benefits.....	55
		(ii) Actions Regarding the Forsberg Settlement.....	56
		(iii) Changes in Qualified U.S. Pension Plan Benefits.....	57
		(iv) Termination of Non-Qualified Pension Benefits.....	57
		(v) Changes in Other Post-Employment Benefits for Active Employees.....	58
		(vi) Collective Bargaining Agreements with U.S. Union-Represented Employees.....	58
		(h) Changes in Compensation Philosophy and Annual Incentive Programs.....	58
		(i) Remediation Management of Legacy Environmental Liabilities.....	58
		(j) Executory Contracts and Unexpired Leases.....	59
		2. Changes to the Asset Portfolio.....	61
		(a) Acquisition of Akzo Nobel's Interest in the Flexsys joint venture.....	61
		(b) Changes in the Nylon Business.....	62
		(i) Closure of the Acrylic Fibers Business.....	62
		(ii) Closure of the Pensacola Industrial Fiber Business.....	62
		(iii) Conversion of the Pensacola Industrial Fiber Assets.....	62
		(iv) Improved Nylon Operational Reliability.....	63
		(c) Changes in the Saflex Business.....	63
		(i) Acquisition of Vitro's interest in the Quimica Joint Venture.....	63
		(ii) Construction of Saflex(R) Interlayer Plant in China.....	63
		(iii) Construction of Third Extrusion Line at Ghent.....	64
		(d) Changes in the CPFilms Business.....	64
		(i) Installation of New CPFilms Metallizing Production Line.....	64
		(ii) Installation of New CPFilms Dye Line.....	64
		(e) Changes in the Specialty Products Business.....	65
		(i) Expansion of Therminol(R) Production in China.....	65
		(ii) Divestiture of the Dequest(R) Business.....	65
		(iii) Closure of the Queeny Plant.....	65
		(iv) Closure of the Chlorobenzene Business.....	65
		(v) Closure of Other Operations.....	65
		(f) Strategic Actions Regarding Non-Core Assets.....	66
		-iii-	
		(i) Divestiture of the Pharmaceutical Services Business.....	66
		(ii) Divestiture of the Astaris Joint Venture.....	66
		(iii) Divestiture of Axio Research Corporation.....	66
		3. Reallocation of the Legacy Liabilities.....	66
		(a) Legacy OPEB Liabilities.....	67
		(i) Modification of Benefits Provided to Existing Retirees.....	67
		(b) Legacy Environmental Liabilities.....	68
		(c) Legacy Tort Liabilities.....	68
		(d) Legacy Pension Liabilities.....	69
		4. Appropriate Capital Structure and Conversion of Debt.....	69
		(a) Capital Structure as of Petition Date.....	69
		(b) Capital Structure upon Emergence; Exit Financing Facility.....	70
	D.	FINANCIAL PERFORMANCE DURING BANKRUPTCY.....	70
VI.		SUMMARY OF LEGAL PROCEEDINGS.....	70

A.	LEGAL PROCEEDINGS IN THE BANKRUPTCY COURT.....	71
1.	The JPM Adversary Proceeding.....	71
2.	Equity Committee Adversary Proceeding Against Monsanto and Pharmacia.....	72
3.	The Equity Committee's View of the Equity Committee Adversary Proceeding.....	73
4.	Litigation Among Pharmacia, Monsanto and Solutia.....	77
	(a) Distribution Agreement Rejection.....	77
	(b) The Adversary Proceedings.....	77
	(c) The Standstill Agreement and Treatment in the Amended Plan.....	78
	(d) Monsanto's Proof of Claim.....	79
	(e) Pharmacia's Proof of Claim.....	79
5.	The EPA Adversary Proceeding.....	80
6.	The Retirees Adversary Proceeding.....	80
7.	Calpine Arbitration.....	80
8.	Avoidance Actions.....	82
	(a) Preference Actions.....	83
	(b) Fraudulent Transfer and Conveyance Actions.....	83
	(i) Section 548 of the Bankruptcy Code.....	83
	(ii) Section 544 of the Bankruptcy Code.....	83
B.	PENDING LEGAL PROCEEDINGS OUTSIDE THE BANKRUPTCY COURT.....	84
1.	Cash Balance Plan Litigation.....	84
2.	SIP Plan Litigation.....	85
3.	Significant Legal Proceedings Involving Non-Debtor Affiliates of Solutia.....	86
	(a) Flexsys Patent and Related Litigation.....	86
	(b) Other Flexsys Related Litigation.....	88
	(c) Ferro Antitrust Investigation.....	88
4.	Commercial Litigation.....	89
	(a) Litigation against INEOS Americas LLC.....	89
5.	Other Matters.....	89
	(a) Probst v. Monsanto and Solutia.....	89
	(b) Department of Labor Investigation.....	90
VII.	REORGANIZED SOLUTIA.....	91
A.	BUSINESS OVERVIEW.....	91
B.	THE NYLON BUSINESS.....	91
C.	THE SAFLEX BUSINESS.....	93
D.	THE FLEXSYS BUSINESS.....	94
E.	THE CPFILMS BUSINESS.....	95
F.	THE SPECIALTY PRODUCTS BUSINESS.....	96
G.	CAPITAL OBLIGATIONS TO BE SATISFIED OR COMPROMISED UPON EMERGENCE.....	98
1.	DIP Credit Facility & Prepetition Secured Bank Debt.....	100
2.	Senior Secured Notes.....	100
	(a) Additional Claims.....	101
	(b) Impairment.....	101
	(c) Cramdown.....	102
3.	Retiree Trust.....	102
4.	Funding Co.....	102
5.	Headquarters Financing.....	102
6.	Euro Notes.....	103
7.	Flexsys Financing.....	103
8.	2027/2037 Notes.....	104
9.	Trade Claims and Other Unsecured Obligations.....	104
10.	Common Stock and Common Stock Derivatives.....	104
	(a) TRADING RESTRICTIONS TO PRESERVE SOLUTIA'S NET OPERATING LOSS INCOME ATTRIBUTES.....	105
H.	REORGANIZED SOLUTIA'S STRUCTURE.....	105
1.	New Common Stock.....	105
2.	Exit Financing Facility.....	106
VIII.	RESOLUTION OF THE LEGACY LIABILITIES.....	106
A.	EVENTS LEADING TO THE CURRENT RESOLUTION OF THE LEGACY LIABILITIES.....	106
	(b) Other Flexsys Related Litigation.....	88
1.	The Agreement in Principle.....	106
2.	The Original Plan.....	107
3.	The Global Settlement.....	107

-iv-

-v-



(a)	Material terms of the Global Settlement remain unchanged by the terms of the Amended Plan.....	107	
(b)	Changes to the Global Settlement since February 2006.....	108	
B.	DETAILED DISCUSSION OF TERMS OF THE REALLOCATION OF THE LEGACY LIABILITIES.....	109	
1.	Settlement Overview.....	109	
(a)	The Monsanto Claim.....	109	
(b)	Monsanto's Contributions to Solutia's Reorganization.....	111	
(i)	As Between Itself and Solutia, Monsanto Is Taking Financial Responsibility for All Tort Claims.....	111	
(ii)	Monsanto Is Taking Financial Responsibility, As Between Itself and Solutia Only, for Certain Environmental Remediation and Clean-Up Obligations.....	112	
(a)	Monsanto Is Taking Responsibility, As Between Itself and Solutia Only, for All Environmental Liabilities at the Legacy Sites.....	112	
(b)	Monsanto Is Sharing Financial Responsibility with Solutia for Obligations at Shared Sites.....	112	
(iii)	Settlement of Litigation among Pharmacia, Monsanto and Solutia.....	113	
(iv)	Monsanto Will Continue To Operate Under the Commercial and Operating Agreements, and Will Extend the Terms of the Master Operating Agreement.....	113	
(c)	The Retiree Settlement.....	114	
(d)	Settlement With Pharmacia.....	114	
2.	Settlement of Tort Claims.....	115	
3.	Overview of Tort Claims For Which Monsanto Has Agreed to Take Financial Responsibility.....	116	
(a)	Premises-Based Asbestos Claims.....	116	
(b)	Dioxin Claims.....	116	
(c)	PCB Claims.....	117	
(d)	Silica.....	118	
(e)	Other Claims/Unspecified Claims.....	119	
4.	Settlement of Legacy Environmental Liabilities.....	119	
(a)	Retained Sites (Solutia-Owned or Operated Sites).....	120	
(b)	Legacy Sites (Never Owned or Operated by Solutia).....	120	
(c)	Shared Site Areas (Anniston and Sauget).....	121	
(d)	Certain Waste Sites.....	122	
(e)	Natural Resource Damages at Anniston and Sauget.....	122	
	-vi-		
	(f)	Miscellaneous Prepetition Environmental Claims.....	123
	(g)	The Terms of the Relationship Agreement.....	123
5.	Monsanto's Settlement of Adversary Proceedings, Contested Matters, Disputes and the Monsanto Proof of Claim.....	124	
6.	Monsanto's Agreement to Waive Claims for Indemnity and Contribution Against Solutia.....	124	
7.	Monsanto's Agreement to Enter into the Relationship Agreement and Continue the Commercial and Operating Agreements.....	124	
(a)	Chocolate Bayou Agreements.....	124	
(b)	HMD Supply Agreement.....	125	
8.	The Retiree Settlement.....	126	
9.	The Pharmacia Settlement.....	127	
C.	CONSIDERATION RECEIVED UNDER THE AMENDED PLAN.....	127	
1.	Monsanto's Consideration.....	127	
2.	Pharmacia's Consideration.....	128	
3.	General Unsecured Creditors' Consideration.....	128	
4.	Noteholders' Consideration.....	128	
5.	Retirees' Consideration.....	129	
6.	New Indemnities.....	129	
D.	THE RELEASES AND THE MONSANTO/PHARMACIA INJUNCTION ARE NECESSARY COMPONENTS OF THE AMENDED PLAN.....	129	
E.	THE RELATIONSHIP AGREEMENT IS CRITICAL TO THE AMENDED PLAN.....	132	
F.	APPROVAL OF THE SETTLEMENT OF THE LITIGATION AMONG MONSANTO, PHARMACIA AND SOLUTIA IS CLEARLY WARRANTED.....	133	
G.	THE EQUITY COMMITTEE OPPOSES THE MONSANTO AND RETIREE SETTLEMENTS.....	134	
IX.	ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE AMENDED PLAN.....	135	
A.	LIQUIDATION UNDER CHAPTER 7.....	137	
B.	ALTERNATIVE PLAN TO REORGANIZATION OR LIQUIDATION.....	138	
X.	PROJECTED FINANCIAL INFORMATION.....	139	

A.	THE EQUITY COMMITTEE'S VIEWS CONCERNING REORGANIZED SOLUTIA'S VALUATION.....	141
-vii-		
B.	SOLUTIA'S RESPONSE TO THE EQUITY COMMITTEE'S "SUM OF INDICATIONS" VALUATION METHODOLOGY.....	141
XI.	RISK FACTORS.....	141
A.	CERTAIN BANKRUPTCY CONSIDERATIONS.....	142
B.	FACTORS AFFECTING THE VALUE OF THE SECURITIES TO BE ISSUED UNDER THE AMENDED PLAN.....	147
C.	RISKS RELATED TO SOLUTIA'S BUSINESS AND INDUSTRY.....	151
XII.	CONFIRMATION OF THE PLAN.....	159
A.	THE CONFIRMATION HEARING.....	159
B.	DEADLINE TO OBJECT TO CONFIRMATION.....	159
C.	REQUIREMENTS FOR CONFIRMATION OF THE PLAN.....	159
1.	Requirements of Section 1129(a) of the Bankruptcy Code.....	159
2.	Best Interests of Creditors.....	161
3.	Acceptance.....	163
4.	Feasibility.....	163
5.	Requirements of Section 1129(b) of the Bankruptcy Code.....	163
(a)	"Fair and Equitable".....	164
(b)	Secured Creditors.....	164
(c)	Unsecured Creditors.....	164
(d)	Holder of Equity Interests.....	164
(e)	"Unfair Discrimination".....	165
D.	VALUATION OF REORGANIZED SOLUTIA.....	165
E.	IDENTITY OF INSIDERS.....	165
F.	EFFECT OF CONFIRMATION OF THE PLAN.....	165
1.	Term of Bankruptcy Injunction or Stays.....	165
2.	Preservation of Avoidance Actions.....	166
3.	Discharge of Claims and Termination of Equity Interests.....	166
4.	Exculpation and Limitation of Liability.....	167
5.	Assumption of the ACE Insurance Program and the Treatment of the ACE Companies' Claims.....	167
XIII.	SECTION 1145 EXEMPTION FOR OFFER AND SALE OF THE NEW COMMON STOCK UNDER THE PLAN.....	169
XIV.	CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE AMENDED PLAN.....	172
1.	Consequences to Holders of Claims and Equity Interests.....	173

-viii-

(a)	Consequences to Holders of Secured Claims.....	173
(b)	Consequences to Holders of Senior Secured Note Claims.....	174
(c)	Consequences to Holders of Noteholder Claims and General Unsecured Claims.....	174
(i)	Treatment of a Debt Instrument as a "Security".....	175
(ii)	The Rights.....	175
(iii)	Treatment of a Holder of an Allowed Noteholder Claim or a General Unsecured Claim if the Exchange of Its Claim Is Treated as a Reorganization.....	176
(iv)	Treatment of a Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim if the Exchange of its Claim Is Not Treated as a Reorganization.....	176
(v)	Accrued Interest.....	177
(vi)	Market Discount.....	177
(d)	Consequences to Holders of CPFilms Claims.....	178
(e)	Consequences to Holders of Tort Claims.....	178
(f)	Consequences to Holders of Security Claims.....	179
(g)	Consequences to Holders of Equity Interests.....	179
(h)	Consequences to Holders of Retiree Claims.....	179
B.	CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO THE DEBTORS.....	180
1.	Certain U.S. Federal Income Tax Consequences of the Amended Plan to Solutia.....	180
(a)	Cancellation of Indebtedness and Reduction of Tax Attributes.....	180
(b)	Limitation of Net Operating Loss Carryovers and Other Tax Attributes.....	180
(c)	Alternative Minimum Tax.....	182
(d)	Funding Co.....	183
2.	Backup Withholding and Reporting.....	183

-ix-

EXHIBITS(1)  
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- EXHIBIT A Second Amended Plan of Reorganization
- EXHIBIT B Disclosure Statement Order
- EXHIBIT C Solutia Inc. Annual Report, as amended, on Form 10-K for the fiscal year ended December 31, 2006
- EXHIBIT D Reorganized Debtors' Projections
- EXHIBIT E Reorganized Debtors' Valuation
- EXHIBIT F Liquidation Analysis
- EXHIBIT G Committees Appointed in the Debtors' Chapter 11 Cases and Their Professionals
- EXHIBIT H Schedule of Avoidance Actions
- EXHIBIT I Certain Litigation Involving Monsanto and/or Pharmacia
- EXHIBIT J Reconciliation of EBITDAR to GAAP Net Income
- EXHIBIT K Valuation Summary, Debt Summary and Updated Business Plan Summary (Exhibits 99.2 through and including 99.4 of Solutia Inc. Form 8-K dated April 27, 2007)

<FN>

-----  
(1) The Exhibits to the Debtors' Second Amended Disclosure Statement Pursuant to Section 1125 of the Bankruptcy Code (the "Disclosure Statement") are voluminous. Accordingly, these Exhibits will be filed with the Bankruptcy Court but will not be annexed to the Disclosure Statement for purposes of service. Parties can obtain copies of the Exhibits to the proposed Disclosure Statement from the website of the Debtors' notice and claims agent, The Trumbull Group, at <http://www.trumbullgroup.com>.

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I.  
INTRODUCTION  
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Solutia Inc. ("Solutia"), a Delaware corporation with its primary headquarters in St. Louis, Missouri, and certain of Solutia's direct and indirect subsidiaries identified on the title page above (collectively, "Solutia," the "Debtors" or the "Company"), as debtors and debtors in possession, submit this Disclosure Statement, (2) pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code"), to Holders of Claims and Equity Interests(3) in connection with (A) the solicitation of acceptances of the Debtors' Second Amended Joint Plan of Reorganization, dated July 9, 2007, as the same may be amended from time to time (the "Amended Plan"), which was filed by Solutia with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") on May 16, 2007, and (B) the Confirmation Hearing, which is scheduled for [DATE, MONTH], 2007, commencing at [TIME \_\_.M.], (prevailing Eastern Time). A copy of the Amended Plan is annexed to this Disclosure Statement as Exhibit A.

This Disclosure Statement includes information about Solutia's prepetition operating and financial history, the events leading up to the commencement of the Chapter 11 Cases, significant events that occurred during the Chapter 11 Cases, and the proposed organization, operations and financing

of Reorganized Solutia if the Amended Plan is confirmed and becomes effective. This Disclosure Statement also summarizes terms and provisions of the Amended Plan, including certain effects of confirmation of the Amended Plan, certain risk factors relating to Solutia or Reorganized Solutia, the Amended Plan and the securities to be issued under the Amended Plan and the manner in which Distributions will be made under the Amended Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that Holders of Claims entitled to vote on the Amended Plan must follow for their votes to be counted. Unless otherwise noted in this Disclosure Statement, all dollar amounts provided in this Disclosure Statement and in the Amended Plan are given in United States dollars.

On [\_\_\_\_], 2007, the Bankruptcy Court entered an order, annexed hereto as Exhibit B (the "Disclosure Statement Order"), approving this Disclosure Statement as containing "adequate information," i.e., information of a kind and in sufficient detail to enable a hypothetical reasonable investor typical of the Holders of Claims to make an informed judgment whether to accept the Amended Plan.

<FN>

- 
- (2) All capitalized terms used but not otherwise defined in this Disclosure Statement shall have the meanings ascribed to them in the Amended Plan and the exhibits thereto, including the Retiree Settlement Agreement.
  - (3) As set forth in this Disclosure Statement, and pursuant to the Disclosure Statement Order (as hereinafter defined), only those Holders of Claims in Classes 3, 5, 11, 12, 13, 14, 15 and 20 who are entitled to vote on the Amended Plan will receive this Disclosure Statement. All other Holders of Claims and Equity Interests will receive a notice of the Disclosure Statement, which will provide details on how to procure copies of this Disclosure Statement.

1

II.  
EXECUTIVE SUMMARY  
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Prior to soliciting acceptances of a proposed plan of reorganization, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the plan of reorganization. This Disclosure Statement is being submitted in accordance with the requirements of section 1125 of the Bankruptcy Code. The following is a summary of the material items addressed in the Disclosure Statement and of the Amended Plan, which is qualified by reference to the entire Disclosure Statement and by the actual terms of the Amended Plan, and the exhibits attached hereto and to the Amended Plan. This Executive Summary is being provided as an overview and should not be relied upon for a comprehensive discussion of the Disclosure Statement and/or the Amended Plan.

A. CORPORATE HISTORY AND EVENTS LEADING TO THE FILING OF THE CHAPTER 11

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CASES  
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In 1997 Old Monsanto (as defined below and also referred to herein as Pharmacia) formed Solutia to hold and operate substantially all of the assets and liabilities of Old Monsanto's historical chemicals business, including the Legacy Liabilities (as defined below) related to contingent tort liabilities, environmental remediation, pension obligations and certain retiree medical and other benefits. Solutia was spun off to Old Monsanto's shareholders pursuant to the terms of a Distribution Agreement, dated September 1, 1997, between Solutia and Old Monsanto (the "Spinoff").

From the Spinoff until 1999, Solutia was a profitable business. However, beginning in late 1999 and continuing through 2003, a general downturn in the economy, increasing raw material prices and excess capacity in the chemicals markets began to negatively impact Solutia's financial results. Despite cost cutting efforts, this negative trend continued. During this timeframe, the more than \$100 million per year that Solutia was spending on account of the Legacy Liabilities transferred to it at the time of the Spinoff began imposing significant financial burdens on the Company. The terrorist attacks on September 11, 2001 compounded the financial burdens on Solutia. Because Solutia's raw materials are derivatives of crude oil, Solutia's costs for raw materials skyrocketed after September 11th. At the same time, demand for Solutia's end products (particularly nylon) plummeted in the economic downturn following September 11th. Moreover, as a result of negative publicity surrounding PCB-related litigation filed against Solutia and Monsanto in

Anniston, Alabama, Solutia was unable to refinance its senior debt facility on favorable terms. Faced with the challenges presented by the Legacy Liabilities, the continuing economic downturn, high raw materials costs and unfavorable debt terms, Solutia took several actions in an attempt to improve its financial condition and mitigate the burdens imposed by the Legacy Liabilities, including reducing costs and headcount, seeking a reallocation of the Legacy Liabilities among Solutia, Pharmacia and Monsanto, settling the Anniston PCB cases and refinancing its Bank Credit Agreement. Despite these efforts to restructure its liabilities out of court, Solutia continued to face deteriorating liquidity and a substantial Legacy Liability burden. Accordingly, on December 17, 2003, Solutia commenced the Chapter 11 Cases.

2

B. EVENTS DURING THE CHAPTER 11 CASES  
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During the Chapter 11 Cases, Solutia has greatly improved its business operations and financial results. Under the leadership of a new senior management team, Solutia developed and has been implementing a four-prong reorganization strategy designed to address the factors that led to its chapter 11 filing and to enable Solutia to thrive after emergence from chapter 11. This four-prong strategy focuses on:

- o managing Solutia's businesses to enhance financial and operating performance including the utilization of the unique powers of a chapter 11 debtor-in-possession;
- o making changes to Solutia's asset portfolio so that it consists of high-potential businesses that can consistently deliver returns in excess of their cost of capital;
- o achieving a reallocation of the Legacy Liabilities; and
- o establishing an appropriate capital structure.

The first element of Solutia's reorganization strategy was to stabilize the businesses and position them for growth. Solutia's immediate focus after filing the Chapter 11 Cases was on revitalizing the culture within Solutia and on implementing cost cutting measures. Solutia promptly made management changes throughout the Company, rolled out extensive cost reduction initiatives and redesigned its compensation systems to be more performance-driven. To further improve its cost competitiveness, Solutia made changes to its U.S.-based welfare benefit programs and froze future benefits accruals under its qualified U.S. Pension Plan. During the Chapter 11 Cases, Solutia also utilized the tools of bankruptcy, including the chapter 11 contract rejection and assumption processes, to reject unfavorable contracts or assume and obtain beneficial amendments to a number of executory contracts.

To better assess the Company's long-term viability, Solutia's management conducted comprehensive and systematic strategic reviews of the Company's material businesses and thereafter began executing on those reviews. Solutia also adopted a more proactive commercial approach in dealing with its customers. In addition, the Company initiated an operational excellence program designed to deliver sustainable improvements in its manufacturing and supply chain operations.

The second element of Solutia's reorganization strategy was to make changes to its asset portfolio as a means of enhancing the value of its Estates. This is consistent with Solutia's business strategy to build a portfolio of high-potential businesses that can consistently deliver returns in excess of their cost of capital. To implement this strategy, during the Chapter 11 Cases, Solutia (a) made strategic investments in its core businesses; (b) exited certain unprofitable businesses and facilities; and (c) divested non-core assets.

With respect to strategic investments in high-performing businesses, Solutia has:

- o acquired Flexsys, a global leader in high quality chemicals for the rubber industry with \$600 million in annual revenues. Prior to such acquisition, Flexsys was a 50/50 joint venture between Solutia and Akzo Nobel N.V. ("Akzo Nobel");

3

- o acquired a polyvinyl butyral ("PVB") interlayer plant, and its related business operations, located in Puebla, Mexico, which

allows its Saflex laminating glazing interlayers business ("Saflex") to accelerate production of a new, higher margin acoustic PVB product. Prior to such acquisition, the Puebla facility and its related operations were part of a joint venture between Solutia, with a 49% interest, and Vitro S.A., with a 51% interest;

- o initiated construction of a third extrusion line at its facility in Ghent, Belgium, which allows its Saflex business to better meet the rapid growth in architectural PVB sheet;
- o initiated construction of a new PVB interlayer plant in Suzhou, China, which provides its Saflex business with improved access to the growing Asian automotive industry;
- o initiated conversion of historic industrial and carpet fiber assets at its Pensacola, Florida facility into assets that produce resin and compound, which allows its integrated nylon ("Nylon") business to participate in the higher value and growing plastics market for Nylon 6,6;
- o invested in improved plant infrastructure and operational reliability at its Alvin, Texas (Chocolate Bayou) Nylon facility, which has historically incurred high costs associated with unplanned downtime and disruptions in raw material deliveries and product shipments;
- o installed a new metallizing production line and a new dye line at its Martinsville, Virginia facility, which significantly increased the capacity and versatility of its CPFilms (as defined below) business in such areas; and
- o invested in a new Therminol heat transfer fluid manufacturing facility in Suzhou, China, which more than doubled the facility's production capacity.

With respect to exiting non-profitable businesses and facilities and divesting of non-core assets, Solutia has:

- o closed its acrylic fibers business, its chlorobenzene business and its Pensacola, Florida industrial fiber business;
- o relocated its Skydrol and Skykleen production lines from St. Louis, Missouri to Anniston, Alabama, and thereafter closed its Queeny (St. Louis, Missouri) plant; and
- o divested its pharmaceutical services business, its Dequest(R) phosphonates business and its Astaris joint venture interest.

The third element of Solutia's reorganization strategy was to achieve a reallocation of the significant tort, environmental and retiree Legacy Liabilities that it assumed as part of the

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Spinoff. To achieve a reallocation of these Legacy Liabilities, Solutia entered into arms-length negotiations with Monsanto, the Creditors' Committee and the Retirees' Committee, which resulted in the reallocation of the Legacy Liabilities described herein.(4) Solutia believes that the reallocation is necessary for the Company to emerge as a viable entity. The reallocation of the Legacy Liabilities will be accomplished pursuant to the Amended Plan, which incorporates the terms of the Relationship Agreement and the Retiree Settlement Agreement. Even with the reallocation of the Legacy Liabilities, certain Legacy Liabilities remain Solutia's responsibility.

With respect to the fourth element of its reorganization strategy, Solutia believes that it is positioned to emerge with an improved capital structure and an appropriate Exit Financing Facility.

C. REORGANIZED SOLUTIA  
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Solutia, together with its wholly owned debtor subsidiaries and wholly owned non-debtor foreign subsidiaries ("Reorganized Solutia"), will emerge from these Chapter 11 Cases as a global organization with a strong portfolio of businesses, many of which have industry-leading positions within their markets. Each of Reorganized Solutia's major businesses is described below:

- o Solutia's Nylon business produces fibers, plastics and

high-performance polymers for a variety of applications from carpet to automotive parts. Solutia's Nylon business is one of the world's few fully integrated producers of Nylon 6,6.

- o Solutia's Saflex business manufactures PVB, plastic interlayers that are used in laminated safety glass in automotive and architectural applications. Solutia is a leader in the laminated glass industry and is the world's largest manufacturer of PVB.
- o Solutia's recently acquired Flexsys business is a leading producer of chemicals for the rubber industry.
- o Solutia's CPFilms ("CPFilms") business is the world leader in custom-coated window films for aftermarket automotive and architectural applications, as well as other precision coating applications.
- o Solutia's specialty products ("Specialty Products") business is comprised of a group of specialty industrial chemical products, including heat transfer fluids and aviation hydraulic fluids, used in a variety of industrial applications and a plastic products business focusing on entrance matting and automotive spray suppression flaps. Solutia is a world leader in many of the markets for these niche businesses.

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- (4) The Equity Committee, a party in interest in these Chapter 11 Cases, did not participate in many of these negotiations.

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D. HEARING TO APPROVE THE LEGACY LIABILITY SETTLEMENT WITH MONSANTO AND  
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THE RETIREES  
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On June 29, 2007, Solutia filed its motion and memorandum of law seeking approval of the Monsanto Settlement and Retiree Settlement. (See Dkt. Nos. 3974 and 3977). The reallocation and/or satisfaction of the Legacy Liabilities set forth in the Amended Plan and described in this Disclosure Statement form the foundation for the Amended Plan. The Monsanto Settlement and the Retiree Settlement are supported by nearly all of Solutia's primary stakeholders, including the Creditors' Committee, the Retirees' Committee, the Ad Hoc Trade Committee, Pharmacia and Monsanto. Solutia anticipates that the Equity Committee and the Ad Hoc Notes Committee will oppose the Monsanto Settlement. Solutia does not anticipate any opposition to the Retiree Settlement; however, the two settlements are interdependent -- if one fails, the other will no longer remain viable.

The Bankruptcy Court has scheduled a hearing (the "Settlement Approval Hearing") with respect to the approval of the Monsanto Settlement and the Retiree Settlement. The hearing will commence on September 5, 2007. Thus, Solutia is seeking acceptances of the terms of the Amended Plan from Persons entitled to vote to accept or reject the Amended Plan in advance of approval of the Monsanto Settlement and the Retiree Settlement. There is a risk that the Court will not approve or will require modifications to the Monsanto Settlement and/or the Retiree Settlement in connection with the Settlement Approval Hearing. In such an event, the solicitation of votes on the Amended Plan may be ineffective and Solutia may be required to either resolicit votes or formulate a new plan of reorganization.

Solutia believes that the Settlement Approval Hearing generally could have three possible outcomes: (i) the Monsanto Settlement and the Retiree Settlement will be approved; (ii) the Monsanto Settlement and the Retiree Settlement will be denied; or (iii) the Monsanto Settlement and the Retiree Settlement will be modified either at the Court's direction or as a result of further negotiations between the parties supporting and opposing the Monsanto Settlement.

- o If the Monsanto Settlement and the Retiree Settlement are approved, Solutia will seek to confirm the Amended Plan based on the votes received through the solicitation process.
- o If the Monsanto Settlement and Retiree Settlement are denied, Solutia will need to reformulate and renegotiate the terms of a new plan. This process could be protracted, due to the possibility of extended complex litigation and negotiation, and would likely delay Solutia's emergence from the Chapter 11 Cases

for the foreseeable future.

- o If the Monsanto Settlement and Retiree Settlement are modified, and such modifications materially and adversely affect parties who previously voted in favor of the Amended Plan, Solutia may need to resolicit votes from such parties. However, if the modifications are not material and adverse, no resolicitation will be necessary. In the context of resolicitation, "material" refers to a modification which makes a party who previously accepted the plan "apt to reconsider his vote." See *In re American*

*Solar King Corp.*, 90 B.R. 808, 824 (Bankr. W.D. Tex. 1988); see also *In re Eastern Sys.*, 118 B.R. 223 (Bankr. S.D.N.Y. 1990) (mentioning both Bankruptcy Rule 3019 and *Solar King* during discussion about whether a creditor should be permitted to change his vote in violation of the timeframe allowed by Bankruptcy Rule 3018(a)).

Solutia submits that solicitation of votes on the Amended Plan prior to or simultaneously with the prosecution of the Monsanto Settlement and the Retiree Settlement is warranted for the following reasons:

- o The Cost of Solicitation is Not Significant in the Context of  
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the Chapter 11 Cases  
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The cost of solicitation is approximately \$500,000. As a result, Solutia believes that the cost of soliciting votes now is a prudent investment due to the potential return of obtaining an exit financing facility on the best possible terms and conditions.

- o Denial of the Monsanto Settlement and/or the Retiree Settlement  
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Will Impact More than Solicitation  
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If the Monsanto Settlement and/or Retiree Settlement are denied, Solutia's accomplishment in reallocating significant Legacy Liabilities back to Monsanto will be lost. In this event, Solutia will need to go back to the proverbial "drawing board" to determine how to appropriately reallocate the Legacy Liabilities. Solutia believes that the denial of the Monsanto Settlement and/or Retiree Settlement will damage the Estates and result in tremendous costs to the stakeholders. Specifically, Solutia believes that negotiating a new agreement on the reallocation and satisfaction of the Legacy Liabilities would be very difficult. In addition, it is very likely that complex, lengthy and costly litigation would ensue if the Monsanto Settlement and/or Retiree Settlement are not approved. As a result, if either of the Monsanto Settlement or the Retiree Settlement are denied, Solutia will be forced to propose a new plan, which would likely result in significant delay to emergence and may ultimately jeopardize Solutia's exit from chapter 11.

- o Confirmation Through Cramdown is an Alternative to  
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Resolicitation  
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To the extent that there is at least one non-insider, impaired accepting Class that is not materially and adversely affected by modifications to the Amended Plan that may occur in connection with the Settlement Approval Hearing, Solutia may be able to confirm the Amended Plan over the objection of any dissenting class without needing to resolicit votes. Solutia may be able to confirm the Amended Plan (as modified) based on the votes already solicited through the "cramdown" provisions of the Bankruptcy Code. The Bankruptcy Court may confirm a modified plan pursuant to the "cramdown" provision contained in section 1129(b) of the Bankruptcy Code if it determines that the plan satisfies the requirements of that section. See Article XII.C.



## E. KEY ELEMENTS OF THE AMENDED PLAN

The Amended Plan is the result of protracted arms-length negotiations among Solutia and its stakeholders.(5) Importantly, the Amended Plan does not alter the material terms of the reallocation of the Legacy Liabilities set forth (a) in the plan of reorganization filed on February 14, 2006 (the "Original Plan"), (b) the Relationship Agreement, or (c) the Retiree Settlement Agreement. However, the terms of the Amended Plan do provide for material changes to the classification of Solutia's creditors and the Distributions that will be available to them.

## 1. REALLOCATION OF THE LEGACY LIABILITIES

Having concluded several years of arduous arm's-length negotiations, Solutia now seeks approval of the Monsanto Settlement and the Retiree Settlement. These settlements are supported by nearly all of Solutia's primary stakeholders, for good reason. The Monsanto Settlement achieves the overriding goal of Solutia's reorganization: the permanent reallocation of significant Legacy Liabilities. Monsanto is taking financial responsibility as between itself and Solutia for all of Solutia's legacy tort liabilities and a substantial portion of its legacy environmental liabilities. Monsanto's contributions in this regard make possible Solutia's Settlement with its approximately 20,000 Retirees concerning the provision of future medical and other benefits at modified levels.

The Amended Plan, the Relationship Agreement and the Retiree Settlement Agreement reallocate the Legacy Liabilities as follows:

- o Tort Liabilities. Approximately 8,500 Tort Claims were filed in the Chapter 11 Cases asserting amounts of more than \$17 billion in the aggregate, plus multiple unliquidated Claims not specifying a damage amount. Monsanto has agreed to be responsible, as between itself and Solutia only, for the payment of all past and future Tort Claims related to products liability, property damage, personal injury or premises liability or other damages arising out of or related to the historical chemical business and liabilities transferred to Solutia at the time of the Spinoff. As a result, the Tort Claims will be Reinstated under the Amended Plan and resolved by Monsanto in the ordinary course of business. Solutia currently estimates that the ultimate liability for asserted Tort Claims will range between \$15 and \$40 million. This estimate does not account for: (a) future Tort Claims that could be asserted for pre-Spinoff conduct; (b) the hundreds of additional lawsuits asserting thousands of claims, which have been commenced directly against Monsanto (for which Monsanto, under the Distribution Agreement, could have asserted potentially billions in dollars in surrogate claims against Solutia's Estates absent the Monsanto Settlement); and (c) defense costs.

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- (5) The Equity Committee opposes the Monsanto Settlement on which the Amended Plan is based.

- o Environmental Liabilities. Environmental Claims in an aggregate amount of \$4 billion have been asserted against Solutia in the Chapter 11 Cases. Pursuant to the terms of the Relationship Agreement, Solutia and Monsanto have agreed to allocate the responsibility for environmental remediation and clean-up obligations at designated sites as follows: (a) Solutia will remain responsible for the environmental liabilities at sites that it owned or operated after the Spinoff; (b) Monsanto will assume responsibility for sites that were transferred to Solutia pursuant to the Spinoff, but with respect to which Solutia was never an owner/operator; and (c) Solutia and Monsanto will share responsibility with respect to the Anniston, Alabama and Sauget, Illinois sites.(6) The projected liabilities relate to these three types of sites set forth below:

o Retained Sites

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Solutia projects that it will incur remediation costs for the Retained Sites in the aggregate amount of approximately \$82 million over the next five years.

o Legacy Sites

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Solutia estimates that Monsanto's agreement to take financial responsibility for the Legacy Sites will remove approximately \$150 million worth of complex environmental claims from Solutia's Estates. Additionally, Monsanto has agreed to be responsible for remediation of dioxin contamination in the Kanawha River and surrounding areas.

o Shared Sites

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Solutia projects that the aggregate remediation costs at the Shared Sites will be approximately \$104 million through 2011. Although the EPA has not yet determined final remedies for these sites, Solutia estimates that remediation costs at Sauget and Anniston will increase to approximately \$25 million per year from 2012 through 2016. After 2016, their costs should decrease.

o Legacy OPEB Liabilities. Solutia's liabilities with respect to

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providing its Retirees with medical and other post-employment benefits are modified by the terms of the Retiree Settlement Agreement. The Retiree Settlement effectuates a comprehensive settlement between Solutia and the Retirees' Committee regarding Solutia's OPEB obligations. This settlement (a) provides cost savings to Solutia by modifying Solutia's obligations to provide medical and other post employment benefits to its Retirees, (b) sets up a trust funded with \$175 million in cash to be raised in the Rights

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(6) The description of sites in this paragraph and the Disclosure Statement generally is qualified by reference to the Relationship Agreement.

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Offering, and will be used solely to reimburse Solutia for costs associated with the payment of benefits for pre-spin Retirees, and (c) grants the Retirees an Allowed non-priority general unsecured claim in the aggregate amount of \$35 million, the Distribution on account of which will be contributed to the Retiree Trust. The Retiree Settlement is made possible only as a result of Monsanto's agreement to assume financial responsibility for legacy tort and environmental claims pursuant to the Monsanto Settlement.

o Legacy Pension Liabilities. During the Chapter 11 Cases, Solutia

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ceased future benefit accruals under its qualified U.S. Pension Plan in order to reduce required funding obligations to a manageable level. While in chapter 11, Solutia has funded over \$235 million to the Pension Plan with approximately \$100 million in additional contributions to be made later this year. Solutia has satisfied all minimum funding requirements under ERISA and expects the Plan to be over 80% funded by the end of 2007. Solutia will retain its Pension Plan after emergence and is confident that it can satisfy future mandatory funding obligations now that benefit accruals have ceased. Total required contributions for 2008 through 2011 are expected to be approximately \$90 million. The preservation of Solutia's Pension Plan through Solutia's reorganization will benefit over 19,000 participants in the Pension Plan.

2. RESOLUTION OF OUTSTANDING ADVERSARY LITIGATIONS AND CLAIMS

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The Amended Plan incorporates the resolution or settlement of the various adversary proceedings filed by and against Solutia during the Chapter 11 Cases:

- o The JPM Adversary Proceeding. As described in Section VI.A.1 -----  
hereof, on May 27, 2005, JPMorgan Chase National Bank N.A. ("JPMorgan"), (7) as the predecessor to the Prepetition Indenture Trustee under the Prepetition Indenture, filed an adversary proceeding against Solutia in the Chapter 11 Cases (the "JPM Adversary Proceeding"). In this adversary proceeding, the Prepetition Indenture Trustee asserted five causes of action seeking declaratory judgments that the holders of the 2027/2037 Notes (the "Noteholders") were entitled to security interests in certain of Solutia's assets, and one cause of action seeking adequate protection under section 363 of the Bankruptcy Code. After significant discovery and pre-trial briefing, a trial in this adversary proceeding took place from late May through early July 2006. On May 1, 2007, the Bankruptcy Court ruled that the Noteholders do not have, and are not entitled to, a lien on any of the Debtors' assets. As a result of the Bankruptcy Court's ruling, the Amended Plan provides that the Noteholders will receive, on account of their individual Claims, the same percentage recovery provided to Holders of General Unsecured Claims.

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- (7) Wilmington Trust Company ("Wilmington Trust") has replaced JPMorgan as the Prepetition Indenture Trustee. On March 12, 2007, the Bankruptcy Court entered a Stipulation and Order substituting Wilmington Trust as plaintiff in the JPM Adversary Proceeding.

10

- o The Equity Committee Adversary Proceeding. As described in -----  
Section VI.A.2 hereof, on March 7, 2005, the Equity Committee commenced an adversary proceeding against Monsanto and Pharmacia in the Chapter 11 Cases (the "Equity Committee Adversary Proceeding"). By its adversary proceeding, the Equity Committee seeks to disallow Monsanto and Pharmacia's Claims against Solutia based on alleged wrongful and inequitable conduct by Monsanto and Pharmacia relating to the Spinoff. Solutia believes that it has already settled the Equity Committee's objections to Monsanto and Pharmacia's claims. At a hearing on May 18, 2007, the Bankruptcy Court ruled that it would consider the reasonableness of Solutia's proposed settlement of claims asserted by and against Pharmacia and Monsanto in these Chapter 11 Cases. The Settlement Approval Hearing is scheduled to commence on September 5, 2007. At this hearing, the Equity Committee will challenge the terms of the Monsanto Settlement and the Retiree Settlement. In the event that the Equity Committee is successful at the Settlement Approval Hearing, the Monsanto Settlement and Retiree Settlement will not be approved and the Amended Plan may not be confirmable. If, however, the Bankruptcy Court approves the terms of the Monsanto Settlement and the Retiree Settlement, pursuant to the standards governing the approval of settlements under Bankruptcy Rule 9019, then the Equity Committee Adversary Proceeding will necessarily be dismissed with prejudice.
- o Litigation Among Pharmacia, Monsanto and Solutia. Since the -----  
Petition Date, Solutia, Pharmacia and Monsanto have engaged in certain litigations regarding their respective rights and obligations under the Distribution Agreement. On January 17, 2006, these litigations were stayed. In exchange for, among other things, Monsanto's agreement to take financial responsibility for the Legacy Liabilities as described herein, the distribution of New Common Stock provided to Monsanto pursuant to the terms of the Amended Plan, Pharmacia's agreement to waive its claims against the Estates and the releases provided to Monsanto and Pharmacia pursuant to the terms of the Amended Plan, Solutia, Monsanto and Pharmacia have each agreed to settle these adversary proceedings.

- o The Retirees' Adversary Proceeding. On May 7, 2004, the -----

Retirees' Committee commenced an adversary proceeding seeking a declaratory judgment (a) that Pharmacia and Monsanto are liable for the Retirees' benefit claims in the event Solutia obtains relief pursuant to Bankruptcy Code section 1114 and (b) that Pharmacia and Monsanto's claims for indemnity related to Retiree Claims should be equitably subordinated (the "Retirees' Adversary Proceeding"). On November 1, 2004 the parties entered into a standstill agreement and the litigation has been stayed since October 26, 2004. Pursuant to the terms of the Amended Plan and the Retiree Settlement Agreement, the Retirees' Adversary Proceeding will be withdrawn with prejudice.

3. CHAPTER 11 CLAIMS  
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(a) Asserted and Scheduled Claims

Over 14,800 proofs of claim were filed against the Debtors in the Chapter 11 Cases. In addition, the Debtors listed approximately 2,500 Claims in their Schedules. These Claims asserted amounts of over \$28 billion in the aggregate. The Claims are categorized into classes based upon the similarity or dissimilarity of Claims (with similarly situated Claims in the same class) as prescribed by the Bankruptcy Code. A chart setting forth the Classes of Claims against and Interests in Solutia, and the treatment of such Claims and Interests as provided for in the Amended Plan, follows.

Pursuant to the terms of the Amended Plan, except for Claims that are (a) expressly exempted from the discharge provisions of the Bankruptcy Code, or (b) specifically identified as being Reinstated, all Claims that arose prior to the confirmation of the Amended Plan will be discharged.

(b) Estimates of Certain Classes of Claims

Claims in Classes 1, 2, 4, 6, 7, 8, 9 and 10 will be paid in Cash in full on the Effective Date, will be Reinstated or will otherwise not be impaired by the terms of the Amended Plan. Claims in Classes 3 and 5 will be paid in Cash in full on the Effective Date, but are deemed impaired by the terms of the Amended Plan. Claims in Classes 18 and 19 will not receive any Distribution under the Amended Plan. Claims in Class 16 will receive a Distribution under the Amended Plan and the holders of such claims are deemed to accept the Amended Plan. Claims in Class 17 will not receive a Distribution and are deemed to accept the Amended Plan. Claims in Classes 11, 12, 13, 14 and 15 will receive Distributions of shares of New Common Stock or other Distributions under the terms of the Amended Plan. Holders of Common Stock in Solutia Inc. in Class 20 will receive their Pro Rata share of the Warrants, provided that Classes 11, 12, 13, 14, 15 and 20 vote to accept the Amended Plan. If any of Classes 11, 12, 13, 14, 15 and 20 vote to reject the Amended Plan, then the Holders of Common Stock in Solutia Inc. in Class 20 will not receive any Distributions under the Amended Plan. The estimated aggregate amount of Claims and Equity Interests in each of Classes 3, 5, 11, 12, 13, 14, 15 and 20 is set forth below:

- o Senior Secured Notes Claims. As of the Petition Date, Solutia  
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had outstanding approximately \$223 million (which takes into account an unamortized original issue discount (the "OID") of \$41.3 million) of the Senior Secured Notes issued pursuant to the 2009 Indenture (as defined herein). On June 22, 2007, Solutia objected to claim no. 6210 filed by the Senior Secured Notes Trustee. Solutia's objection seeks to reduce and allow the Senior Secured Notes Trustee's claim to approximately \$208 million as of the Effective Date, which consist of (a) \$181.7 million funded on account of the Senior Secured Notes at their issuance and (b) amortized OID of \$26.3 million (assuming an Effective Date of September 30, 2007).
  
- o CPFilms Claims. Solutia estimates that the total amount of  
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Allowed CPFilms Claim, will be approximately \$8.4 million. Holders of CPFilms Claims are also entitled to assert Claims for simple interest against the CPFilms estate.

- o Monsanto Claim. Monsanto asserts Claims against Solutia in the  
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aggregate amount of at least \$824.5 million. Importantly, the  
Monsanto Claim includes additional unliquidated claims, fees,  
costs and charges that are not reflected below:(8)

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MONSANTO LIQUIDATED CLAIM CALCULATION  
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Amounts Spent on Solutia's behalf as of (May 31, 2007) (in \$ millions)  
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<C>	<C>
Environmental	
Environmental Remediation (Legacy Sites)	15.7
Environmental Remediation (Shared Sites)	46.3
Subtotal	----- 62.0
Litigation Defense Costs	
Fees & Expenses	87.1
Settlements	66.8
Subtotal	----- 153.9
Total Spending as of May 31, 2007	=====
	215.9 (9)

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Other Claim Elements  
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Estimated Future Tort/Environmental Spending	179 (10)
Anniston Settlement	428.7 (11)
Other (PCL3 Claims)	0.9
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TOTAL LIQUIDATED MONSANTO CLAIM	824.5

</TABLE>

- o Monsanto Contribution. As part of the Monsanto Settlement,  
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Monsanto has agreed, to (a) extend the term of the Master  
Operating Agreement, (b) replace the Distribution

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- (8) On June 29, 2007, Monsanto filed its amended claim.
- (9) Under section 502(e) of the Bankruptcy Code, the \$215.9 million that Monsanto has spent during these Chapter 11 Cases on Solutia's behalf for litigation defense and environmental remediation at the Legacy Sites and Shared Sites may constitute allowed General Unsecured Claims based on the terms of the Distribution Agreement. See In re Drexel Burnham Lambert Group, Inc., 146 B.R. 98, 102 (Bankr. S.D.N.Y. 1992) (claims for reimbursement or contribution that are paid, therefore fixed, are treated as prepetition claims). Moreover, absent the Monsanto Settlement, Monsanto would likely argue that the \$215.9 million that Monsanto has spent on Solutia's behalf since the Petition Date constitutes an Administrative Claim under section 507(a) (2) under the Bankruptcy Code. See In re Jartran, Inc., 886 F.2d 859, 871 (7th Cir. 1989) (expenditures may be treated as administrative expense claims if they are actual and necessary costs and expenses of preserving the estate that benefit the estate as a whole).
- (10) Monsanto expects to spend \$179 million in connection with future legacy tort and legacy environmental liabilities. The estimated future tort liability component is based on historical settlement and judgment costs and past attorney's fees related to such actions. The estimated future environmental liability component is based on the amount Monsanto expects to spend on Legacy Site environmental remediation (discounted to present value at a rate of 3.5%).
- (11) Monsanto alleges that Solutia breached the Anniston Settlement Agreement and asserts a claim for \$428.7 million (net of insurance proceeds) as a result of this alleged breach.

Agreement with the Relationship Agreement, (c) settle the litigation related to Solutia's Anniston, Alabama plant, (d) remove all Tort Claims from Solutia's General Unsecured Claims pool, (e) waive the right to file surrogate claims on behalf of legacy claimants, (f) waive the various indemnity claims related to Legacy Liabilities for which Monsanto has agreed to take financial responsibility, (g) enter into the Chocolate Bayou Settlement and amend and assume the Commercial and Operating Agreements subject to the terms thereof, (12) and (h) resolve all litigation and potential litigation related to the Distribution Agreement, the classification of Monsanto's Claim and other matters, between Solutia and Monsanto (with (a) through (h), the "Monsanto Contribution").

- o 2027/2037 Notes. The face amount of the 2027/2037 Notes plus -----  
accrued but unpaid interest as of the Petition Date is \$455.4 million.
- o Classification  
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The Noteholders' Claims are being separately classified from the General Unsecured Claims because, for among other reasons, (a) the Prepetition Indenture Trustee has filed an appeal of the Bankruptcy Court's May 1, 2007 ruling holding that the Holders of 2027/2037 Notes do not have, and are not entitled to, a lien on the Debtors' assets; (b) the ultimate recovery on account of the Noteholders' Claims is subject to the charging lien arising under the Prepetition Indenture; and (c) the underlying obligations for such Claims constitute funded debt as opposed to general trade Claims.
- o General Unsecured Claims. The Debtors estimate that the total -----  
amount of Allowed General Unsecured Claims will range between \$317 million and \$367 million. (13)
- o Retiree Claim. The Retirees, as a class, will receive an -----  
Allowed, non-priority unsecured claim in the aggregate amount of \$35 million, which amount is based on the value of agreed-upon reductions to retiree benefits that Solutia could not have unilaterally imposed on the Retirees. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust to enhance its ability to maintain benefit payments for both pre- and post-spin Retirees.
- o Pharmacia. Holders of Pharmacia Claims will receive -----  
Distributions in the form of a limited indemnity and release.

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- (12) The Chocolate Bayou Settlement is expected to be "cost-neutral" such that there will be no impact on Solutia's business projections upon the consummation of this agreement.
  - (13) This range does not include \$290 million asserted as a borrowed Unsecured Claim by the Dickerson plaintiffs. Solutia believes that this claim should be subordinated by operation of section 510(b) of the Bankruptcy Code. For a more detailed discussion of this claim and Solutia's objections, thereto, see Section VI.B.2.

- o Common Stock in Solutia Inc. As of February 28, 2007, there were -----  
104,459,578 shares of common stock in Solutia Inc. issued and outstanding. Solely for purposes of tabulating votes to accept or reject the Amended Plan in accordance with section 1126(d) of

the Bankruptcy Code, each share of common stock in Solutia Inc. will be deemed to have a value of \$0.01.

(c) Implied Equity Value Available For Distribution

As more fully described in the valuation materials attached as Exhibits E and K hereto prepared by Rothschild, the Debtors' financial advisor and investment banker, the estimated midpoint enterprise value for Reorganized Solutia is approximately \$2.85 billion, assuming pro forma net debt of approximately \$1.7 billion.(14) Accordingly, Reorganized Solutia's implied midpoint equity value available for distribution to creditors is approximately \$1.2 billion.

The Equity Committee's financial advisor believes that Solutia's value may be significantly higher than the Debtors' estimate. The Equity Committee intends to vigorously challenge the Debtors' valuation at confirmation.

(d) Distributions to Creditors Under the Amended Plan

(i) Certain Creditors Will Be Paid In Full

Distributions under the Amended Plan will be made only to Holders of Allowed Claims. As more fully described in Article VII of the Amended Plan, Holders of Disputed Claims must wait until their Claims become Allowed to receive their respective distributions. In addition, Allowed Administrative Expense Claims, Allowed Priority Non-Tax Claims, Allowed Senior Secured Notes Claims, Allowed CPFilms Claims, Allowed Secured Claims and Convenience Claims will be paid in full.

(ii) Certain Creditors Will Receive Shares of New Common Stock

Pursuant to the Amended Plan, the following Creditors will receive the following distributions, as summarized below (the recovery calculations set forth herein are based on the following assumptions: (a) a General Unsecured Claims pool of \$342 million -- the midpoint of the estimated range for the ultimate aggregate amount of Allowed General Unsecured Claims; (b) an exercise price in the Rights Offering at a discount of 25% to Solutia's implied midpoint equity valuation; (c) full subscription to the Rights Offering by participating parties; and (d) that all recoveries are calculated net of the cost to acquire Rights):(15)

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(14) Pro forma debt of \$1.7 billion less pro forma cash of \$30 million.

(15) The discount applied to the Rights may change as a result of negotiations among Solutia and its stakeholders; provided that the Rights Offering  
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generates \$250 million in Cash proceeds and that Monsanto receives 20% of the New Common Stock after taking into account any dilution as a result of the Rights Offering.

15

- o Holders of Allowed Noteholder Claims in Class 12 will receive their Pro Rata share, inclusive of Allowed General Unsecured Claims, of the Stock Pool consisting of 49.9% of the New Common Stock. In addition, each Holder of an Allowed Noteholder Claim that is an Eligible Holder will be entitled to participate in the Rights Offering. Holders of Allowed Noteholder Claims in Class 12 that do not participate in the Rights Offering will receive a recovery of approximately 74.8 cents on the dollar. Holders of Allowed Noteholder Claims in Class 12 that do participate in the Rights Offering will receive a recovery of approximately 85.3 cents on the dollar.
- o Monsanto will receive (a) 20% of the New Common Stock,(16) which Solutia estimates will be worth approximately \$240 million at the midpoint of total enterprise value; (b) an Allowed Administrative Expense Claim for all amounts that it has spent on (x) the Retained Sites and (y) Environmental Liabilities in excess of \$50 million at the Shared Sites;(17) (c) payment of reasonable fees and expenses of Monsanto's professionals for work related to the Chapter 11 Cases, capped at the aggregate fees (as approved by the Bankruptcy Court) of the Creditors' Committee's professionals;(18) and (d) subject to taking financial responsibility for liability relating to legacy tort

and environmental claims, releases and injunctions against claims relating to Solutia or Legacy Liabilities retained by Solutia.

- o Holders of Allowed General Unsecured Claims in Class 13 will receive their Pro Rata share, inclusive of Allowed Noteholder Claims, of the Stock Pool consisting of 49.9% of the New Common Stock. In addition, each Holder of an Allowed General Unsecured Claim that is an Eligible Holder will be entitled to participate in the Rights Offering. Holders of Allowed General Unsecured Claims in Class 13 that do not participate in the Rights Offering will receive a recovery of approximately 74.8 cents on the dollar. Holders of Allowed General Unsecured Claims in Class 13 that do participate in the Rights Offering will receive a recovery of approximately 85.3 cents on the dollar.
- o The Retirees will receive their future post-employment healthcare, medical or life insurance benefits as modified by the Retiree Settlement Agreement. On the Effective

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(16) Pursuant to the Monsanto Settlement, Monsanto's recovery on account of this Claim is materially less than if the Monsanto Claim was allowed in its full asserted amount.

(17) Monsanto's administrative expense claim includes claims for Environmental Liabilities (as defined in the Relationship Agreement) at the Shared Sites. Environmental Liabilities include, among other things, amounts that Monsanto has spent for environmental remediation and fees and expenses related to contribution actions against potential responsible parties in connection with the Shared Sites. Based on information received from Monsanto, the Environmental Liabilities at the Shared Sites, as of May 31, 2007, equal \$65.9 million (of which \$46.3 million is for environmental remediation). Pursuant to the Relationship Agreement, any amounts recovered by Monsanto through its contribution actions against potentially responsible third-parties are allocated 33.3% to Monsanto and 66.6% to Solutia.

(18) The professionals for the Creditors' Committee have incurred approximately \$16.7 million in fees and expenses as of May 31, 2007, plus a transaction fee payable to Houlihan Lokey, the Creditors' Committee's financial advisors, upon the confirmation of the Amended Plan with a base fee of at least \$1 million plus an incentive fee, based on the interim compensation orders granted by the Bankruptcy Court.

16

Date, Solutia will contribute \$175 million in cash proceeds from the Rights Offering to the Retiree Trust, which funds will be used solely to reimburse Solutia for costs associated with the payment of benefits for pre-spin Retirees. In addition, the Retirees, as a class, will receive an Allowed, non-priority unsecured Claim in the aggregate amount of \$35 million, which amount is based on the value of agreed-upon reductions to benefits that Solutia could not have unilaterally imposed on the Retirees. (19) The recovery on account of the Retiree Claim will be contributed to the Retiree Trust. In accordance with the terms of the Retiree Settlement Agreement, the Retirees, as a class, will receive 2.2% of the New Common Stock, resulting in a recovery of 74.8 cents on the dollar, which is comparable with the implied value afforded other holders of unsecured claims after excluding the value associated with the right to acquire additional New Common Stock through the Rights Offering and without considering the value to be received through the Retiree Trust in the form of future retiree medical, life and disability benefits. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust to enhance its ability to maintain benefit payments for both pre- and post-spin Retirees and does not account for potential variations to General Unsecured Creditor recoveries based on whether Solutia's General Unsecured Claims estimate proves to be correct. (20)

4. DISTRIBUTIONS TO HOLDERS OF COMMON STOCK IN SOLUTIA INC.  
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Holders of Common Stock in Solutia Inc. will receive their Pro Rata share of Warrants to purchase up to 3.5% of the New Common Stock with a strike



price of \$14.16, provided that Holders of Claims and/or Equity Interests in each of Classes 11, 12, 13, 14, 15 and 20 vote to accept the Plan. If any of Classes 11, 12, 13, 14, 15 and 20 vote to reject the Plan, the Holders of Common Stock in Solutia Inc. will not receive any Distributions under the Amended Plan. On the Effective Date, all existing common stock of, and existing warrants and options to purchase common stock, in Solutia Inc. will be cancelled.

5. RELEASES  
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The Amended Plan provides for the following releases:(21)

- o Release By the Debtors. As of the Effective Date, the Debtors,  
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Reorganized Solutia and their respective Estates will forever release all claims arising on or prior to the Effective Date against (a) the Debtors' current or former directors, officers and

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- (19) The Retiree Claim and all rights and obligations associated therewith, including voting rights, will be held and managed by the Retirees' Committee as the authorized representative for the Retirees.
  - (20) Any and all claims filed by individual Retirees on account of reductions in their post-employment healthcare, medical or life insurance benefits as a result of Solutia's Chapter 11 Cases will be disallowed and expunged as duplicative of the Retiree Claim.
  - (21) This summary of the releases set forth in Article VIII.D of the Amended Plan is provided solely for the convenience of the Bankruptcy Court and parties in interest, and is qualified in its entirety by reference to the terms of the Amended Plan. In the event of any inconsistency between the terms of the Amended Plan and the terms of this summary, the terms of the Amended Plan shall govern.

17

employees, (b) the current and former members of the Creditors' Committee, except for the Prepetition Indenture Trustee and their advisors, (c) Monsanto, (d) Pharmacia, (e) Monsanto and Pharmacia's employee benefit plans, (f) the Ad Hoc Trade Committee (g) the Retirees' Committee and (h) the respective Affiliates and current or former representatives, agents and advisors of the foregoing.

- o Release By Holders of Claims and Equity Interests. As of the  
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Effective Date, each Holder of a Claim or Equity Interest will forever release all claims, other than claims for Environmental Liabilities related to the Retained Sites or the Shared Sites, arising on or prior to the Effective Date against (a) the Debtors' current or former directors, officers and employees, (b) the current and former members of the Creditors' Committee, except for the Prepetition Indenture Trustee and their respective advisors, (c) Monsanto, (d) Pharmacia, (e) the Ad Hoc Trade Committee, (f) the Retirees' Committee and (g) the respective Affiliates and current or former representatives, agents and advisors of the foregoing.
- o Retiree Release. Pursuant to the terms of the Retiree Settlement  
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Agreement, the Retirees' Committee and the Retirees have agreed to release and discharge claims for retiree benefits against (a) the Debtors, (b) Monsanto, (c) Pharmacia, (d) Monsanto and Pharmacia's employee benefit plans and (e) the respective directors, officers, employees, affiliates, agents, advisors and professionals of each of the foregoing. This release will not release and discharge Reorganized Solutia or Monsanto from the performance of their obligations under the terms of the Retiree Settlement Agreement.

Importantly, Monsanto and Pharmacia are not receiving a release from the Debtors, Reorganized Solutia or Holders of Claims and Equity Interest for those Claims for which Monsanto has agreed, as between itself and Solutia, to take financial responsibility for under the terms of the Amended Plan and the

Relationship Agreement. These Claims include Tort Claims, certain NRD Claims, Legacy Site Claims, and Claims for Environmental Liabilities or Costs at sites other than the Retained Sites. Monsanto and Pharmacia will receive releases from the Legacy Liabilities at the Retained Sites. These releases are of significant value.

6. THE EXIT FINANCING FACILITY  
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As more fully described in Section VII.H.2. herein, Solutia will seek to obtain an exit facility (the "Exit Financing Facility") of up to \$2.0 billion (including undrawn availability on the revolving loan) to replace all of its existing secured debt obligations, satisfy various bankruptcy related costs, and provide adequate liquidity for on-going operations. The Exit Financing Facility is expected to include some combination of institutional term loans, a revolving loan, a letter of credit facility, high yield bonds or second lien loans, depending on many factors, including the strength of the capital markets.

F. SUMMARY OF CLASSIFICATION AND TREATMENT OF ALLOWED CLAIMS AND EQUITY  
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INTERESTS UNDER THE AMENDED PLAN  
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The following table(22) provides a summary of the distributions to Holders of Allowed Claims and Equity Interests under the Amended Plan. The recoveries set forth below are projected recoveries and may change based upon changes in Allowed Claims and available proceeds.

<TABLE>  
<CAPTION>

CLASS	CLAIM/EQUITY INTEREST	TREATMENT OF CLAIM/EQUITY INTEREST	ESTIMATED AGGREGATED AMOUNT OF ALLOWED CLAIMS OR EQUITY INTERESTS	ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR EQUITY INTERESTS (23)
<C> Class 1	<C> Priority Non-Tax Claims	<C> Unimpaired	<C> \$2.2 million	<C> 100%
Class 2	Secured Claims(24)	Unimpaired	\$40-\$50 million	100%
Class 3	Senior Secured Note Claims	Impaired	\$208 million to \$223 million(25)	100%
Class 4	Convenience Claims	Unimpaired	\$1 to \$2.5 million	100%(26)
Class 5	CPFilms Claims	Impaired	\$8.4 million plus simple interest at a rate of 8% per annum.	100%
Class 6	NRD Claims	Unimpaired	Not applicable. NRD Claims are being Reinstated and will be paid in accordance with the terms of the Amended Plan and the Relationship Agreement.	See Exhibit A.

<FN>

(22) This table is only a summary of the classification and treatment of Allowed Claims and Equity Interests under the Amended Plan. Reference should be made to the entire Disclosure Statement and the Amended Plan for a complete description of the classification and treatment of Allowed Claims and Equity Interests.

(23) The estimated percentage recoveries provided by the Debtors with respect to Classes 12 (Noteholder Claims), 13 (General Unsecured Claims), and 14 (Retiree Claims) each contain the assumption that the ultimate aggregate amount of Allowed General Unsecured Claims will be \$342 million. This estimated amount includes an estimate of the allowed amount of the Calpine Claims in the amount of \$140 million based upon the Calpine Settlement described in Section VI.A.7 of this Disclosure Statement.

(24) Secured Claims include Claims premised upon mechanics' liens and materialmen's liens.

(25) The Allowed Amount of the Senior Secured Note Claims is subject to a determination of the Senior Secured Noteholders' rights under applicable law. Solutia believes that the Allowed amount of the Senior Secured Notes Claim will not exceed \$223 million, however, the Senior Secured Notes Trustee has asserted that its claims on behalf of the Senior Secured Noteholders could exceed this amount. The \$208 million is determined using the effective interest method as of Sept. 30, 2007. For voting purposes only, the Senior Secured Note Claims will be allowed in their full face amount of \$223 million.

(26) See Exhibit A.

<CAPTION>

CLASS	CLAIM/EQUITY INTEREST	TREATMENT OF CLAIM/EQUITY INTEREST	ESTIMATED AGGREGATED AMOUNT OF ALLOWED CLAIMS OR EQUITY INTERESTS	ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR EQUITY INTERESTS (23)
<C> Class 7	<C> Insured Claims	<C> Unimpaired	<C> Not applicable. Holders of Insured Claims can recover against the applicable insurance policies.	<C> See Exhibit A.
Class 8	Tort Claims	Unimpaired	Not applicable. Tort Claims are being Reinstated and will be resolved by Monsanto in the ordinary course of business.	See Exhibit A.
Class 9	Legacy Site Claims	Unimpaired	Not applicable. Monsanto is taking financial responsibility for Legacy Site Claims.	See Exhibit A.
Class 10	Equity Interests in all Debtors other than Solutia	Unimpaired	Not applicable.	Not applicable.
Class 11	Monsanto Claim	Impaired	See Note 27.(27)	See Note 27.
Class 12	Noteholder Claims(28)	Impaired	\$455.4 million(29)	85.3%(30)

<FN>

(27) Monsanto has asserted Claims against Solutia of at least \$824.5 million. Importantly, these Claims include additional unliquidated claims, fees, costs and charges. Additionally, pursuant to the Monsanto Settlement, Monsanto has agreed to make significant contributions to Solutia's Estates as described in more detail in section VIII.B. In satisfaction of its Claim and based on its Contribution, Monsanto will receive 20% of the New Common Stock of Reorganized Solutia. At the Amended Plan's midpoint implied equity value of \$1.2 billion, this stock is worth approximately \$240 million.

(28) As described in Sections II.E.3 and VI.A.1, the status of the Noteholder Claims is subject to an appeal of the Bankruptcy Court's Final Judgment (as defined herein) determining that the Noteholders do not have, and are not entitled to, a lien on any of the Debtors' assets. For this and other reasons, under the Amended Plan, the Noteholders Claims are being separately classified from the General Unsecured Claims.

(29) Based on principal amount of \$450 million plus accrued and unpaid interest of \$5.4 million as of the Petition Date.

(30) The recovery calculation is based on the following assumptions: (a) a General Unsecured Claims pool of \$342 million -- the midpoint of the estimated range for the ultimate aggregate amount of Allowed General Unsecured Claims; (b) an exercise price in the Rights Offering at a discount of 25% to Solutia's implied midpoint equity valuation; (c) full subscription to the Rights Offering by participating parties; and (d) that all recoveries are calculated net of the cost to acquire Rights. The discount applied to the Rights may change as a result of negotiations among Solutia and its stakeholders; provided that the Rights Offering

generates \$250 million in Cash proceeds and that Monsanto receives 20% of the New Common Stock after taking into account any dilution as a result

&lt;CAPTION&gt;

CLASS	CLAIM/EQUITY INTEREST	TREATMENT OF CLAIM/EQUITY INTEREST	ESTIMATED AGGREGATED AMOUNT OF ALLOWED CLAIMS OR EQUITY INTERESTS	ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR EQUITY INTERESTS (23)
<C> Class 13	<C> General Unsecured Claims	<C> Impaired	<C> \$317 million to \$367 million	<C> 85.3% (31) (32)
Class 14	Retiree Claim	Impaired	\$35 million (33)	74.8% (34)
Class 15	Pharmacia Claims	Impaired	Not applicable. Pursuant to the terms of the Plan and the Relationship Agreement, Pharmacia will receive a limited indemnity from Reorganized Solutia and a limited release from certain claims.	0%

&lt;FN&gt;

(31) The recovery calculation is based on the following assumptions: (a) a General Unsecured Claims pool of \$342 million -- the midpoint of the estimated range for the ultimate aggregate amount of Allowed General Unsecured Claims; (b) a Rights Offering discount of 25% to Solutia's implied midpoint equity valuation; (c) full subscription to the Rights Offering by participating parties; and (d) that all recoveries are calculated net of the cost to acquire Rights. The discount applied to the Rights may change as a result of negotiations among Solutia and its stakeholders; provided that the Rights Offering generates \$250 million in

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Cash proceeds and that Monsanto receives 20% of the New Common Stock after taking into account any dilution as a result of the Rights Offering.

(32) The ultimate percentage recovery received by Holders of Allowed General Unsecured Claims will depend on the final aggregate amount of Allowed General Unsecured Claims. For a discussion of Solutia's estimate of the aggregate amount of Allowed General Unsecured Claims, please see Exhibit A to this Disclosure Statement. Notably, Solutia is in the process of reconciling the General Unsecured Claims asserted in the Chapter 11 Cases and, as a result, certain General Unsecured Claims will be resolved, through liquidation or disallowance, between now and the date the Disclosure Statement is approved, and thereafter. Consequently, the actual aggregate amount of Allowed General Unsecured Claims set forth in this Disclosure Statement may be higher or lower than what is currently estimated and the actual aggregate amount of Allowed General Unsecured Claims ultimately could be outside the range that is currently estimated.

(33) The Retirees will receive their future post-employment benefits as modified by the Retiree Settlement. On the Effective Date, \$175 million in cash proceeds, raised through the Rights Offering, will be placed in the Retiree Trust, which funds will be used solely to reimburse Reorganized Solutia for costs associated with the payment of benefits for pre-spin Retirees. The Retirees, as a class, will also receive an Allowed, non-priority unsecured Claim in the aggregate amount of \$35 million, which is based on the value of agreed-upon reductions to benefits that Solutia could not have unilaterally imposed on the Retirees. In accordance with the terms of the Retiree Settlement Agreement, the Retirees, as a class, will receive 2.2% of the New Common Stock, resulting in a recovery of 74.8 cents on the dollar. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust to enhance its ability to maintain benefit payments for all Retirees for both pre- and post-spin Retirees.

(34) The estimated recovery for the Retiree Claim does not include the future value of retiree, medical, life and disability benefits to be provided by Reorganized Solutia. Holders of the Retiree Claim are not Eligible Holders and will not participate in the Rights Offering. Proceeds from the later sale of the New Common Stock distributed on account of the Retiree Claim will help to ensure that Reorganized Solutia is able to

meet its future obligations to Retirees under the Retiree Settlement; the value of the New Common Stock therefore does not limit Reorganized Solutia's commitment to provide future welfare benefits pursuant to the terms of the Retiree Settlement.

<CAPTION>

CLASS	CLAIM/EQUITY INTEREST	TREATMENT OF CLAIM/EQUITY INTEREST	ESTIMATED AGGREGATED AMOUNT OF ALLOWED CLAIMS OR EQUITY INTERESTS	ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR EQUITY INTERESTS (23)
<C> Class 16	<C> Non-Debtor Intercompany Claims (35)	<C> Impaired	<C> \$108 million	<C> 40% (36)
Class 17	Debtor Intercompany Claims	Impaired	\$2.44 billion	0%
Class 18	Axio Claims	Impaired	Not applicable. Holders of Claims in Class 18 will receive no distribution under the Amended Plan.	0%
Class 19	Security Claims	Impaired	Not applicable. Holders of Claims in Class 19 will receive no distribution under the Amended Plan.	0%
Class 20	Common Stock in Solutia	Impaired	Solely for purposes of tabulating votes to accept or reject the Amended Plan in accordance with Section 1126(d) of the Bankruptcy Code, each share of common stock of Solutia Inc. will be Inc. deemed to be worth \$0.01.	N/A (37)

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G. PARTIES ENTITLED TO VOTE ON THE AMENDED PLAN

Under the provisions of the Bankruptcy Code, not all parties in interest are entitled to vote on a Chapter 11 plan. The following sets forth the Classes that are entitled to vote on the Amended Plan and the Classes that are not entitled to vote on the Amended Plan:

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(35) Non-Debtor Intercompany Claims are Claims between Solutia and its foreign non-debtor subsidiaries. The Plan treatment for these claims is intended to maximize tax and financial efficiencies between Solutia and its foreign subsidiaries. On the Effective Date, each Non-Debtor Intercompany Claim will be reduced by 60% and the remainder thereof shall be Reinstated by virtue of book entries without a Distribution of Cash or other consideration being made on account of such Claims.

(37) Holders of Common Stock in Solutia Inc. will receive their Pro Rata Share of the Warrants if, and only if, Classes 11, 12, 13, 14, 15 and 20 vote to accept the Amended Plan.

- o Solutia is NOT soliciting votes from the Holders of Claims in Classes 1, 2, 4, 6, 7, 8, 9 and 10, because such Classes, and each Holder of a Claim in such Classes, are not Impaired under the Amended Plan. Pursuant to section 1126(f) of the Bankruptcy Code, such Classes are conclusively presumed to have accepted the Amended Plan.
- o Solutia is NOT soliciting votes from Holders of Claims in

Classes 16 and 17, such Classes are deemed to have accepted the Amended Plan.

- o Solutia is NOT soliciting votes from the Holders of Claims in Classes 18 and 19 because such Classes are Impaired under the Amended Plan, and such Holders will not receive any Distributions under the Amended Plan. Pursuant to section 1126(g) of the Bankruptcy Code, such Classes are deemed to have rejected the Amended Plan.
- o Solutia IS soliciting votes to accept or reject the Amended Plan from those Holders of Claims and Equity Interests as of [\_\_\_\_], 2007, which is the record date for voting on the Amended Plan (also defined in the Amended Plan as the "Voting Record Date"), in Classes 3, 5, 11, 12, 13, 14, 15 and 20 because Claims and Equity Interests as in these Classes are Impaired under the Amended Plan and the Holders of those Claims will receive Distributions under the Amended Plan.(38) As such, the Holders of such Claims have the right to vote to accept or reject the Amended Plan.

For a detailed description of the Classes of Claims and the Class of Equity Interests, as well as their respective treatment under the Amended Plan, see Exhibit A to this Disclosure Statement.

H. SOLICITATION PACKAGE  
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Accompanying this Disclosure Statement are copies of:

- o the Amended Plan;
- o the Disclosure Statement Order, which, among other things, (a) approves this Disclosure Statement as containing "adequate information" in accordance with section 1125 of the Bankruptcy Code, (b) establishes the procedures for voting on the Amended Plan, (c) schedules a hearing to consider confirmation of the Amended Plan (the "Confirmation Hearing"), (d) sets the deadline for voting on and for objecting to confirmation of the Amended Plan and (e) approves the Rights Offering Procedures;
- o the Rights Offering Procedures, which accompany the Amended Plan as Exhibit H;
- o Rights Subscription Exercise Forms, which are provided only to the Holders of Claims in Classes 12 and 13;

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(38) The Retiree Claim and all rights and obligations associated therewith, including voting on the Amended Plan, will be held and managed by the Retirees' Committee as the authorized representative for the Retirees.

23

- o notice of the Confirmation Hearing ("Confirmation Hearing Notice"); and
- o one or more Ballots and a return envelope, which are provided only to the Holders of Claims and Equity Interests in Classes 3, 5, 11, 12, 13, 14, 15 and 20.(39)

I. VOTING INSTRUCTIONS  
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This Disclosure Statement, accompanied by a Ballot or Ballots to be used for voting on the Amended Plan, is being distributed to the Holders of Claims and Equity Interests in Classes 3, 5, 11, 12, 13, 14, 15 and 20. Only the Holders of Claims or Equity Interests in these Classes are entitled to vote to accept or reject the Amended Plan and may do so by completing the Ballot and returning it in the envelope provided.

Solutia, with the approval of the Bankruptcy Court, has engaged Financial Balloting Group LLC, 757 Third Avenue, New York, New York 10017, www.fbgllc.com, as the claims, balloting, and solicitation agent (the "Voting Agent") to assist in the voting process. The Voting Agent will answer questions, provide additional copies of all materials, and oversee the voting

process. The Voting Agent will also process and tabulate Ballots for each Class entitled to vote to accept or reject the Amended Plan.

The deadline to vote on the Amended Plan is 5:00 p.m. (prevailing Eastern Time) August 30, 2007 (the "Voting Deadline").

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(39) Holders of common Stock in Solutia Inc. in Class 20 will only receive a solicitation package to the extent that they hold at least 24 shares of common stock in Solutia Inc. Persons who hold less than 24 shares of common stock in Solutia Inc., do not own sufficient shares to receive a Warrant. Under the terms of the Amended Plan, Reorganized Solutia is not required to make Distributions of less than whole Warrants.

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BALLOTS  
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Ballots and Master Ballots must be actually received by the Voting Agent by the Voting Deadline at the following address:

Solutia Balloting  
c/o Financial Balloting Group LLC  
757 Third Avenue, 3rd Floor  
New York, New York 10017

If you received an envelope addressed to your Nominee, please allow enough time when you return your ballot for your Nominee to cast your vote on a Master Ballot before the Voting Deadline.

If you have any questions on the procedure for voting on the Amended Plan, please call the Voting Agent at the following telephone number:

(646) 282-1800  
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MORE DETAILED INSTRUCTIONS REGARDING HOW TO VOTE ON THE AMENDED PLAN ARE CONTAINED ON THE BALLOTS DISTRIBUTED TO CREDITORS THAT ARE ENTITLED TO VOTE ON THE AMENDED PLAN. FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE COMPLETED, SIGNED AND RECEIVED BY 5:00 P.M., (PREVAILING EASTERN TIME), ON AUGUST 30, 2007.

ANY BALLOT THAT IS PROPERLY EXECUTED BY THE HOLDER OF A CLAIM, BUT WHICH DOES NOT CLEARLY INDICATE AN ACCEPTANCE OR REJECTION OF THE AMENDED PLAN OR WHICH INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE AMENDED PLAN, SHALL NOT BE COUNTED.

EACH HOLDER OF A CLAIM MAY CAST ONLY ONE BALLOT PER EACH SUCH CLAIM HELD. BY SIGNING AND RETURNING A BALLOT, EACH HOLDER OF A CLAIM OR EQUITY INTEREST IN CLASSES 3, 5, 11, 12, 13, 14, 15 AND 20 WILL CERTIFY TO THE BANKRUPTCY COURT AND SOLUTIA THAT NO OTHER BALLOTS WITH RESPECT TO SUCH CLAIM HAVE BEEN CAST OR, IF ANY OTHER BALLOTS HAVE BEEN CAST WITH RESPECT TO SUCH CLASS OF CLAIMS, SUCH EARLIER BALLOTS ARE THEREBY SUPERSEDED AND REVOKED.

ALL BALLOTS ARE ACCOMPANIED BY RETURN ENVELOPES. IT IS IMPORTANT TO FOLLOW THE SPECIFIC INSTRUCTIONS PROVIDED ON EACH BALLOT.

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FOR NOMINEES:  
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With respect to Noteholder Claims, Solutia will deliver Ballots to Nominees.

The Nominees should deliver the Ballot and other documents relating to the Amended Plan, including this Disclosure Statement, to each Beneficial Owner (as defined in the Disclosure Statement Order) for which they serve as Nominee.

A Nominee has two options with respect to voting. Under the first option, the Nominee will forward the Solicitation Package to each Beneficial Owner for voting and include a return envelope provided by and addressed to the Nominee so that the Beneficial Owner may return the completed Beneficial Owner Ballot to the Nominee. Upon receipt of the Ballots, the Nominee will summarize the individual votes of its respective Beneficial Owners on the appropriate Master Ballot and then return the Master Ballot to the Voting Agent before the Voting Deadline.

Under the second option, if the Nominee elects to "prevalidate" Ballots:

- o The Nominee shall forward the Solicitation Package or copies thereof (including (a) the Disclosure Statement (together with the Amended Plan annexed thereto as Exhibit A, and all other exhibits), (b) an individual Ballot that has been prevalidated, as indicated in paragraph (b) below, and (c) a return envelope provided by and addressed to the Voting Agent) to the Beneficial Owner within three (3) business days of the receipt by such Nominee of the Solicitation Package;
- o To "prevalidate" a ballot, the Nominee shall complete and execute the Ballot and indicate on the Ballot the name of the registered holder, the amount of securities held by the Nominee for the Beneficial Owner and the account number(s) for the account(s) in which such securities are held by the Nominee; and
- o The Beneficial Owner shall return the prevalidated Ballot to the Voting Agent by the Voting Deadline.

If a Master Ballot is received after the Voting Deadline, the votes and elections on such Master Ballot will not be counted. The method of delivery of a Master Ballot to be sent to the Voting Agent is at the election and risk of each Nominee. Except as otherwise provided in this Disclosure Statement, such delivery will be deemed made only when the executed Master Ballot is actually received by the Voting Agent. Instead of effecting delivery by mail, it is recommended, though not required, that such entities use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. No Ballot should be sent to Solutia, or Solutia's financial or legal advisors, but only to the Voting Agent as set forth above.

Nominees must provide appropriate information for each of the items on the Master Ballot, including, without limitation, identifying the votes to accept or reject the Amended Plan.

26

By returning a Master Ballot, each Nominee will be certifying to Solutia and the Bankruptcy Court, among other things, that:(40)

- o it has received a copy of the Disclosure Statement and other solicitation materials annexed to the Disclosure Statement, and it has delivered the same to the Beneficial Owners such Nominee represents;
- o it has received a completed and signed Ballot from each Beneficial Owner whose vote is reflected on such Master Ballot;
- o it is a bank, broker or other nominee (or agent thereof) that holds the securities being voted on behalf of the Beneficial Owners identified on such Master Ballot;
- o it has properly disclosed (a) the number of such Beneficial Owners, (b) the amount of the 2027/2037 Notes owned by each such Beneficial Owner, (c) each Beneficial Owner's respective vote, if any, concerning the Amended Plan and (d) the customer account, serial number and/or other identification number for each such Beneficial Owner;
- o each such Beneficial Owner has certified to the Nominee that such Beneficial Owner has not submitted any other Ballots for



such Class 12 Claims held in other accounts or other names, or, if it has submitted another Ballot held in other accounts or names, that the Beneficial Owner has certified to the Nominee that such Beneficial Owner has cast the same vote for such Class 12 Claims, and the undersigned has identified such other accounts or Owner and such other Ballots;

- o it has been authorized by each such Beneficial Owner to vote on the Amended Plan; and
- o it will maintain the original Beneficial Owner Ballot returned by each Beneficial Owner (whether properly completed or defective) for one year after the Voting Deadline (or such other date as is set by subsequent Bankruptcy Court order) for disclosure to the Bankruptcy Court or the Debtor, if so ordered.

Each Master Ballot must be returned in sufficient time to allow it to be RECEIVED by the Voting Agent by no later than 5:00 p.m. (prevailing Eastern Time) on the date of the Voting Deadline.

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(40) For purposes of soliciting votes on the Amended Plan, Wilmington Trust shall not constitute a "Nominee" and is not responsible for sending any solicitation packages to or collecting and voting a Master Ballot for any Beneficial Owner or holder of the 2027/2037 Notes.

27

J. THE CONFIRMATION HEARING  
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Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Amended Plan. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of the Amended Plan.

The Bankruptcy Court has scheduled the Confirmation Hearing for [\_\_\_\_], 2007 to take place at [\_\_\_\_] (prevailing Eastern Time) (the "Confirmation Hearing Date") before the Honorable Prudence Carter Beatty, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York, located at Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004. The Confirmation Hearing may be adjourned from time to time without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any adjournment thereof.

Objections to confirmation of the Amended Plan must be filed and served on Solutia, and certain other parties, by no later than [\_\_\_\_], 2007 at 4:00 p.m. (prevailing Eastern Time) (the "Plan Objection Deadline") in accordance with the Confirmation Hearing Notice that accompanies this Disclosure Statement. UNLESS OBJECTIONS TO CONFIRMATION OF THE AMENDED PLAN ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE DISCLOSURE STATEMENT ORDER, THEY MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

Solutia will publish the Confirmation Hearing Notice, which will contain the Plan Objection Deadline and Confirmation Hearing Date, in the national edition of The Wall Street Journal, The Financial Times (U.S. edition), St. Louis Post-Dispatch, and USA Today, to provide notification to those persons who may not receive notice by mail.

K. CONFIRMATION OF THE PLAN IS THE CULMINATION OF THE CHAPTER 11 CASES  
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Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code enabling debtors to reorganize their businesses for the benefit of creditors and shareholders. In addition to permitting the rehabilitation of a debtor, chapter 11 promotes equality of treatment for similarly situated creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the bankruptcy commencement date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan of reorganization is the principal

objective of a chapter 11 reorganization case. The confirmation of a plan of reorganization by the Bankruptcy Court binds the debtor, any issuer of securities under the plan of reorganization, any person acquiring property under the plan of reorganization, any creditor or equity interest holder of a debtor and any other person or entity as may be ordered by the Bankruptcy Court in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order

28

issued by the Bankruptcy Court confirming a plan of reorganization discharges a debtor from any debt that arose prior to the confirmation of the plan of reorganization and provides for the treatment of such debt in accordance with the terms of the confirmed plan of reorganization.

L. EFFECT OF THE AMENDED PLAN ON SOLUTIA'S ONGOING BUSINESS  
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Solutia is reorganizing pursuant to chapter 11 of the Bankruptcy Code. As a result, the confirmation of the Amended Plan does not mean that Solutia will be liquidated or forced to go out of business. Reorganized Solutia will continue to operate Solutia's businesses going forward. More information about the operation of Reorganized Solutia's business can be found in Section VII of this Disclosure Statement.

III.  
IMPORTANT INFORMATION  
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THE DEBTORS, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS, AND THE AD HOC TRADE COMMITTEE APPOINTED IN THE CHAPTER 11 CASES, BELIEVE THAT THE AMENDED PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS. ALL CREDITORS ENTITLED TO VOTE ON THE AMENDED PLAN ARE URGED TO VOTE IN FAVOR OF THE AMENDED PLAN AND ALL RETIREES ARE URGED TO SUPPORT THE RETIREE SETTLEMENT AGREEMENT (AS DEFINED BELOW). THE CREDITORS' COMMITTEE SUPPORTS THE AMENDED PLAN AND URGES ALL HOLDERS OF GENERAL UNSECURED CLAIMS TO VOTE IN FAVOR OF THE AMENDED PLAN. THE RETIREES' COMMITTEE SUPPORTS THE RETIREE SETTLEMENT AGREEMENT AND THE AMENDED PLAN AND URGES ALL RETIREES TO SUPPORT THE RETIREE SETTLEMENT AGREEMENT AND THE AMENDED PLAN. THE AD HOC TRADE COMMITTEE SUPPORTS THE AMENDED PLAN AND URGES ALL HOLDERS OF TRADE CLAIMS TO VOTE IN FAVOR OF THE AMENDED PLAN.

SOLUTIA BELIEVES THAT THE AMENDED PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS AND RETIREES. ALL CREDITORS ENTITLED TO VOTE ON THE AMENDED PLAN ARE URGED TO VOTE IN FAVOR OF THE AMENDED PLAN AND ALL RETIREES ARE URGED TO SUPPORT THE RETIREE SETTLEMENT AGREEMENT (AS DEFINED BELOW).

THE CONFIRMATION AND EFFECTIVENESS OF THE AMENDED PLAN ARE SUBJECT TO OTHER MATERIAL CONDITIONS PRECEDENT, AS STATED IN ARTICLE VIII OF THIS DISCLOSURE STATEMENT. THERE IS NO ASSURANCE THAT THESE CONDITIONS WILL BE SATISFIED OR WAIVED.

THE EQUITY COMMITTEE DOES NOT BELIEVE THAT THE AMENDED PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS OR IN THE BEST INTEREST OF THE ESTATES.

29

APPROVAL OF THE AMENDED PLAN IS SUBJECT TO A HEARING ON THE REASONABLENESS OF THE MONSANTO SETTLEMENT AND THE RETIREE SETTLEMENT, WHICH ARE INCORPORATED INTO THE AMENDED PLAN. AN EVIDENTIARY HEARING ON THE REASONABLENESS OF THE SETTLEMENTS IS SCHEDULED TO COMMENCE ON SEPTEMBER 5, 2007. THE EQUITY COMMITTEE INTENDS TO OBJECT TO THE REASONABLENESS OF THE MONSANTO AND RETIREE SETTLEMENTS AT THAT HEARING. IF THE BANKRUPTCY COURT DETERMINES THAT THE SETTLEMENTS ARE NOT REASONABLE, THE AMENDED PLAN WILL NOT GO FORWARD AS PROPOSED BECAUSE IT WILL NOT BE CONFIRMABLE UNDER THE BANKRUPTCY CODE.

CREDITORS ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THIS ENTIRE DISCLOSURE STATEMENT, INCLUDING, WITHOUT LIMITATION, THE AMENDED PLAN, WHICH IS ANNEXED HERETO AS EXHIBIT A, AND THE MATTERS DESCRIBED IN ARTICLE XI OF THIS DISCLOSURE STATEMENT, ENTITLED "RISK FACTORS," PRIOR TO SUBMITTING BALLOTS TO VOTE ON THE AMENDED PLAN.

THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION

CONTAINED HEREIN OR AN ENDORSEMENT OF THE MERITS OF THE AMENDED PLAN BY THE BANKRUPTCY COURT.

SUMMARIES OF THE AMENDED PLAN AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE AMENDED PLAN AND THE EXHIBITS AND SCHEDULES ATTACHED TO THE AMENDED PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE OF THIS DISCLOSURE STATEMENT, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER SUCH DATE. EXCEPT AS OTHERWISE PROVIDED IN THE AMENDED PLAN OR IN ACCORDANCE WITH APPLICABLE LAW, SOLUTIA IS UNDER NO DUTY TO UPDATE OR SUPPLEMENT THIS DISCLOSURE STATEMENT.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED FOR PURPOSES OF SOLICITING ACCEPTANCES TO, AND CONFIRMATION OF, THE AMENDED PLAN AND MAY NOT BE RELIED ON FOR ANY OTHER PURPOSE. SOLUTIA BELIEVES THAT A SUMMARY OF CERTAIN PROVISIONS OF THE AMENDED PLAN AND CERTAIN OTHER DOCUMENTS AND FINANCIAL INFORMATION CONTAINED OR REFERENCED IN THIS DISCLOSURE STATEMENT ARE FAIR AND ACCURATE. THE SUMMARIES OF THE FINANCIAL INFORMATION AND THE DOCUMENTS ANNEXED TO THIS DISCLOSURE STATEMENT, INCLUDING, BUT NOT LIMITED TO, THE AMENDED PLAN, THE AMENDED PLAN DOCUMENTS AND THE RELATIONSHIP

30

AGREEMENT, OR INCORPORATED HEREIN BY REFERENCE, ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THOSE DOCUMENTS. IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE DISCLOSURE STATEMENT AND THE AMENDED PLAN, THE RELEVANT PROVISION OF THE AMENDED PLAN, AS IT RELATES TO SUCH INCONSISTENCY, SHALL GOVERN.

NO REPRESENTATIONS CONCERNING SOLUTIA OR THE VALUE OF SOLUTIA'S PROPERTY HAVE BEEN AUTHORIZED BY SOLUTIA OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS MADE TO OBTAIN ACCEPTANCE OF THE AMENDED PLAN, WHICH ARE OTHER THAN OR INCONSISTENT WITH THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND IN THE AMENDED PLAN, SHOULD NOT BE RELIED ON BY ANY CREDITOR ENTITLED TO VOTE ON THE AMENDED PLAN.

THE NEW COMMON STOCK AND THE RIGHTS DESCRIBED IN THIS DISCLOSURE STATEMENT WILL BE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY SIMILAR FEDERAL, STATE, LOCAL OR FOREIGN LAW, IN RELIANCE ON THE EXEMPTION SET FORTH IN SECTION 1145 OF THE BANKRUPTCY CODE OR OTHER APPLICABLE EXEMPTIONS UNDER THE FEDERAL SECURITIES LAWS, TO THE EXTENT SUCH EXEMPTION MAY APPLY, AND MAY NOT BE OFFERED OR SOLD EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY SIMILAR FEDERAL, STATE, LOCAL OR FOREIGN REGULATORY AGENCY, NOR HAS THE SEC OR ANY OTHER SUCH AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER PENDING, THREATENED OR POTENTIAL LITIGATION OR ACTIONS, THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND MAY NOT BE CONSTRUED AS AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER, BUT, RATHER, AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

SOLUTIA HAS SOUGHT TO ENSURE THE ACCURACY OF THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT, BUT THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT HAS NOT BEEN AND WILL NOT BE AUDITED OR REVIEWED BY SOLUTIA'S INDEPENDENT AUDITORS UNLESS EXPLICITLY PROVIDED OTHERWISE.

SOLUTIA MAKES STATEMENTS IN THIS DISCLOSURE STATEMENT THAT ARE CONSIDERED FORWARD-LOOKING STATEMENTS UNDER THE FEDERAL

31

SECURITIES LAWS. SOLUTIA CONSIDERS ALL STATEMENTS REGARDING ANTICIPATED OR FUTURE MATTERS, INCLUDING THE FOLLOWING, TO BE FORWARD-LOOKING STATEMENTS:

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- o any future effects as a result of the pendency of the Chapter 11 Cases;
- o results of litigation;

- o Solutia's expected future financial position, liquidity, results of operations, profitability and cash flows;;
  - o dividends
  - o financing plans;
  - o competitive position;
  - o business strategy;
  - o budgets;
  - o projected cost reductions;
  - o projected and estimated liability costs, including pension, retiree, tort and environmental costs and costs of environmental remediation;
  - o plans and objectives of management for future operations;
  - o contractual obligations;
  - o off-balance sheet arrangements;
  - o growth opportunities for existing products and services;
  - o price increases;
  - o general market conditions;
  - o benefits from new technology; and
  - o effect of changes in accounting due to recently issued accounting standards.
- </TABLE>

THESE STATEMENTS ARE NOT GUARANTEES OF SOLUTIA'S FUTURE PERFORMANCE. THESE STATEMENTS REPRESENT SOLUTIA'S ESTIMATES AND ASSUMPTIONS ONLY AS OF THE DATE SUCH STATEMENTS WERE MADE. THERE ARE RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE DEBTORS' ACTUAL PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM THOSE THEY MAY PROJECT AND SOLUTIA UNDERTAKES NO OBLIGATION TO UPDATE ANY SUCH STATEMENT. THESE RISKS, UNCERTAINTIES AND FACTORS INCLUDE:

32

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- o Solutia's ability to demonstrate that the Monsanto Settlement and Retiree Settlement are reasonable pursuant to Bankruptcy Rule 9019 and other applicable bankruptcy law;
  - o Solutia's ability to develop, confirm and consummate the Amended Plan;
  - o Solutia's ability to reduce its overall financial leverage;
  - o the potential adverse impact of the Chapter 11 Cases on Solutia's operations, management and employees, and the risks associated with operating businesses in the Chapter 11 Cases;
  - o the applicable Debtors' ability to comply with the terms of the DIP Credit Facility;
  - o customer response to the Chapter 11 Cases;
  - o general economic, business and market conditions;
  - o currency fluctuations;
  - o interest rate fluctuations;
  - o price increases or shortages of raw materials and energy;
  - o disruption of operations;
- </TABLE>
- <C>
- o exposure to product liability and other litigation, environmental remediation obligations and other environmental liabilities;
  - o lower prices for Solutia's products or a decline in Solutia's market share due to competition or price pressure by customers;
  - o ability to implement cost reduction initiatives in a timely manner;
  - o ability to divest existing businesses;
  - o efficacy of new technology and facilities;
  - o limited access to capital resources;
  - o changes in domestic and foreign laws and regulations;
  - o general market conditions;
  - o geopolitical instability;
  - o changes in pension and other post-retirement benefit plan assumptions; and
  - o the enactment of legislation increasing funding obligations to the Solutia Pension Plan.

#### IV.

##### EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES

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##### A. OVERVIEW OF SOLUTIA'S BUSINESS

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Solutia, together with its wholly owned debtor subsidiaries and

wholly owned non-debtor foreign subsidiaries, is a global organization that manufactures and sells chemical-based materials for industrial and consumer use. Solutia is a world leader in a number of markets. Solutia is currently organized in five business units:

- o Solutia's integrated Nylon business produces fibers, plastics and high-performance polymers for a variety of applications from carpet to automotive parts. Solutia's Nylon business is one of the world's few fully integrated producers of Nylon 6,6.

33

- o Solutia's Saflex business manufactures PVB, plastic interlayers that are used in laminated safety glass in automotive and architectural applications. Solutia is a leader in the laminated glass industry and is the world's largest manufacturer of PVB.
- o Solutia's recently acquired Flexsys business is a leading producer of chemicals for the rubber industry.
- o Solutia's CPFilms business is the world leader in custom-coated window films for aftermarket automotive and architectural applications, as well as other precision coating applications.
- o Solutia's Specialty Products business is comprised of a group of specialty industrial chemical products, including heat transfer fluids and aviation hydraulic fluids, used in a variety of industrial applications and a plastic products business focusing on entrance matting and automotive spray suppression flaps. Solutia is a world leader in many of the markets for these niche businesses.

B. SOLUTIA'S CORPORATE HISTORY

1. THE CREATION OF SOLUTIA

Solutia was created by Pharmacia Corporation ("Pharmacia"), which was then known as the Monsanto Company ("Old Monsanto"). Old Monsanto was originally founded in 1901 as a chemicals company. Over the course of the twentieth century, Old Monsanto grew into a highly successful global enterprise that manufactured not only chemicals but also agricultural products, pharmaceuticals, and food ingredients. By 1996, Old Monsanto's net annual sales had grown to approximately \$9.6 billion, with chemicals representing less than one-third of its revenues.

2. THE SPINOFF

The core businesses of what are now Solutia and the new Monsanto Company were, prior to 1997, all owned and operated by Old Monsanto. In 1997, Old Monsanto made the strategic decision to exit the chemicals business upon which it had been founded and focus on building a life sciences-based business around its agricultural, pharmaceutical and food ingredient products. In April 1997, Old Monsanto formed Solutia as a wholly owned subsidiary to hold and operate substantially all assets, and assume substantially all of the liabilities, of Old Monsanto's historical chemicals business, including, among others, certain retiree benefits, environmental remediation and pension obligations, as well as contingent tort liability, related to its historical chemicals business.

The transfer of the chemicals business assets and liabilities from Old Monsanto to Solutia was accomplished pursuant to a Distribution Agreement, dated September 1, 1997, between Solutia and Old Monsanto (as amended on July 1, 2002, the "Distribution Agreement").(41)

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(41) Article VIII of the Disclosure Statement contains a more detailed discussion of the terms of the Distribution Agreement and its impact on the relationship among Pharmacia, Monsanto and Solutia.

34

Pursuant to the Distribution Agreement, Solutia was contractually required to assume and indemnify Old Monsanto from and against a wide variety of

liabilities. In accordance with the Distribution Agreement, Old Monsanto, through a spinoff transaction, distributed its shares of common stock in Solutia to its shareholders and Solutia became a publicly held company with operations independent of Old Monsanto.

Pursuant to the Distribution Agreement, Solutia and Old Monsanto entered into a series of contracts to effectuate the transactions necessary to implement the Spinoff (collectively, the "Spinoff Agreements"). The majority of the Spinoff Agreements facilitated Solutia's assumption of liabilities of the chemicals businesses, caused the assignment and transfer of various assets and property from Old Monsanto to Solutia to enable Solutia to operate the chemicals businesses and defined the relationship which was to exist between Solutia and Old Monsanto going forward. Additional Spinoff Agreements were entered into to effectuate Solutia's employment of certain of Old Monsanto's employees and the transfer of their respective benefit plans and related liabilities to Solutia, as well as to allocate tax liability associated with the transferred chemical assets. There were also a number of Spinoff Agreements entered into to govern the leasing of, and guest/operator relationship at, certain facilities as well as the supply of services and arrangements for the provision of utilities at such facilities.

3. THE MONSANTO SPINOFF - OLD MONSANTO BECOMES PHARMACIA  
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On December 19, 1999, Old Monsanto was acquired by Pharmacia & Upjohn, Inc. The acquisition was effected by a merger of Old Monsanto with Pharmacia & Upjohn, Inc. whereby (a) Pharmacia & Upjohn, Inc. became a wholly owned subsidiary of Old Monsanto, (b) on February 9, 2000, Old Monsanto formed a new subsidiary, Monsanto Ag Company and (c) on March 31, 2000, Old Monsanto changed its name to "Pharmacia Corporation," and Monsanto Ag Company changed its name to "Monsanto Company." The latter corporation is the entity known today as Monsanto Company and sometimes referred to herein as "Monsanto" or "New Monsanto."

On September 1, 2000, Pharmacia and the newly formed Monsanto Company entered into a separation agreement (as amended, the "Separation Agreement") whereby Pharmacia's agricultural business, including its agricultural chemicals manufacturing business, was transferred to Monsanto. Pursuant to the Separation Agreement, Monsanto agreed to assume and indemnify Pharmacia not only for any liabilities related to Pharmacia's agricultural business, but also for the liabilities assumed by Solutia in the Spinoff pursuant to the Distribution Agreement, if and to the extent that Solutia failed to pay, perform or discharge them. Certain of the Spinoff Agreements, including the Commercial and Operating Agreements, were assigned by Pharmacia to Monsanto in connection with the Separation Agreement.

In October 2000, Monsanto made an initial public offering of its common stock in which it sold approximately 15% of its common stock to the public. On August 13, 2002, Pharmacia spun off to its shareholders its remaining interest in Monsanto such that Monsanto became an independent, publicly held company.

On or about July 1, 2002, prior to the completion of the separation of Monsanto and Pharmacia, Monsanto, Pharmacia and Solutia entered into an amendment to the Distribution

Agreement (the "Amendment"). The Amendment was entered into to effectuate the transfer of certain assets and liabilities from Pharmacia to Monsanto pursuant to the Separation Agreement and to preserve the relationship among Solutia, Monsanto and Pharmacia as nearly as possible in accordance with the original intent of the Distribution Agreement. In addition, in exchange for certain undertakings by Monsanto and Pharmacia, including the agreement by Pharmacia to post an appeal bond, if necessary, in connection with certain PCB litigation relating to Solutia's Anniston, Alabama plant, Solutia agreed to indemnify Monsanto for the liabilities assumed by Solutia in the Spinoff, to the extent Monsanto was required to satisfy them.

The contractual relationship among Solutia, Pharmacia and Monsanto with respect to the liabilities arising out of the historical chemicals business of Old Monsanto pursuant to the Distribution Agreement and Separation Agreement resulted in a "triangle" of indemnities which is described in greater detail in Section IV.C of this Disclosure Statement.

4. PFIZER'S ACQUISITION OF PHARMACIA  
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In April 2003, Pharmacia was acquired by Pfizer Inc. ("Pfizer"). The

acquisition was effectuated by a merger of Pharmacia and a wholly owned subsidiary of Pfizer, which resulted in Pharmacia becoming a wholly owned subsidiary of Pfizer.

C. THE ASSUMPTION OF LEGACY LIABILITIES  
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Pursuant to the Distribution Agreement, Solutia agreed to indemnify Old Monsanto from and against liabilities associated with the future ownership and operation of the businesses that Old Monsanto spun-off as Solutia. Solutia was also required to indemnify Old Monsanto for a wide variety of liabilities related to the ownership and operation of the historical chemicals business prior to the Spinoff (the "Legacy Liabilities"). The Legacy Liabilities relate to the chemicals business that Solutia inherited in the Spinoff and include certain liabilities related to many products that were never produced by Solutia. The most significant of the Legacy Liabilities relate to: (a) healthcare, life and disability insurance costs for certain of Old Monsanto's employees who had previously retired from Old Monsanto ("Other Post Employment Benefit Liabilities" or "Legacy OPEB Liabilities"); (b) environmental remediation, compliance and litigation liabilities related to sites owned or operated by Old Monsanto prior to the Spinoff (the "Legacy Environmental Liabilities"); (c) litigation liabilities related to chemical products formerly manufactured, released or used by Old Monsanto in its operations and claims related to asbestos, general liability and other disputes (the "Legacy Tort Liabilities"); and (d) liability for pension benefits for certain of Old Monsanto's employees who retired from Old Monsanto prior to the Spinoff (the "Legacy Pension Liabilities"). These Legacy Liabilities are more fully described below.

1. LEGACY OPEB LIABILITIES  
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The Legacy OPEB Liabilities include medical and life insurance benefits for employees who retired from Old Monsanto prior to the Spinoff and disability benefits for individuals who became disabled while working for Old Monsanto prior to the Spinoff. Many of these retired employees never worked for Solutia. As of the Petition Date, Solutia was providing such

benefits to approximately 20,000 pre-Spinoff retirees, disabled individuals and their dependent and surviving spouses at an annual cost of approximately \$55 million to \$60 million per year.

In June 1998, Solutia attempted to modify and clarify the benefit payment obligations assigned to it by Old Monsanto for subscribing individuals receiving retiree medical benefits from Solutia. Solutia filed a declaratory judgment action in the United States District Court for the Northern District of Florida, Pensacola Division. In this action, styled Solutia Inc. v. George Forsberg et al. (the "Forsberg Litigation"), Solutia asserted that these medical benefits were not "vested" under ERISA. In addition, certain Old Monsanto retirees filed three lawsuits against Pharmacia in the United States District Court for the Eastern District of Missouri, Eastern Division. Those lawsuits, styled Larry Baird v. Monsanto Company (the "Baird Litigation"), were consolidated for all purposes with the Forsberg Litigation. In addition to Solutia and the retirees, Monsanto and Pharmacia were added as parties to the Forsberg Litigation.

On November 1, 2001, a settlement of the Forsberg Litigation was approved by the United States District Court for the Northern District of Florida (the "Forsberg Settlement"). The Forsberg Settlement divided union and non-union retirees into eight groups, each entitled to specific benefits under the Solutia Inc. Medical Benefits Plan for Retirees (2002) (the "Forsberg Plan"). In addition to their agreement to participate in the Forsberg Plan, the Forsberg Settlement released all claims by the named plaintiffs, and the classes of retirees that they represented, against Solutia, Pharmacia and Monsanto, and any and all claims for post employment benefits that could have been asserted in the Forsberg Litigation. The retirees' release of Pharmacia and Monsanto provided that the retirees could refile and pursue their claims for retiree medical benefits asserted in the Forsberg Litigation against Pharmacia and Monsanto if Solutia failed to perform its obligations under the Forsberg Plan and was declared to be insolvent. The Forsberg Settlement provides, however, that if the retirees were successful in any such refiled litigation, the measure of damages awarded to such prevailing retiree plaintiffs may not exceed an amount equal to the level and duration of benefits to which such retirees would have been entitled to receive from Solutia under the Forsberg Plan.

The Monsanto Settlement and Retiree Settlement provide Monsanto and Pharmacia with substantial protection from the Retirees. Without the Retiree

Settlement embodied in the Amended Plan, Monsanto and Pharmacia face the risk, under the terms of the Forsberg Settlement, that if Solutia is, in fact, insolvent, and fails to make the required payments, that the Retirees could refile the Forsberg and Baird Litigations against Pharmacia and Monsanto.

See Section V.C.1.(g) (ii) of this Disclosure Statement which outlines the actions taken by Solutia during the Chapter 11 Cases regarding the Forsberg Settlement and Section VIII.B of this Disclosure Statement for a discussion of the treatment of Legacy OPEB Liabilities under the Retiree Settlement and the Amended Plan.

## 2. LEGACY ENVIRONMENTAL LIABILITIES

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The Legacy Environmental Liabilities for which Solutia was responsible under the Distribution Agreement include the costs of environmental remediation, compliance and litigation obligations arising from activities conducted by Old Monsanto's chemicals business both at sites owned or operated by Solutia as of the Petition Date and others not owned or

37

operated by Solutia as of the Petition Date, including clean-up obligations for off-site migration of contaminants. Prior to the Petition Date, Solutia had spent between \$20 million and \$40 million annually with respect to the Legacy Environmental Liabilities. As of the Petition Date, Solutia projected that costs related to the Legacy Environmental Liabilities would increase to between \$35 million and \$45 million annually for 2004 through 2006.

See Section V.C.1.(i) of this Disclosure Statement which describes the actions taken by Solutia regarding the management of Legacy Environmental Liabilities during the Chapter 11 Cases and Section VIII.B of this Disclosure Statement for a discussion of the treatment of Legacy Environmental Liabilities under the Relationship Agreement and the Amended Plan.

## 3. LEGACY TORT LIABILITIES

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The Legacy Tort Liabilities include the costs of toxic tort lawsuits relating to chemical exposure resulting from the conduct of Old Monsanto's chemicals business, including expenses, settlements and judgments arising from the litigation. The Legacy Tort Liabilities included liabilities related to PCBs, most significantly the Tort Claims arising out of the manufacture of PCBs in Anniston, Alabama prior to the Spinoff. Solutia has never manufactured or sold PCBs. Although the Tort Claims related to PCBs at Anniston were settled prior to the Petition Date, as of such date, Solutia estimated that costs related to the Legacy Tort Liabilities would be approximately \$20 million per year for the foreseeable future. See Section VIII.B.2 and 3 of this Disclosure Statement regarding the treatment of Legacy Tort Liabilities under the Relationship Agreement and the Amended Plan.

## 4. LEGACY PENSION LIABILITIES

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Solutia's qualified U.S. pension plan includes pension benefits for employees of Old Monsanto who retired from Old Monsanto prior to the Spinoff and likely never worked for Solutia. While the valuation of the pension plan assets contributed to Solutia by Old Monsanto at the time of the Spinoff was equal to the projected pension liabilities assumed by Solutia, the actual returns on such pension assets fell short of the projected returns, in part due to the generally poor performance of the stock market in the early 2000s. This shortfall, coupled with a sharp drop in the interest rate required to be used in calculating the pension plan's liabilities, resulted in Solutia's qualified pension plan becoming underfunded. As a result, as of the Petition Date, Solutia estimated that it would need to make quarterly contributions to the qualified pension plan in 2005 totaling approximately \$150 million in the aggregate and significant contributions thereafter. See Section V.C.1.(g) of this Disclosure Statement which outlines the actions taken by Solutia during the Chapter 11 Cases regarding the Legacy Pension Liabilities.

## 5. LEGACY LIABILITY ALLOCATION

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Through the execution of the Distribution Agreement and the Separation Agreement and the consummation of the Spinoff and the spinoff of Monsanto, Pharmacia effectuated an allocation of its historic liabilities among itself, Solutia and Monsanto, with the ultimate contractual responsibility for the Legacy Liabilities allocated to Solutia. This contractual allocation, as it existed immediately prior to the commencement of the Chapter 11 Cases, can be summarized as follows:



- o Pharmacia: Pharmacia, as the original corporate entity that conducted -----  
the operations giving rise to the Legacy Liabilities, remains responsible for the Legacy Liabilities by operation of law. Pharmacia is contractually indemnified for these liabilities by both Solutia and, to the extent that Solutia fails to pay, perform or discharge such liabilities, Monsanto.
- o Solutia: Solutia is contractually responsible for the Legacy -----  
Liabilities and must indemnify (a) Pharmacia under the Distribution Agreement and (b) Monsanto under the 2002 amendment to the Distribution Agreement, with respect to losses incurred by such parties in connection with the Legacy Liabilities.
- o Monsanto: Monsanto is contractually obligated to indemnify Pharmacia -----  
under the Separation Agreement for the Legacy Liabilities to the extent that Solutia fails to pay, perform or discharge such liabilities.

D. EVENTS LEADING UP TO BANKRUPTCY  
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1. THE INITIAL PERIOD FOLLOWING THE SPINOFF  
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For the first few years after the Spinoff, from 1997 through 1999, Solutia was a profitable business. In 1997, its initial year of existence, Solutia had net income of \$192 million on net sales of \$3.0 billion. Net income was \$249 million and \$206 million, respectively, in 1998 and 1999 on net sales of approximately \$2.8 billion in each year. As a result of these strong earnings, Solutia began an expansion and acquisition program to grow and expand its businesses. Capital expenditures increased from \$165 million and \$158 million in 1997 and 1998, respectively, to \$257 million in 1999.

Pursuant to this growth strategy, during 1997, Solutia opened a new industrial nylon fiber production facility at its plant in Greenwood, South Carolina at a cost of approximately \$55 million. At this time, Solutia also finalized plans for the "AN7 Project" which was designed to double the production capacity at its Chocolate Bayou plant for acrylonitrile and hydrogen cyanide, two major feedstocks used to make nylon and acrylic fiber, as well as Roundup(TM) and Alimet(TM), which was completed in 2000 at a cost of approximately \$320 million.

In 1998, Solutia announced plans to build a new phenol to ketone production facility which was completed in 2001 at a cost of approximately \$35 million. During 1999, Solutia began repositioning its portfolio of businesses with the goal of achieving \$5 billion in net sales within three to four years. This growth program included internal initiatives such as (a) the full global commercialization of Saflex IIIG(TM), Solutia's third-generation polyvinyl butyral product, (b) the continued commercialization of KeepSafe(R), Saflex Inside(TM) and KeepSafe Maximum(TM) for residential security and hurricane protection windows, (c) the launch of a Saflex(R) product for Enhanced Protective Glass in side and rear automotive windows and (d) the introduction of Ascend(TM) nylon plastics and polymers, among other programs. As part of Solutia's external growth programs, Solutia acquired CPFilms, a leading manufacturer and marketer of window films and other high-technology films products for automotive, architectural and other applications, in May 1999 for approximately \$200 million. In December 1999, Solutia purchased Vianova Resins, a leading European producer of resins and additives for coatings and

technical applications, for approximately \$640 million. This acquisition became the foundation for Solutia's resins, additives and adhesives business (the "Resins & Additives Business").

In addition, starting in 1997, Solutia authorized a number of share repurchase programs. At the time the programs were initiated, Solutia had surplus cash available and management believed that Solutia stock was a good investment. Solutia believed that share repurchases were a more tax-efficient method than dividends for returning value to shareholders and also demonstrated confidence in Solutia's prospects and its pragmatic approach to delivering earnings-per-share growth. Between 1997 and 2000, Solutia

repurchased approximately 17.7 million shares of its common stock at a cost of approximately \$345 million pursuant to these repurchase programs.

2. BEGINNING OF THE ECONOMIC DOWNTURN  
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Beginning in late 1999 and into 2000, a general downturn in the economy and increasing raw materials and energy prices began to negatively impact Solutia's financial results. Raw material and energy costs, particularly petroleum products and natural gas, increased, with oil prices increasing to over \$30 a barrel in 2000 from lows of approximately \$10 a barrel in 1998 and early 1999. This resulted in Solutia's raw materials and energy costs increasing from \$994 million and \$984 million in 1998 and 1999, respectively, to \$1.3 billion in 2000. At the time of these raw materials cost increases, it became apparent that Solutia's strategies for addressing the risk of fluctuating raw material prices were not adequate for the existing raw materials market.

In addition, investment in capacity by Solutia and other manufacturers in the late 1990s resulted in excess manufacturing capacity and low utilization in a number of the markets in which Solutia participated. This excess capacity made it difficult for Solutia to raise prices sufficiently to offset increased raw materials costs. Nylon carpet selling prices were adversely impacted in 1999 by continuing consolidation in the carpet mill industry and the resulting increase in the carpet mills' buying leverage. In 1999, acrylic fiber demand decreased as a result of weak economic conditions in Asia and a strengthening dollar, resulting in lower sales volumes and, just as this demand began to improve in late 2000, Solutia began experiencing decreased sales volumes in carpet fiber, which adversely impacted the Nylon business's sales. As a result of these factors, Solutia's net income decreased from \$206 million in 1999 to \$49 million in 2000, even though net sales increased from \$2.8 billion in 1999 to \$3.2 billion in 2000.

To partially alleviate the impact of this economic downturn on Solutia, in December 2000, Solutia's management initiated a number of cost reduction initiatives that were expected to achieve \$100 million in annual savings for 2001 and 2002. These initiatives included a reduction in force, streamlining operations primarily within the Nylon business and implementing enterprise-wide systems as a means of improving work design processes and gaining efficiencies. Along with these cost reduction efforts, in August 2000, Solutia completed the sale of its polymer modifiers business and related manufacturing facilities to Ferro Corporation for approximately \$130 million in order to raise cash and allow Solutia to focus on its core businesses.

During the time that Solutia implemented its cost reduction strategy as a means of alleviating the impact of the economic downturn on the Company, it continued making capital

40

expenditures and pursuing external growth through acquisitions in line with the growth plan initiated in 1999. In early 2000, Solutia purchased CarboGen Holdings AG, a leading process research and development firm, and AMCIS AG, which developed production processes and manufactured active ingredients for clinical trials and small-volume commercial drugs for the global pharmaceutical industry, which together would become Solutia's pharmaceutical services business. In addition, in 2000 Solutia entered into the Astaris joint venture with FMC Corporation (described in further detail in Section V.C.2(f)(ii) of this Disclosure Statement) to manufacture and market phosphorus chemicals. Finally, in early 2000, Solutia Europe S.A./N.V. ("SESA") issued the Euro Notes (as defined herein) in part to refinance commercial paper used to finance the pharmaceutical services and Resins & Additives Business acquisitions.

3. CONTINUED DECLINE IN RESULTS, BURDEN OF THE LEGACY  
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LIABILITIES AND DIFFICULTIES OBTAINING FAVORABLE FINANCING  
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Despite its efforts to cut costs, in 2001, Solutia's results continued to be significantly impacted by high, and increasingly more volatile, raw materials and energy costs. Overall, raw materials and energy costs in 2001 remained at the high levels experienced in 2000. Solutia began to experience decreased demand for a number of its products, along with lower selling prices, which resulted in a decrease in net sales from \$3.2 billion in 2000 to \$2.8 billion in 2001. For the first time since its inception in 1997, Solutia reported a net loss of \$59 million in 2001.

At this time Solutia began to feel more acutely the burden of the Legacy Liabilities on its ability to operate its businesses. The Legacy

Liabilities imposed substantial continuing financial burdens on Solutia that made the first cyclical downturn since the Spinoff more difficult to manage. In addition, the generally weak performance of the stock market in the early 2000s caused returns on the assets contributed to Solutia's qualified pension plan by Pharmacia to fall short of projections. As a result of this shortfall, combined with a sharp drop in the interest rate required to be used in calculating the pension plan's liabilities, Solutia determined that the pension plan was underfunded and that Solutia would be required to make significant contributions to fund the plan going forward.

Between the Spinoff and the Petition Date, the Legacy Liabilities required average payments by Solutia in excess of \$100 million per year. During the early years after the Spinoff, Solutia's positive cash-generating capability allowed it to satisfy the Legacy Liabilities and its continuing operations without the need for additional financing. However, with the ongoing economic downturn, it became more difficult for Solutia to bear the burden of the Legacy Liabilities from its operating cash flow.

In 2001, Solutia's Astaris joint venture placed an additional drain on Solutia's operating cash flow. Astaris' business suffered at this time as a result of the failure of certain technology contributed to Astaris by FMC Corporation, Solutia's joint venture partner in Astaris, as well as higher raw material costs and lower sales volumes resulting from the economic downturn and a weaker euro. Due to Astaris' deteriorating results, beginning in 2001, Solutia was contractually required to make additional contributions to the Astaris joint venture. These additional contributions totaled \$31 million in 2001 and \$160 million in the aggregate through the end of 2005.

41

In the face of declining results and the burdens of the Legacy Liabilities, in early 2001 Solutia began having difficulty meeting the financial covenants included in its \$800 million revolving credit facility due August 2002 (the "\$800 million facility") and under its \$250 million multi-currency revolving credit facility (the "\$250 million facility"). As a result, during 2001, Solutia terminated the \$250 million facility which it had not drawn on, and obtained a number of waivers and amendments to the \$800 million facility that modified the financial covenants contained therein and collateralized the borrowings thereunder.

Solutia planned to issue debt equity convertible bonds (the "DECS Offering") during the third quarter of 2001 and use the proceeds therefrom to repay the \$800 million facility and \$150 million of its 6.5% notes due October 2002 (the "2002 Notes"). Solutia decided to postpone the offering, however, due to a downgrade of Solutia's commercial paper and unsecured debt ratings and the impact of the terrorist attacks of September 11, 2001 on the financial markets and the economy as a whole. These ratings downgrades also resulted in Solutia being unable to issue commercial paper, thereby forcing Solutia to refinance outstanding commercial paper under the \$800 million facility at relatively higher rates.

4. THE PERIOD PRIOR TO FILING BANKRUPTCY  
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During 2002, Solutia continued to face a deteriorating economy, overcapacity in the industry and the ongoing financial burden of the Legacy Liabilities. In early 2002, Solutia began to be significantly impacted by toxic tort litigation relating to the discharge of polychlorinated biphenyls ("PCBs") from the Anniston, Alabama plant site during Pharmacia's historical operation of that site. Responsibility for such litigation was one of the Legacy Tort Liabilities that was assumed by Solutia in the Spinoff.

On January 1, 2002, simultaneous articles were published in The Washington Post, The St. Louis Post-Dispatch and The Birmingham, Alabama Daily News regarding Solutia's potential liability for the damage caused by the alleged discharge of PCBs from Solutia's Anniston, Alabama plant site. Solutia believes the stories were strategically placed by, and based on information provided by, an environmental group with ties to various plaintiffs' attorney groups, immediately prior to the trial of *Abernathy v. Monsanto* ("Abernathy") case in state court and the commencement of new actions in federal court regarding the Anniston PCBs. At the time of the articles, several consolidated litigation proceedings (the "Anniston PCB Cases") were in progress against Pharmacia, Monsanto and/or Solutia alleging claims for trespass, negligence, nuisance, outrage and other torts relating to alleged PCB contamination at the Anniston plant. Plaintiffs were seeking damages and injunctive relief. These cases (including *Tolbert v. Monsanto* ("Tolbert") case in federal court and the *Abernathy* case in state court) are described in further detail in Exhibit I to this Disclosure Statement. Historically, Old Monsanto had been successful in managing liability related to PCB litigation based on personal injury from exposure to products containing PCBs. However, the Anniston PCB Cases were

based on injuries resulting from discharges of PCBs from the Anniston plant. Notably, all of the underlying facts giving rise to these causes of action were in place well before the Spinoff. Solutia had no role in producing PCBs.

42

The Anniston PCB Cases, and the attention brought to the cases by the various news articles, raised concerns in the financial markets regarding Solutia's continued ability to satisfy potential judgments in the litigation and resulted in a further downgrade of Solutia's debt ratings, for the first time dropping the ratings below investment grade. Furthermore, the publicity resulted in a rapid decline in Solutia's stock price from \$14.02 per share on December 31, 2001, to \$9 per share on January 3, 2002. By mid-February 2002, Solutia's stock price was fluctuating between \$8 and \$9 per share. The concerns raised in the various media reports regarding Anniston were realized when, in February of 2002, a verdict was rendered on the question of liability against Solutia and Monsanto in favor of the Abernathy plaintiffs. After the Abernathy judgment, Solutia's stock price dropped below \$6 per share. This rapid decline in Solutia's stock price, coupled with the loss of Solutia's investment grade rating, resulted in Solutia abandoning its plan to pursue the DECS Offering. By the end of 2002, Solutia's stock price had declined even further and closed on December 31, 2002 at \$3.63 per share.

With the DECS Offering no longer a possible financing alternative, obtaining new financing to fund its operations and to refinance the \$800 million facility and the 2002 Notes, which were scheduled to mature in August and October of 2002, respectively, became more difficult. With declining results, a slow economy and a lowered credit rating, along with the uncertainty relating to the Legacy Liabilities and the Anniston PCB Cases, the terms of the debt Solutia was able to obtain to replace the \$800 million facility and the 2002 Notes were much less favorable than the terms of prior financings.

In July 2002, the \$800 million facility was amended to reduce the facility to \$600 million (hereinafter, the "\$600 million facility"), comprised of a \$300 million term loan and a \$300 million revolving credit facility. The \$600 million facility was secured by certain assets of Solutia. Solutia's grant of a security interest in certain assets to the lenders under the \$600 million credit facility, as well as the grant of a security interest to the lenders under Astaris' credit facility, resulted in other outstanding indebtedness of Solutia becoming secured pursuant to "equal and ratable" provisions in the instruments governing that indebtedness, which provided that it be secured on an equal and ratable basis with Solutia's other secured indebtedness. This indebtedness included Solutia's \$150 million 6.72% unsecured debentures due October 15, 2037 (the "2037 Notes") and \$300 million 7.375% unsecured debentures due October 15, 2027 (the "2027 Notes"), all issued under the Prepetition Indenture, and the 6.25% Notes due February 14, 2005 ((euro)200 million) issued by nondebtor Solutia Europe S.A./N.V. under a Fiscal Agency Agreement dated February 11, 2000 (as amended, the "Euro Notes").

Also in July 2002, Solutia completed a private placement of \$223 million (issued with an original issue discount) of 11.25% senior secured 7-year notes (the "Senior Secured Notes"). Part of the proceeds from the Senior Secured Notes was used to repay the outstanding principal and interest under the 2002 Notes. Solutia obtained a number of additional amendments to the \$600 million facility in 2002 to modify certain financial covenants and allow the sale of the Resins & Additives Business.

In December 2002, Solutia entered into an agreement to sell its Resins & Additives Business to UCB S.A. ("UCB") and the sale was completed on January 31, 2003. Net proceeds

43

to Solutia of approximately \$474 million from the sale of the Resins & Additives Business were used to partially pay down indebtedness under the \$600 million facility.

Solutia's inability to access the financial markets on favorable terms continued throughout 2002 and into 2003. Efforts to raise additional financing were further impacted by a "60 Minutes" segment in late 2002 highlighting environmental remediation concerns at the Anniston plant and the adverse impact such remediation cost could have on Solutia.

5. PREPETITION ATTEMPTS TO RESTRUCTURE THE BUSINESS

Faced with the challenges presented by the Legacy Liabilities, the continuing economic downturn, high raw materials and energy costs and unfavorable debt terms, Solutia took several actions in an attempt to improve its financial condition and mitigate the financial burden imposed by the Legacy Liabilities. In addition to continuing to proactively reduce costs and headcount, manage discretionary spending, pass along cost increases when possible, and implement operational efficiencies, Solutia also sought a reallocation of the Legacy Liabilities among Solutia, Pharmacia and Monsanto, refinanced debt through the Bank Credit Agreement (as hereinafter defined), settled (with the assistance of Monsanto and Pharmacia) the Anniston PCB Cases and restructured the Euro Notes. Each of these actions is discussed in more detail below.

(a) Anniston PCB Cases Settlement

During 2003, Solutia continued to defend the Anniston PCB Cases as it was contractually required to do under the Distribution Agreement. Verdicts with respect to damages in a number of the Anniston PCB Cases, which involved over 20,000 plaintiffs, began issuing in March, 2003. The verdicts reflected that the jury in the Anniston PCB Cases was using a formula in determining the amounts of damages which was based on various factors relating to the individual plaintiffs. If the verdicts continued to follow this formula, Solutia estimated that its total liability with respect to the Anniston PCB Cases could reach in excess of \$3 billion.

Based on the expected amount of liability with respect to the Anniston PCB Cases, in May 2003 the federal judge overseeing the Tolbert case facilitated mediation among the plaintiffs in all of the Anniston PCB Cases and Solutia. At the same time, Solutia began negotiating with Pharmacia and Monsanto on a reallocation of the liability relating to the Anniston PCB Cases, focusing on the contributions Solutia would require from Pharmacia and/or Monsanto in order to avoid bankruptcy. Initially, the Tolbert mediation was unsuccessful and, with a trial date in the Tolbert case approaching, Solutia's preparation for a potential Chapter 11 filing intensified.

In August 2003, Solutia and the plaintiffs in the Anniston PCB Cases entered into a settlement agreement (the "Anniston Global Settlement Agreement") that provided for cash payments by the defendants of \$600 million, as well as certain community health initiatives for low income residents in the areas affected by the alleged PCB contamination. Solutia entered into a separate agreement with Pharmacia and Monsanto pursuant to which Solutia agreed, among other things, to pay \$50 million of the \$600 million cash settlement, payable in ten equal annual installments, without interest, beginning in August 2004. Pursuant to its indemnification obligations to Pharmacia under the Separation Agreement, Monsanto made \$550 million in cash

44

payments under the Anniston Global Settlement Agreement, a portion of which was funded through insurance, in exchange for Solutia's commitment to deliver to Monsanto a specified amount of warrants to purchase shares of Solutia's common stock. As its contribution to the Anniston Global Settlement Agreement, Pharmacia released Solutia and its affiliates from certain indemnification obligations, agreed to make certain benefits available to the plaintiffs in the Anniston PCB Cases and agreed to provide the community health initiatives described above. As a result of the entry into the Anniston Global Settlement Agreement, Solutia believed the possibility for an out-of-court restructuring increased and focused its energies on negotiations with Pharmacia and Monsanto for a reallocation of the Legacy Liabilities and on refinancing its debt, as described below.

(b) Anniston Partial Consent Decree

Related to the Anniston PCB Cases, on August 4, 2003, the District Court for the Northern District of Alabama entered a Partial Consent Decree (the "Anniston Consent Decree"), among the United States, Pharmacia and Solutia, with respect to the Anniston PCB Superfund Site in Anniston, Alabama. The Anniston Consent Decree requires Pharmacia and Solutia to finance and perform a remedial investigation and feasibility study ("RI/FS"), a non-time critical removal action on residential properties with PCB levels between 1 part per million ("PPM") and 10 ppm, and the continuation of the time critical removal action on residential properties with PCB levels in excess of 10 ppm. It also requires Pharmacia and Solutia to reimburse the United States for future response costs for the RI/FS and non-time critical removal work, as well as for oversight costs for the time critical removal work. Finally, it requires Pharmacia and Solutia to provide approximately \$3 million in funding for an education trust to benefit the citizens of West Anniston, and to provide funds for a technical assistance plan and a community advisory group.

(c) The Bank Credit Agreement

On October 8, 2003, Solutia and its Debtor subsidiary Solutia Business Enterprises Inc. (together, the "Borrowers") entered into a \$350 million bank credit facility (the "Bank Credit Agreement") with Ableco Finance LLC, a unit of Cerberus Capital Management, L.P., and other syndicate lenders, including Wells Fargo Foothill, Inc. and Congress Financial Corporation. The Bank Credit Agreement provided for a three-year, \$350 million revolving credit facility guaranteed by CPFilms, Monchem International, Inc., Monchem, Inc., Solutia Systems, Inc. and Solutia Investments, LLC (collectively, the "Guarantors"), and was secured by liens consisting of certain of the Borrowers' and Guarantors' working capital assets and plant, property and equipment of the Guarantors, but not all of the assets that secured the prior bank credit facility. The funds borrowed under the Bank Credit Agreement were used to refinance and retire Solutia's then-existing bank credit facility, for general working capital purposes and to pay fees and expenses related to the Bank Credit Agreement. The release of liens on assets not otherwise pledged as security for the Bank Credit Agreement in connection with the retirement of the prior bank credit facility, along with the release of assets securing a credit agreement related to Solutia's Astaris joint venture, resulted in the 2027/2037 Notes and the Euro Notes, representing collectively approximately \$680 million of debt on Solutia's balance sheet, reverting from secured to unsecured status. As discussed below, at the time of the refinancing, Solutia was still

45

negotiating with Monsanto and Pharmacia on a reallocation of the Legacy Liabilities to avoid a bankruptcy filing.

(d) Negotiations with Monsanto, Pharmacia and Noteholders

After entering into the settlement with Pharmacia and Monsanto with respect to reallocation of liability for the Anniston PCB Cases, Solutia continued discussions with Pharmacia and Monsanto on further reallocations of the Legacy Liabilities among Solutia, Pharmacia and Monsanto. In addition, on October 22, 2003, Solutia announced that it had initiated discussions with its noteholders regarding a restructuring of its debt and that three informal noteholder committees were formed to represent the holders of the Senior Secured Notes, the 2027/2037 Notes and the Euro Notes to begin negotiating a restructuring of Solutia's outstanding debt and other obligations.

Through negotiations with Monsanto, Solutia was able to procure a \$25 million advance from Monsanto for purchases under a supply agreement between Solutia and Monsanto, and Pharmacia agreed to release \$40 million of the security provided by Solutia to secure the appeal bond in the Penndot litigation, described in Exhibit I to this Disclosure Statement. These actions incrementally improved Solutia's liquidity position. However, in December 2003, discussions among Solutia, Pharmacia, Monsanto and the bondholders regarding a possible out-of-court restructuring and reallocation of the Legacy Liabilities ceased, and Solutia filed for Chapter 11 protection.

(e) Restructuring of the Euro Notes

Prior to the Petition Date, Solutia and SESA negotiated a comprehensive debt restructuring agreement with the requisite holders of the Euro Notes. The restructuring of the Euro Notes, among other things, extended the maturity of the Euro Notes to February 2008, increased the interest rate to 10% per annum, eliminated cross-default provisions related to Solutia and removed Solutia as a guarantor of the Euro Notes. On January 30, 2004, SESA successfully completed the second and final step of the restructuring of the Euro Notes. The restructuring, and particularly the elimination of Solutia as a guarantor, allowed SESA to continue normal, uninterrupted operations during the Chapter 11 Cases. As a result of this restructuring, neither Solutia nor any of its subsidiaries or affiliates was at any time in default under the terms of the Euro Notes as a result of Solutia's bankruptcy filing.

E. THE COMMENCEMENT OF THE CHAPTER 11 CASES  
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Despite its efforts to restructure its liabilities out-of-court, Solutia continued to be faced with a deteriorating liquidity position, exacerbated by tightening credit terms with key suppliers, and a lack of viable alternatives that would comprehensively address all of its obligations. Furthermore, the Legacy Liabilities remained a substantial drain on Solutia's liquidity, and negotiations with Pharmacia and Monsanto on the reallocation of the Legacy Liabilities had ceased. Finally, Solutia was facing upcoming maturities and interest payments on a number of its outstanding debt obligations and upcoming required contributions to its qualified pension plan. Therefore, Solutia made the decision to file for Chapter 11 protection.

On December 17, 2003, Solutia received waivers of the cross-default provisions under the Euro Notes which would allow Solutia to enter bankruptcy without forcing its non-Debtor subsidiaries into default. With this final step completed, Solutia commenced the Chapter 11 Cases on December 17, 2003 (the "Petition Date"). No foreign subsidiaries or affiliates of Solutia are Debtors in the Chapter 11 Cases or other bankruptcy or insolvency cases. Solutia has continued to operate its businesses and manage its properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code during the course of the Chapter 11 Cases.

The Equity Committee believes that the burden imposed on Solutia as a result of the Spinoff to pay the Legacy Liabilities was the primary reason for the filing of these Chapter 11 cases.

V.  
EVENTS DURING THE CHAPTER 11 CASES  
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As set forth in greater detail below, during the Chapter 11 Cases, Solutia has expended substantial effort to stabilize and improve its businesses. As part of these efforts, Solutia obtained various critical first-day orders to allow a smooth transition into bankruptcy, obtained favorable DIP financing, took actions to retain employees essential to a successful reorganization process, retained restructuring and other professionals and made significant management changes. In addition, Solutia developed and implemented a reorganization strategy to address the factors that led to its bankruptcy filing and to position Solutia to thrive upon emergence from bankruptcy.

A. STABILIZATION OF BUSINESS OPERATIONS  
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1. FIRST DAY RELIEF  
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Through a careful review of their business operations and cash requirements, Solutia entered bankruptcy with minimal impact on their day-to-day business operations. Integral to this transition were certain "first day" orders entered by the Bankruptcy Court that provided, among other things, flexibility in cash management, the ability to use cash collateral and the ability to pay certain prepetition vendors. In addition, Solutia engaged in an extensive communication program with vendors and customers assuring them that the transition into bankruptcy would be smooth and there would be no interruption in the purchase or supply of goods by Solutia.

On the Petition Date, Solutia sought and obtained several orders authorizing Solutia to pay various prepetition Claims. These orders were designed to ease the strain on Solutia's relationships with employees, vendors, customers and taxing authorities as a consequence of the commencement of the Chapter 11 Cases. Among other things, these orders authorized Solutia to: (a) honor customer prepayments for goods and services; (b) maintain business support programs; (c) make certain pass-through payments to customers received on the customers' behalf under certain arrangements; (d) honor customer and dealer Claims for prepetition refunds, rebates and adjustments, including adjustments to billing, product returns or exchanges, as well as promotional discounts and other credits; (e) maintain cash management systems; (f) use

prepetition bank accounts, checks, and other business forms; (g) pay outstanding prepetition trust fund taxes; and (h) pay certain prepetition employee wage and benefit claims.

Additionally, Solutia obtained authority to pay the prepetition Claims of certain vendors and service providers. Solutia's ability to pay the Claims of these vendors was critical to maintaining ongoing business operations due to the Solutia's inability to acquire essential replacement goods and services of the same quality, reliability, cost or availability from other sources.

Finally, the Bankruptcy Court entered an interim order, which was made final on January 20, 2004, permitting Solutia to use cash collateral in accordance with an agreed budget.

2. DIP FINANCING  
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A critical goal of Solutia's business stabilization efforts was to ensure that Solutia maintained sufficient liquidity to operate their businesses during the Chapter 11 Cases. Solutia addressed their initial liquidity needs by securing an interim debtor-in-possession financing package. On December 19, 2003, Solutia, Solutia Business Enterprises Inc. and each of Solutia's other Debtor subsidiaries entered into a Finance Agreement with Ableco Finance LLC, Wells Fargo Foothill, Inc., Congress Financial Corporation and the lenders from time to time party thereto (the "Interim DIP Facility"). The Interim DIP Facility provided up to \$500 million in debtor-in-possession financing, which was secured by substantially all of Solutia's assets and from which Solutia made an initial borrowing of \$75 million.

After an orderly transition into bankruptcy that was facilitated by the procurement of the Interim DIP Facility and the other stabilization activities described above, Solutia solicited and received expressions of interest in providing final debtor-in-possession financing from a number of financial institutions. Competition among financial institutions allowed Solutia to obtain a final debtor-in-possession financing package with substantially better terms than those of the Interim DIP Facility. On January 16, 2004, pursuant to authorization from the Bankruptcy Court, Solutia entered into a \$525 million Financing Agreement among Solutia and Solutia Business Enterprises Inc., as borrowers, all of the other Debtors, as guarantors, Citicorp USA, Inc., as administrative, collateral and documentation agent, and Citibank, N.A., as issuer (the "DIP Credit Facility"). The DIP Credit Facility was used by Solutia and its Debtor subsidiary Solutia Business Enterprises Inc. to retire their respective obligations under the Bank Credit Agreement and the Interim DIP Facility, as described in Section VII.G.1 below.

The DIP Credit Facility, as amended, consists of: (a) a \$975 million fully drawn term loan, and (b) a \$250 million borrowing-based revolving credit facility, which includes a \$150 million letter of credit subfacility. The net proceeds from the sale of the Solutia's Dequest(R) water treatment phosphonates business were used to pay-down the balance of the term loan. The maturity date of the DIP Credit Facility is March 31, 2008.

3. EMPLOYEE RETENTION  
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In connection with the restructuring process leading up to the Petition Date, Solutia significantly reduced its employee headcount, which increased job security concerns among

48

remaining employees. The commencement of the Chapter 11 Cases exacerbated these concerns. As a result, Solutia implemented a number of programs including a key employee retention bonus plan designed to retain the services of employees integral to the successful functioning of Solutia's businesses. These programs were successful in influencing the vast majority of key employees to remain with Solutia after the Petition Date. The prolonged pendency of the Chapter 11 Cases has, however, significantly diminished the on-going effectiveness of the retention bonus plan and other programs.

4. RETENTION OF RESTRUCTURING AND OTHER PROFESSIONALS  
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To assist Solutia in carrying out their duties as debtors in possession and to represent their interests in the Chapter 11 Cases, Solutia initially retained, as of the Petition Date, with authorization from the Bankruptcy Court, the law firm of Gibson, Dunn & Crutcher LLP ("Gibson Dunn") as lead restructuring attorneys for Solutia. On March 11, 2005, as a result of the death of one of Gibson Dunn's senior restructuring partners overseeing the Chapter 11 Cases and the departure of another Gibson Dunn senior partner to Kirkland & Ellis LLP ("K&E"), as well as in view of K&E's extensive bankruptcy expertise, Solutia obtained approval from the Bankruptcy Court to engage K&E to replace Gibson Dunn as their lead restructuring attorneys to represent them in all aspects of the Chapter 11 Cases. The costs associated with the transition of Solutia's representation from Gibson Dunn to K&E were fully covered by K&E. Additionally, with the Bankruptcy Court's approval, Solutia retained Rothschild Inc. ("Rothschild"), as financial advisors and investment bankers; Kroll Zolfo Cooper, LLC, as restructuring advisors and bankruptcy consultants; and Charles River Associates Inc., as special business consultants.

In addition to these key professionals, Solutia has retained various other professionals to assist it in managing the Chapter 11 Cases, as follows:



special litigation counsel; corporate counsel; conflicts counsel; accountants; tax service providers; corporate communication consultants; and a claims and noticing agent. Solutia also employs attorneys and other professionals to represent or assist it in a variety of situations arising in the ordinary course of Solutia's business in matters unrelated to the Chapter 11 Cases. Solutia has also retained, with the approval of the Bankruptcy Court, various experts to assist it in the estimation of alleged personal injury and property damage claims, alleged natural resource damages and other matters.

In addition to paying the fees of their own advisors, Solutia is required to pay fees related to the Chapter 11 Cases incurred by various other constituencies. On January 6, 2004, the United States Trustee for the Southern District of New York appointed the Creditors' Committee in the Chapter 11 Cases to represent the interests of all general unsecured creditors of the Debtors. On February 20, 2004, the Bankruptcy Court authorized the appointment of the Retirees' Committee in the Chapter 11 Cases, pursuant to section 1114 of the Bankruptcy Code, to represent the interests of those retirees (and their covered dependents) whose retirement benefits were impacted by the Chapter 11 Cases. On March 24, 2004, the United States Trustee for the Southern District of New York appointed the Equity Committee in the Chapter 11 Cases, pursuant to sections 1102(a) and 1102(b) of the Bankruptcy Code, to represent the interests of all equity holders of Solutia. Each of the above-referenced committees and their respective professional advisors are listed on Exhibit G annexed to this Disclosure Statement. The fees and costs incurred by the Creditors' Committee, the Retirees' Committee and the Equity Committee

and their professional advisors, to the extent approved by the Bankruptcy Court, are paid by Solutia. As of March 31, 2007, Solutia has paid approximately \$144 million in legal and professional fees in connection with administering the Chapter 11 Cases. Of this amount, approximately \$103 million was paid to professionals retained by Solutia in connection with the Chapter 11 Cases, and approximately \$41 million was paid to the professional advisors of other constituencies in the Chapter 11 Cases, as approved by the Bankruptcy Court after proper notice and hearing.

Three ad hoc committees of Creditors have been formed in the Chapter 11 Cases: the Ad Hoc Trade Committee which, according to the First Amended Verified Statement of Brown Rudnick Berlack Israels LLP pursuant to Fed. R. Bankr. P. 2019(a), dated July 14, 2006, consists of seven Holders of an aggregate minimum amount of approximately \$52 million in General Unsecured Claims; the Ad Hoc Notes Committee which, according to the Third Amended Verified Statement Pursuant to Bankruptcy Rule 2019 of Hennigan, Bennett & Dorman LLP, dated March 16, 2007, consists of sixteen Holders of an aggregate amount of approximately \$234 million of 2027/2037 Notes; and an ad hoc committee of holders of the Senior Secured Notes (the "Secured Notes Committee") which according to the Verified Supplemental Statement of White & Case LLP Pursuant to Bankruptcy Rule 2019, dated June 16, 2006, consists of twelve Holders of an aggregate amount of approximately \$156 million of Senior Secured Notes.

Since the formation of the above-referenced committees, Solutia has kept such committees informed about Solutia's business operations. Additionally, when it has deemed appropriate, Solutia has sought the concurrence of the committees, in connection with certain actions and transactions taken by Solutia outside of the ordinary course of business.

B. NEW SENIOR MANAGEMENT TEAM  
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Shortly after Solutia filed for chapter 11 protection, Solutia's Board of Directors elected Mr. Jeffrey N. Quinn to serve as the Company's President and Chief Executive Officer. Thereafter, Mr. Quinn effectuated a reorganization of Solutia's senior leadership team. Biographical information for Mr. Quinn and the other members of the senior management team is set forth below:

JEFFRY N. QUINN is Solutia's President, Chief Executive Officer and Chairman of the Board. Prior to his election as the Company's President and CEO, Mr. Quinn had served as Solutia's Senior Vice President, General Counsel and Chief Restructuring Officer. Prior to joining Solutia in January 2003, Mr. Quinn spent 14 years in senior executive positions in the mining and petroleum refining industries, including service from 2000 through 2002 as Executive Vice President, Chief Administrative Officer and General Counsel of Premcor Inc., one of the largest independent petroleum refiners and suppliers of unbranded transportation fuels, heating oil, petrochemical feedstocks, petroleum coke and other petroleum products in the United

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(42) Premcor Inc. was acquired by Valero Energy Corporation in 2005.

50

2000 as an executive officer of Arch Coal Inc., one of the largest coal producers in the United States.

JAMES M. SULLIVAN is Senior Vice President and Chief Financial Officer of Solutia. He was elected to this position in 2004. Mr. Sullivan is a long-time Solutia employee who became General Auditor of Solutia at the time of the Spinoff. He then served as Solutia's Director of Financial Reporting and Analysis, and from 1999 until 2004 he was Vice President and Controller.

LUC DE TEMMERMAN is Senior Vice President and President, Performance Products of Solutia. Mr. De Temmerman is a long-time Solutia employee who had previously served as Vice President and General Manager, Performance Products from 2003 through 2004, Worldwide Commercial Director of Laminated Glazing Products and Services from 2001 through 2002, and Business Director, Saflex-Europe/Africa from 2000 through 2001. Mr. De Temmerman joined the Company in 1984 in Louvain La Neuve, Belgium.

JONATHON P. WRIGHT, joined Solutia in early 2005 as Senior Vice President and President, Integrated Nylon. Mr. Wright previously served as a Vice President for Charles River Associates, an international economic and business consulting firm, from 2002 through 2005 where he worked extensively in the petrochemical, specialty chemical and related process industries. Prior to that, Mr. Wright was a Managing Director of Arthur D. Little's North American Strategy and Organizational Consulting business from 1997 through 2002. Prior to consulting, Mr. Wright was a Senior Manager of British Gas in various operating, commercial and strategic roles.

KENT J. DAVIES joined Solutia in early 2006 as Senior Vice President and President, CPFilms. Mr. Davies had previously served as Senior Vice President, Marketing, R&D and Regulatory, for United Industries Corp., a global consumer products company, from 2002 through 2005. Prior to that, Mr. Davies served as General Manager, Global Medical Non-Wovens Business for Kimberly-Clark Corp.

JAMES R. VOSS is Senior Vice President and President, Flexsys. He joined Solutia in early 2005 as Senior Vice President, Business Operations. Prior to joining Solutia, Mr. Voss served as Senior Vice President and Chief Administrative Officer of Premcor Inc. from 2000 through 2005. Prior to that, Mr. Voss served in various operational and human resources capacities with United Parcel Services.

ROSEMARY L. KLEIN is Senior Vice President, Secretary & General Counsel of Solutia. She was elected to this position in 2004. Ms. Klein previously served as Vice President, Secretary and General Counsel, Corporate and External Affairs and Assistant General Counsel of Solutia from 2003 through 2004. Prior to joining Solutia, Ms. Klein served from 2000 through 2003 as Assistant General Counsel and Secretary at Premcor Inc. and in 2000 as the Assistant General Counsel and Secretary of Arch Coal, Inc.

ROBERT T. DEBOLT is Senior Vice President, Business Operations. Mr. DeBolt is a long-time Solutia employee who previously served as the Vice President of Strategy from 2005 to 2007 and as the Controller for the Nylon business from 2003 through 2004 and a

51

Director, Manufacturing Accounting with responsibility over all of Solutia's manufacturing facilities. Mr. DeBolt joined the Company in 1982.

HAL E. WALLACH, JR. joined Solutia as Senior Vice President of Human Resources in July 2007. For seven years, Mr. Wallach previously served as a principal and head of the St. Louis office of Mercer Human Resources Consulting, one of the world's largest human

resources consulting firms. Prior to joining Mercer, Mr. Wallach held management positions with two other leading human resources consulting firms, Buck Consultants and Hewitt Inc.

Certain executives and two other key employees have a component of their Annual Incentive Plan (the "2007 AIP") which is linked to Solutia's emergence from bankruptcy. This emergence metric applies to Jeffrey N. Quinn, Kent J. Davies, Luc De Temmerman, James R. Voss, Jonathon P. Wright, Robert T. DeBolt, Rosemary L. Klein, James M. Sullivan and two other key employees (the "Emergence Metric Employees").

The incentive to be awarded to the Emergence Metric Employees pursuant to the 2007 AIP is calculated by multiplying the eligible employee's actual bonus awarded under the 2007 AIP (in accordance with historical practices of Solutia and which shall not be less than the employee's target bonus multiplied by the relevant funding factor) by a factor based on the Emergence Date. The multiplier factors are set forth below as the Emergence Metric. The Emergence Metric for each Emergence Metric Employee is based solely on objective factors, and is not discretionary.

The metrics for 2007 are set forth as follows:

Core Pool and Business Pools

<TABLE>

<CAPTION>

UNIT	MEASURE	WEIGHT	MEASURE	WEIGHT
<C> CORE POOL	<C> Enterprise EBITDAR	<C> 75%	<C> Enterprise Average Working Capital %	<C> 25%
INTEGRATED NYLON POOL	EBITDAR	75%	Average working Capital %	25%
SAFLEX POOL	EBITDAR Gross Margin %	50% 25%	Average working Capital %	25%
CPFILMS POOL	Gross Profit	75%	Average working Capital %	25%
OTHER PPD POOL	EBITDAR	75%	Average working Capital %	25%

</TABLE>

<TABLE>

ENTERPRISE DISCRETIONARY BONUS POOL

<CAPTION>

UNIT	MEASURE	WEIGHT
<C> All	<C> Enterprise EBITDAR	<C> 100%

</TABLE>

<TABLE>

EMERGENCE MATRIX

<CAPTION>

EMERGENCE MATRIX	QUINN	SULLIVAN KLEIN DEBOLT AND TWO OTHER KEY EMPLOYEES	WRIGHT DAVIES DE TEMMERMAN VOSS
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<C>	<C>	<C>	<C>
Q2 `07	1.5x	1.5x	1.3x
Q3 `07	1.3x	1.3x	1.2x
Q4 `07	1.1x	1.1x	1.1x
NO EMERGENCE	0.8x	0.9x	1.0x

</TABLE>

Awards will be paid out no later than two and a half months following the close of calendar year 2007. An employee who has a component of their 2007AIP award comprised of the Emergence Metric shall be entitled to his or her award even if his or her employment is terminated (voluntarily or involuntarily) on or after the Emergence Date, or if the Emergence Metric Employee is terminated without cause (as defined in his or her employment agreement) prior to the Emergence Date.

After the Debtors emerge from chapter 11, it is anticipated that all of the senior management team will continue to work for Solutia in their current capacity.

In conjunction with these changes in senior management, a broader reorganization of Solutia's worldwide management and organizational structure was undertaken. This reorganization resulted in changes in management and other positions within the business segments, as well as general administrative functions, including elevation of the environmental, safety and health and strategic planning roles and promoting personnel within the organization into positions of greater responsibility.

C. REORGANIZATION STRATEGY

The senior leadership team developed and has been executing a reorganization strategy focused on four principal objectives in order to maximize the value of Solutia's Estates, address the factors that led to the bankruptcy filing and enable Solutia to thrive after emergence from bankruptcy. This reorganization strategy focuses on:

- o managing Solutia's businesses to enhance financial and operating performance including the utilization of the unique powers of a chapter 11 debtor-in-possession;
- o making changes to Solutia's asset portfolio so that it consists of high-potential businesses that can consistently deliver returns in excess of their cost of capital;
- o achieving a reallocation of the Legacy Liabilities; and

53

- o establishing an appropriate capital structure.

1. ENHANCING THE PERFORMANCE OF SOLUTIA'S BUSINESSES

Solutia has implemented numerous initiatives since the Petition Date to enhance its operational and financial performance. These actions are more fully described below.

(a) New Corporate Culture

Solutia has revitalized its internal culture, which has enabled the organization to confront underlying and recurring issues with decisive actions to restore profitability. This culture is focused on execution and results, rather than process. It emphasizes impatience with the status quo, rather than a fixation with historic practices. It is intended to drive step-change improvements, rather than evolutionary progress.

Solutia has built this revitalized internal culture through numerous means. Leadership changes among the senior management team and managers throughout the Company have brought fresh perspectives and a passion for positive change. Compensation systems have been redesigned to be more performance-driven, with fewer entitlements and greater differentiation. Expectations are established through goal alignment throughout the organization, with greater accountability for delivering on those expectations. Leadership is engaging in a proactive, ongoing and in-depth program to ensure strategic plans are not just formulated but fully executed.

In summary, these efforts are building a high-performing culture that is focused and motivated to achieve exceptional results.

(b) Strategic Review of Solutia's Material Businesses

Solutia's management engaged in comprehensive and systematic strategic reviews of its material businesses. These strategic reviews focused Solutia's efforts during the Chapter 11 Cases and provide the basis of Solutia's strategy going forward. Solutia is implementing these strategies and the execution of these efforts will form the basis for a successful reorganized Solutia upon emergence from bankruptcy.

(c) Proactive Commercial Perspective

A key element of Solutia's corporate strategy post-emergence is a significantly more proactive commercial approach, one that recognizes that the long-term success of its customers requires a strong and dependable supplier. This new commercial perspective strives for a true partnership and is not based on the premise that the suppliers subsidize investments in materials, technology or people. Solutia's commercial approach is to better manage with customers the risk of movements in the oil and energy markets, in some cases via formula pricing, to ensure the value chain remains connected to key raw material and energy cost inputs. Solutia intends to ensure the long term success of its customers by pricing its products adequately to fund customer-driven technology and innovation resulting in a stream of highly innovative and unique products and services. Finally, Solutia is committed to retain and attract personnel of the highest quality by achieving a fair share of the value that is both created and delivered by the people of Solutia. This perspective and commercial approach was one of the reasons Solutia was able to

54

generate an expanding gross margin in 2005 in comparison to 2004 and in 2006 in comparison to 2005. From 2004 to 2006, Solutia's raw material and energy costs increased substantially, by over \$300 million. However, Solutia's disciplined commercial approach has allowed the Company to expand its operating margin despite the rising raw materials and energy costs. By comparison, in the two years leading up to the filing date, through 2004, Solutia was unsuccessful in passing through the raw material and energy costs increases via pricing actions, which was a key factor in its declining financial performance.

(d) Cost Reduction and Efficiency Initiatives

In May 2004, Solutia launched a series of cost reduction initiatives throughout the Company. At the plant level, these programs focused on actions such as asset management effectiveness to optimize manufacturing operations, maintenance savings, yield improvement and utilities optimization. Additionally, actions were taken to better control discretionary spending, particularly within the core corporate services functions (e.g., information technology, human resources, finance, legal, etc.). Finally, a focused effort was undertaken to achieve additional savings in the procurement of goods and services. These actions have helped to drive revenue growth and expansion of operating margins, and yielded approximately \$65 million in savings in 2004. Solutia continues to monitor its costs and identify areas to improve the cost competitiveness of its businesses.

(e) Operational Excellence Initiative

In 2006, Solutia kicked-off an operational excellence initiative, which is designed to better focus management's efforts to deliver sustainable improvement in its manufacturing and supply chain operations. The operational excellence initiative has already generated significant improvements in productivity, inventory management, cost competitiveness and customer service. Plant maintenance costs have been reduced by implementing operating systems better designed to increase maintenance availability and predictability. Increased overall output has been achieved by utilizing planning tools that better match output requirements with labor and machine hours expended. The operational excellence initiative has yielded significant cost savings and management believes additional benefits will be achieved as this initiative continues.

(f) Headcount Reductions

As of the Petition Date, Solutia had approximately 6,350 employees worldwide. Through various initiatives, including downsizing of its corporate office, shutdown or divestiture of various non-core businesses and involuntary reductions-in-force, Solutia has reduced its total number of worldwide employees as of December 31, 2006 to approximately 5,100. These headcount reductions resulted in significant company-wide cost savings and increased efficiency.

(g) Changes to Employee and Retiree Benefit Programs

(i) Changes in Active Employee Welfare Benefits

Since the Petition Date, Solutia has improved its cost competitiveness by making significant changes to the welfare benefit programs it provides to its active U.S. non-union

55

employees. These changes are similar to those provided to, and accepted in an amended collective-bargaining agreement by, Solutia's U.S. union-represented employees as discussed below. Specifically, Solutia increased the deductibles, co-payments and coinsurance amounts in its medical and dental programs, as well as increased the employee share of the cost to participate in these plans. Solutia also reduced the company-paid income replacement amount in the disability insurance program. These benefits changes are expected to result in savings of approximately \$12 million per year.

(ii) Actions Regarding the Forsberg Settlement

Throughout the Chapter 11 Cases, and in accordance with the terms of the Retiree 1114 Order (as defined below), Solutia has continued to perform its financial and other obligations to its retirees under the terms of the Forsberg Settlement described in Section V.C.1.(g)(ii) of this Disclosure Statement. As of the Petition Date, Solutia estimated that the cost of providing benefits to retirees in accordance with the terms of the Forsberg Settlement would be approximately \$90 million per year with projected annual costs for pre-Spinoff retirees and their dependents and surviving spouses of approximately \$55 to \$60 million.

In August 2004, Solutia sent a notice to its current employees notifying them of changes in Solutia's medical plans for active employees (the "2005 Active Plan"). In accordance with the terms of the Forsberg Settlement, the proposed changes to the 2005 Active Plan were to be applied to those retirees covered by the Forsberg Plan. In response to the notice concerning the 2005 Active Plan, the Retirees' Committee filed the Official Committee of Retirees' Motion to Compel Debtors to Comply With 11 U.S.C. Section 1114 (the "Retirees' 1114 Motion"). The Retirees' 1114 Motion claimed that Solutia's implementation of the 2005 Active Plan violated section 1114 of the Bankruptcy Code. Section 1114 of the Bankruptcy Code prohibits a debtor from modifying retiree benefits (as defined therein) without first obtaining (a) a court order authorizing the modifications or (b) the consent of the authorized representative of the recipients of the benefits. Solutia objected to the Retirees' 1114 Motion on the grounds, among others, that section 1114 approval was not necessary because the express terms of the post-employment medical and welfare benefit plans that applied to the retirees and the Forsberg Settlement permitted those modifications. After a hearing held before the Bankruptcy Court on September 28, 2004, the Bankruptcy Court entered an Order Compelling Debtor to Comply With 11 U.S.C. Section 1114 (the "Retiree 1114 Order"), which ordered that the establishment of the 2005 Active Plan could not in any way affect the amount of or entitlement to retirement benefits to be paid by Solutia to or for the Retirees, and further ordered that no retiree benefits, as they existed on January 1, 2004, could be modified by Solutia pending the Debtors' compliance with section 1114 of the Bankruptcy Code. Solutia filed a notice of its appeal of the Retiree 1114 Order, and Solutia's appeal remains pending before the United States District Court for the Southern District of New York (the "New York District Court"). This appeal will be stayed, and ultimately withdrawn, in connection with the Retiree Settlement described below.

In July 2005, Solutia entered into an agreement with the Retirees' Committee to (a) resolve the Retirees' claims against Solutia's Estates and (b) provide for modifications to the level of disability and retiree medical and life insurance benefits (referred to as "OPEB" in Section IV.C.1 of this Disclosure Statement) paid to Retirees after the Effective Date (the

56

"Retiree Settlement"). Among other things, the Retirees agreed that the termination and modification rights granted to Solutia under the Forsberg Settlement would be implemented. On November 27, 2006, the Bankruptcy Court approved a stipulation between Solutia and the Retirees' Committee recognizing that, consistent with the Forsberg Settlement, Solutia was authorized to terminate retiree welfare benefits for two classes of Medicare eligible participants on January 1, 2007, and for those under age 65 in the two Retiree

classes on later dates identified in the Forsberg Settlement.

(iii) Changes in Qualified U.S. Pension Plan Benefits

Solutia has made significant changes to its qualified U.S. Pension Plan to reduce costs and enhance the financial condition of such plan. Specifically, Solutia amended its U.S. qualified Pension Plan to cease future benefit accruals, effective July 1, 2004, for non-union participants and January 1, 2006 for union participants. The cessation of future benefit accruals saved Solutia approximately \$40 million in annual pension expense and reduced overall pension funding requirements by approximately \$110 million. During the Chapter 11 Cases, Solutia has made over \$235 million in plan contributions with approximately \$100 million in additional contributions to be made later this year. Total required contributions to the Pension Plan for 2008 through 2011 will be approximately \$90 million. Solutia believes that its retention of the pension plan has been, and will continue to be, an effective tool for helping to retain long-term employees.

Pursuant to the Amended Plan, the Debtors shall assume and continue the Pension Plan in accordance with its terms, satisfy the minimum funding standards pursuant to 26 U.S.C. Section 412 and 29 U.S.C. Section 1082, and administer the Pension Plan in accordance with its terms and the provisions of ERISA. Furthermore, nothing in the Amended Plan shall be construed as discharging, releasing or relieving the Debtors or the Debtors' successors, including the Reorganized Debtors, or any party, in any capacity, from any liability imposed under any law or regulatory provision with respect to the Pension Plan or the PBGC. The PBGC and the Pension Plan shall not be enjoined or precluded from seeking to enforce such liability as a result of any provision of the Amended Plan or the Confirmation Order. Notwithstanding any provision of the Amended Plan to the contrary, the Pension Plan shall be assumed and administered in accordance with ERISA and the Internal Revenue Code.

(iv) Termination of Non-Qualified Pension Benefits

Prior to the Petition Date, Solutia maintained the Solutia Inc. ERISA Parity Savings and Investment Plan, the Solutia Inc. ERISA Parity Pension Plan, the Solutia Inc. Supplemental Retirement Plan and the Solutia Inc. Deferred Compensation Plan, pursuant to Sections 3(36) and 4(b)(5) of ERISA (together, the "Nonqualified Plans") for the benefit of a select group of management employees. Benefits provided under the Nonqualified Plans are payable from the general assets of Solutia. Effective December 7, 2005, Solutia terminated the Nonqualified Plans, as permitted by the terms thereof.

57

(v) Changes in Other Post-Employment Benefits for Active Employees

Solutia also enacted several changes to its other U.S. post employment benefits ("OPEB") for active employees. These changes, effective September 1, 2004 for non-union employees and January 1, 2006 for union employees, included changes to certain eligibility requirements for post employment medical benefits and the elimination or reduction of retiree life insurance benefits for future retirees. The changes resulted in an approximately \$40 million reduction in liabilities in 2006. Upon emergence from Chapter 11, Solutia's OPEB liability will be reduced by approximately an additional \$115 million pursuant to the Retiree Settlement and Amended Plan.

(vi) Collective Bargaining Agreements with U.S. Union-Represented Employees

On September 1, 2005, Solutia reached new collective bargaining agreements with its union-represented employees. The new collective bargaining agreements cover pension and insurance benefits and made employee pension, health and welfare benefits consistent with those changes that Solutia had previously implemented for its active U.S. non-union employees. Specifically, the union employees agreed, effective January 1, 2006, (a) to freeze their pension plan, (b) to end post employment medical benefits for retirees and spouses on the earlier of the time such person attains age 65 or October 31, 2016 and (c) to participate in more cost-effective medical, dental and disability programs. These new collective bargaining agreements are expected to generate savings of approximately \$8 to \$10 million per year.

(h) Changes in Compensation Philosophy and Annual Incentive Programs

To improve performance, Solutia made a number of changes in its compensation programs in order to more closely tie the compensation of its executives and other employees to the performance of its businesses. During

the Chapter 11 Cases, Solutia has implemented broad based annual incentive programs designed to foster its "pay-for-performance" philosophy. The annual incentive programs implemented post-petition have been structured to deliver a significant portion of annual overall compensation opportunity for executives in the form of a cash bonus contingent upon the achievement of key financial and operating objectives. For other employees, the programs have been structured such that as position and responsibility within the Company increases, an increasing portion of an employee's total compensation is tied to company performance.

(i) Remediation Management of Legacy Environmental Liabilities

As of the Petition Date, Solutia was managing active remediation projects at approximately 75 sites with an annual budget of approximately \$40 million in the aggregate. Since commencing the Chapter 11 Cases, Solutia has had three goals with respect to the Legacy Environmental Liabilities: (a) to exercise and comply with its rights and obligations under applicable bankruptcy and environmental laws; (b) to ensure that key remediation projects continue to move forward with costs shifted to other parties to the extent possible; and (c) to achieve a reallocation of the Legacy Environmental Liabilities that will allow Solutia to emerge from Chapter 11 as a viable entity. In connection with its commencement of the Chapter 11

58

Cases, Solutia initiated contact with the Environmental Protection Agency ("EPA"), Pharmacia, Monsanto and other interested parties to inform them of Solutia's status and ensure continuation of critical remediation activity.

As a result of Solutia's discussions with Monsanto, Pharmacia, the United States Department of Justice (the "DOJ"), other relevant government agencies, and other stakeholders, an interim arrangement (the "Interim Protocol") for the continued management of key remediation projects was reached among Solutia, Pharmacia and Monsanto. The Interim Protocol initially provided that Monsanto, as Pharmacia's attorney-in-fact, would perform and/or fund Solutia's remediation obligations arising under outstanding judicial and administrative orders at the portions of the Shared Sites (described below) of the Anniston PCB Site and the Sauget Area 1 and Area 2 Sites not owned or operated by Solutia, and that Solutia would perform and/or fund activities related to Solutia owned or operated portions of those sites or the related Anniston and W.G. Krummrich Plant Sites. Under the Interim Protocol, Solutia, at its cost, would provide its remediation managers to continue to manage the site, but Monsanto would assume all other costs. The Interim Protocol was designed to function "indefinitely," subject to Monsanto's right to withdraw upon 60 days' written notice to Solutia and the DOJ. The Interim Protocol has been in place and has functioned effectively since March 2004, and its principles have now been followed with respect to the remediation efforts at 15 other sites with Legacy Liabilities never owned or operated by Solutia. As of the date hereof, Monsanto has not provided Solutia with a notice of withdrawal. Due to these efforts, all environmental remediation projects being managed by Solutia prior to the Petition Date continue to move forward notwithstanding the pendency of the Chapter 11 Cases through management either by Solutia or Monsanto.

(j) Executory Contracts and Unexpired Leases

Since the Petition Date, Solutia has undertaken an extensive review of over 13,000 contracts that either Solutia entered into prior to the Petition Date or that were assigned to Solutia in connection with the Spinoff and the Distribution Agreement to determine whether there are benefits to Solutia in assuming or rejecting any Executory Contracts or Unexpired Leases. Thus far, Solutia has rejected 15 Executory Contracts, which realized over \$179 million of gross savings for Solutia's Estates. In addition, as further discussed below, Solutia has utilized the chapter 11 contract assumption process to assume and obtain beneficial amendments to a number of its Executory Contracts and Unexpired Leases. Solutia was able to use this process to induce contract and lease counterparties to agree to reduce their cure claims in exchange for an early assumption of such contracts and leases by Solutia. This course of action resulted in significant savings for Solutia's Estates resulting from the reduced cure costs associated with such assumptions and, accordingly, a reduction in potential contract and lease rejection Claims against Solutia. In addition, the amendments to the assumed Executory Contracts and Unexpired Leases will enable Solutia and Reorganized Solutia to operate with greater efficiency in the future. The following examples illustrate the benefits Solutia has obtained through this assumption and rejection process:

- o Assumption of certain contracts with UCB and related entities and Surface Specialties, Inc. as part of a global settlement. The settlement improved Solutia's



terms under the contracts as well as resulting in the waiver of over \$40 million in Claims against Solutia's Estates.

- o Rejection of certain contracts with Calpine-related entities, effective June 1, 2004. These contracts were rejected in order for Solutia to avoid purchasing natural-gas generated steam and electricity from Calpine's Decatur facility, which, due to rising natural gas prices, had grown prohibitively expensive relative to Solutia's other steam and electricity alternatives. At the time of the rejection, Solutia estimated that annual benefits from these rejections would range from \$14 million to \$22 million, resulting in a net present value of \$125 million in benefits over the life of the contracts. This benefit to Solutia has increased since June 2004 as a result of the continued rise in natural gas prices relative to alternative steam and power generation costs.
- o Assumption and amendment of an Information Technology Services Agreement with Electronic Data Systems Corporation ("EDS"). The amended agreement allows Solutia to save approximately 14% to 24% annually, eliminates unnecessary service requirements and provides Solutia with more flexibility with regard to terminating the agreement. In addition, EDS agreed to a 25% reduction in its cure Claim and that such Claim would be amortized and paid in 10 monthly installments.
- o Assumption and amendment of a nitrogen sales contract with AirLiquide Large Industries US LP. Assuming and amending this contract enables Solutia to acquire nitrogen at a reduced price and eliminates minimum purchasing obligations contained in the previous contract. The modifications will allow Solutia to save approximately \$800,000 annually.
- o Assumption and amendment of a warehouse lease with Ashley Brownstone South LLC. This resulted in an extension of the term of the lease and a \$540,000 reduction in rent payments due over the term of the lease.
- o Assumption and amendment of a specialty film and commodity film products supply agreement between CPFilms and Toray Plastics (America), Inc. ("TPA"). The amended agreement enables CPFilms to secure an increased supply of film products. In addition, the amended agreement clearly defines TPA's obligation to provide a variety of beneficial services to CPFilms not specifically set forth in the original agreement. TPA agreed to reduce its cure Claim by 10% and have such Claim paid in six monthly installments.
- o Assumption and assignment of a rail car lease with ACF Industries LLC to Monsanto, saving Solutia \$112,500 in lease payments for the remainder of the lease.
- o Assumption and amendment of a service agreement between CPFilms and Virginia Gas Company, enabling CPFilms to reduce the cure amount associated with the assumption and improve its credit terms.

- o Assumption of certain software licenses with Microsoft Corporation enabling Solutia to transfer certain licenses in connection with the sale of Axio Research Corporation's assets, as described in Section V.C.2.(f)(iii) of this Disclosure Statement.
- o Assumption and amendment of an office lease between Solutia Inc. and Pharmacia & Upjohn Inc.
- o Assumption and amendment of a certain ammonia supply agreement between Solutia Inc. and El Paso Merchant Energy-Petroleum Company.
- o Assumption and amendment of the hydrogen supply agreement and assumption of the CO2 agreement between Solutia Inc. and Linde Gas LLC.
- o Assumption and amendment of a certain agreement between Solutia Inc. and Saint Gobain Glass France SA, enabling Solutia to make a lump sum royalty payment in exchange for Solutia's perpetual rights to sell acoustic glazing products.

- o Assumption and amendment of certain agreements between Solutia and Western Nonwovens, Inc.
- o Assumption and amendment of propylene supply agreement between Solutia and Equistar Chemicals, LP.

Solutia is continuing to review its Executory Contracts and Unexpired Leases to determine which, if any, of such contracts and leases should be assumed or rejected before the Effective Date. Solutia has determined that they will assume the contracts set forth on Exhibit G annexed to the Amended Plan. The remainder of the contracts are either no longer executory within the meaning of section 365 of the Bankruptcy Code or will be rejected by Solutia pursuant to the Amended Plan.

2. CHANGES TO THE ASSET PORTFOLIO  
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Another element of Solutia's reorganization strategy has been to make changes to its asset portfolio while in bankruptcy to enhance the value of the Estate. This is consistent with Solutia's business strategy to build a portfolio of high-potential businesses that can consistently deliver returns in excess of their cost of capital. To implement this strategy, during the Chapter 11 Cases, Solutia has (a) made strategic investments in its core businesses; (b) exited certain unprofitable businesses and facilities; and (c) divested non-core assets, as further described below.

(a) Acquisition of Akzo Nobel's Interest in the Flexsys joint venture

Solutia recently acquired Akzo Nobel's interest in the 50/50 Flexsys joint venture between Solutia and Akzo Nobel for \$213 million subject to debt assumption and certain purchase price adjustments (the "Flexsys Acquisition"). Flexsys, a leading producer of rubber chemicals, was originally formed in 1995 as a 50/50 joint venture between Akzo Nobel and Monsanto, with Monsanto's interest being transferred to Solutia as part of the Spinoff. The

61

acquisition of Akzo Nobel's interest in Flexsys allows Solutia to fully integrate Flexsys into its portfolio of market leading businesses. Flexsys products play an important role in the manufacture of tires and other rubber products such as belts, hoses, seals and footwear. These chemicals help cure and protect rubber, impart desirable properties to cured rubber, increase durability and lengthen product life. The Flexsys business is currently headquartered in Brussels, Belgium with manufacturing facilities in Europe, North America, South America and Asia.

See Section VII.D of this Disclosure Statement for more information regarding the Flexsys business.

(b) Changes in the Nylon Business

(i) Closure of the Acrylic Fibers Business

Solutia exited its acrylic fibers business in the second quarter of 2005. Solutia's decision to exit the acrylic fibers business was based on increased foreign competition and the resulting significant profitability decline in the sector. Acrylic fibers produced by Solutia were previously used in diverse personal products and industrial applications such as apparel, craft yarns, dental floss and conveyer belts. Historically, the acrylic fibers business accounted for approximately 6% of Solutia's consolidated revenues. As a result of this business initiative, Solutia's plant located in Decatur, Alabama ceased to operate its acrylic fiber line, but continues to produce chemical intermediaries for use in nylon products.

(ii) Closure of the Pensacola Industrial Fiber Business

In June 2005, Solutia closed the nylon industrial fiber business at its plant in Pensacola, Florida (the "Pensacola Tire Business"). Nylon industrial fibers manufactured by the Pensacola Tire Business were previously used in diverse applications such as tire reinforcement, automotive belts and hoses and other industrial products. As a result of the shutdown of the Pensacola Tire Business, Solutia announced that it would concentrate its production of nylon industrial fibers at its Greenwood, South Carolina plant. The nylon industrial fiber unit at the Greenwood, South Carolina plant utilizes newer technology than the Pensacola unit, enabling it to achieve lower costs and higher quality. Historically, the Pensacola Tire Business accounted for approximately 1% of Solutia's consolidated revenues.

(iii) Conversion of the Pensacola Industrial Fiber Assets

Following the shutdown of the Pensacola Industrial Fiber operations, Solutia began converting assets used in the Industrial Fiber business into assets that can be utilized to manufacture nylon resins and compounds. This is part of Solutia's overall strategy to convert historic industrial and carpet fiber assets to resin and compound production in order to participate in the higher value and growing plastics market for Nylon 6,6. The conversion is being implemented in phases. The first two phases, which entailed reconfiguring four continuous polymerization production lines to create products suitable for the plastics market, have been completed. The conversion of the four production lines increased the capacity of nylon resins and compounds by approximately 160 million pounds. Solutia intends to convert a fifth

62

production line by the end of 2007, which will provide approximately 75 million pounds of additional resin capacity. Solutia contemplates continuing to convert production lines in future years in order to meet the expected growth for Nylon 6,6 in the automotive and electrical/electronics segments of the plastics market.

(iv) Improved Nylon Operational Reliability

During the course of the Chapter 11 Cases, Solutia management has focused its efforts on improving plant infrastructure and operational reliability within its Nylon business. Solutia's primary focus has been on its Alvin, Texas (Chocolate Bayou) facility where, in 2000, Solutia had expanded the facility into the largest single-site acrylonitrile plant in the world. However, certain infrastructure and related maintenance processes to support the additional capacity had not been put in place and the plant incurred historically high costs associated with unplanned and extended downtime and other disruptions in raw material deliveries and product shipments. In early 2005 Solutia brought in a new site leadership team to analyze the issues impacting the facility and implement changes to ensure greater operational reliability. Since that time, processes have been put in place and critical investments have been completed which have resulted in improved product yields and the number of unplanned outages has been significantly reduced. Solutia is also implementing similar reliability measures at its other Nylon manufacturing facilities.

(c) Changes in the Saflex Business

(i) Acquisition of Vitro's interest in the Quimica Joint Venture

On March 1, 2006, pursuant to a stock purchase agreement among Solutia, Vitro S.A. de C.V. ("Vitro") and Vitro Plan, S.A. de C.V. ("Vitro Plan"), a 100%-owned subsidiary of Vitro, Solutia acquired Vitro Plan's 51 percent stake in Quimica (originally formed in 1996 as a joint venture between Vitro, Vitro Plan and Monsanto) for approximately \$20 million in cash. As a result of this acquisition, Solutia is the sole owner of Quimica and its PVB interlayer plant located in Puebla, Mexico. Solutia believes that the worldwide market for laminated glass products will grow over the next five years, creating greater demand for PVB products. The Quimica acquisition increases Solutia's existing Saflex(R) PVB interlayer manufacturing capacity and provides new opportunities for low-cost expansions, thereby better positioning Solutia to capitalize on this growth. It also provides facilities in which Solutia will accelerate production of a new, higher margin acoustic PVB product. Since the acquisition Solutia has completed a significant engineering project at the Puebla site to add this manufacturing capability. Pursuant to the stock purchase agreement, Solutia and Vitro also entered into supply agreements under which Solutia will provide Vitro and certain of its affiliates with 100% of their requirements for most Saflex(R) PVB products for up to five years.

(ii) Construction of Saflex(R) Interlayer Plant in China

Solutia is constructing a new Saflex(R) PVB interlayer plant in Suzhou, China. The plant will provide Solutia with improved access to the growing Chinese automotive industry, allowing reduced supply chain costs and greatly improved responsiveness in serving this region. The plant will focus on meeting the rapidly growing demands of the Chinese automotive glass market

63

by manufacturing PVB interlayers for use in windshields. The plant is also well located geographically to supply other markets in Asia, improving

Solutia's ability to meet rising customer needs for Solutia's Saflex(R) PVB interlayers across the broader Asia-Pacific region. Construction of the new plant began in April 2006. It is expected that the plant will start production of commercial quality material in August 2007, and that future projects will add additional capacity at the plant to meet market demands.

(iii) Construction of Third Extrusion Line at Ghent

In March 2007, Solutia began construction of a third extrusion line at its manufacturing facility in Ghent, Belgium. The new extrusion facility will be dedicated to the manufacturing of super wide (3.2m) architectural PVB sheet. The architectural market is in a state of rapid expansion and the European architectural market alone is expected to grow by 40 million square meters (Msm) over the next 10 years. The majority of this growth will be in super-wide product, and the new Ghent line will provide Solutia with the capability to meet this demand in a highly efficient, dedicated unit. The Ghent plant is well located geographically to serve the European markets and integrating this new extrusion line with the existing plant operations offers advantages in terms of shared infrastructure and fixed costs that will further improve the competitive position of the Saflex business.

(d) Changes in the CPFilms Business

(i) Installation of New CPFilms Metallizing Production Line

In March 2005, Solutia completed the installation and successful startup of a new metallizing production line at its manufacturing facility in Martinsville, Virginia. The new metallizer, which joins three other metallizing lines already in place at the facility, significantly increases the existing metallizing business' capacity and versatility. In addition to producing solar control window films for commercial, automotive and consumer markets, other applications now supported by the new metallizing line include static-dissipative packaging, graphic arts, automotive badging and specialty labels.

(ii) Installation of New CPFilms Dye Line

In December 2005, Solutia completed the installation and successful start up of a new dyed film production line at its manufacturing facility in Martinsville, Virginia. The new dye line, which adds to the six lines already in place, significantly increased Solutia's existing dyed film capacity and versatility. The new dye line primarily focuses on higher speed and precise color control of films for the window film consumer market. The line was custom designed and built by Solutia and includes sophisticated control systems for maximum versatility and precision. Other applications for the line include graphic arts and theatrical lighting filters for film studio applications.

64

(e) Changes in the Specialty Products Business

(i) Expansion of Therminol(R) Production in China

In September 2005, Solutia Therminol Co. Ltd. ("Therminol"), a non-Debtor joint venture between Solutia and Jiangsu Suhua Group Co., Ltd., in which Solutia holds a 60% ownership interest, opened a new Therminol(R) heat transfer fluid manufacturing facility in Suzhou, China. The new facility more than doubles the production capacity of the original manufacturing plant and will support China's rapidly growing market for heat transfer fluids. Since 1995, Therminol heat transfer fluids have become the most widely used high temperature synthetic heat transfer product in China.

(ii) Divestiture of the Dequest(R) Business

On March 31, 2007, Solutia sold its Dequest(R) water treatment phosphonates business to Thermphos Trading GmbH, a Swiss corporation ("Thermphos") for \$67 million in cash, subject to a working capital adjustment. As part of the closing, affiliated companies of Solutia and Thermphos entered into a lease and operating agreement under which Solutia will continue to operate the Dequest production facility for Thermphos at Solutia's plant in Newport, Wales, U.K.

(iii) Closure of the Queeny Plant

Solutia relocated its Skydrol(R) and Skykleen(R) production lines from its Queeny plant in St. Louis, Missouri to a new state-of-the-art facility at its Anniston, Alabama plant. Production at the new plant began in August 2006. Skydrol(R) and Skykleen(R) products are used in the aviation industry for such applications as hydraulic fluids for commercial aircraft and

environmentally friendly solvents for aviation maintenance. As a result of this move, operations at the Queeny plant have ceased and the plant has been shut down.

(iv) Closure of the Chlorobenzene Business

In mid-2004, Solutia closed its chlorobenzene business due to its unprofitable financial performance, which resulted principally from increased foreign competition. Chlorobenzene products manufactured by Solutia were previously used in diverse applications such as herbicides, rubber anti-oxidants and other industrial uses. Historically, the chlorobenzene business accounted for approximately 2% of Solutia's consolidated revenues.

(v) Closure of Other Operations

In addition to the closure of the businesses described above, Solutia also closed, in late 2003 and early 2004, its feed ingredients business at the Nitro, West Virginia facility and its L-Aspartic operations at the Queeny plant in St. Louis, Missouri. The decision to exit these businesses was precipitated by continued losses and Solutia's continued strategic evaluation of its businesses focusing on profitable, core businesses. Historically, these closed businesses together accounted for approximately 1% of Solutia's consolidated revenues.

65

(f) Strategic Actions Regarding Non-Core Assets

Since the Petition Date, Solutia has also analyzed its ownership and operation of certain other non-core assets. Actions taken with respect to these non-core assets are more fully described below.

(i) Divestiture of the Pharmaceutical Services Business

In August 2006, Solutia's 100% owned subsidiary, Solutia Europe S.A./N.V. ("SESA"), sold its pharmaceutical services business to Dishman Pharmaceuticals & Chemicals Ltd. ("Dishman") pursuant to a Stock and Asset Purchase Agreement under which Dishman purchased 100 percent of the stock of the pharmaceutical services business, as well as certain other assets used in the pharmaceutical services business, for \$74.5 million, subject to certain purchase price adjustments. Dishman also assumed substantially all of the liabilities relating to the pharmaceutical services business, other than certain liabilities that arose prior to the closing of the transaction and liabilities under certain employment agreements.

(ii) Divestiture of the Astaris Joint Venture

In November 2005, Solutia and FMC Corporation ("FMC") each a 50% owner of Astaris LLC ("Astaris") a joint venture sold substantially all of Astaris' assets to Israel Chemicals Limited ("ICL") for \$255 million in cash (subject to certain purchase price adjustments) and the assumption by ICL of certain related liabilities. In connection with the transaction, Solutia and FMC agreed to indemnify ICL for certain pre-closing liabilities relating to Astaris, including certain pre-closing environmental liabilities. The transaction resulted in gross proceeds to Solutia of approximately \$95 million, of which approximately \$13 million remains in escrow to pay off any potential indemnification claims. Subsequently, ICL provided notice of indemnity claims with regard to the escrow amount but Solutia disputes such claims.

(iii) Divestiture of Axio Research Corporation

In December 2004, with Bankruptcy Court approval, Solutia sold substantially all of the assets of Axio Research Corporation ("Axio"), a Debtor subsidiary of Solutia that provided clinical data services to help make the drug development process safer and more efficient, to Axio Research Acquisition Company, LLC, an entity owned by one of the former Axio shareholders, who sold the business to Solutia in May of 2002, for \$200,000 plus additional consideration.

3. REALLOCATION OF THE LEGACY LIABILITIES

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Another element of Solutia's reorganization strategy was to achieve a reallocation of the Legacy Liabilities. The reallocation of the Legacy Liabilities will be accomplished pursuant to the Amended Plan, the Relationship Agreement and the Retiree Settlement. Confirmation of the Amended Plan which incorporates the terms of the Relationship Agreement and the Retiree Settlement will, among its other benefits, significantly reduce Reorganized Solutia's risk of contingent Legacy Liabilities, considerably strengthen Reorganized Solutia's balance sheet, and provide Solutia with a

enterprise. The reallocation of the Legacy Liabilities provided for by the Amended Plan, the Relationship Agreement and the Retiree Settlement is as follows:

- (a) Legacy OPEB Liabilities
  - (i) Modification of Benefits Provided to Existing Retirees

Solutia, along with Monsanto, Pharmacia and the Creditors' Committee, reached a settlement with the Retirees' Committee, regarding modifications to the level of disability and retiree medical and life insurance benefits (referred to as "Legacy OPEB Liabilities" in Section IV.C.1 of this Disclosure Statement) to be paid to the Retirees after the Effective Date. The Retiree Settlement Agreement is annexed to the Amended Plan as Exhibit B. Key terms of the Retiree Settlement Agreement include:

- o Creation of the Retiree Trust. On the Effective Date,  
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Solutia will contribute \$175 million in cash proceeds from the Rights Offering to the Retiree Trust, which is intended to qualify as a "voluntary employees' beneficiary association" under Section 501(c)(9) of the IRC. These funds will be used solely to reimburse Solutia for costs associated with the payment of benefits for pre-spin Retirees. The Retiree Trust provides continuing and substantial protections for continued payments of retirees' benefits. The Amended Plan shall not be effective unless the Retiree Trust is fully funded.
- o Modification to Medical Benefits. Reorganized Solutia  
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can limit the amount it pays each year for retiree medical expenses, change deductibles and prescription drug co-payments and cap the amount of benefits paid to individual retirees after the age of 65. In addition, Retiree representatives will maintain certain monitoring rights with respect to the Retiree Trust and 2007 Retiree Welfare Benefit Plan.
- o Modification to Life Insurance Benefits. Life insurance  
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benefits have been capped for employees who retired before December 31, 2001 and eliminated for those who retired after that date.
- o Retiree Claim. The Retirees, as a class, will receive  
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an allowed, non-priority unsecured claim in the aggregate amount of \$35 million, which is based on the value of agreed-upon reductions to benefits that Solutia could not have unilaterally imposed on the Retirees. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust. The funds from the Retiree Trust will be used solely to reimburse Reorganized Solutia for costs associated with the payment of benefits for pre-spin Retirees.
- o Retiree Release. The Retirees have agreed to release  
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Solutia, Monsanto and Pharmacia, any employee benefit plans of Monsanto or Pharmacia and their respective officers, directors, employees, affiliates, successors, assigns, representatives, agents, advisors and professionals from all claims related to "retiree benefits" (as defined in section 1114(a) of the Bankruptcy Code).

This release protects Monsanto and Pharmacia from risk that any portion of the Retiree liabilities could be

asserted directly against them.

The agreed modifications to the Retirees' OPEB benefits set forth in the Retiree Settlement Agreement will result in a significant savings to Reorganized Solutia, estimated at approximately \$110 million in value, while preserving vital medical, health and life insurance benefits for Retirees. In addition, the Retirees' benefits will be further protected by the Retiree Trust funded with \$175 million from the Rights Offering.

(b) Legacy Environmental Liabilities

Under the Relationship Agreement, as more fully described in Section VIII.B.4. of this Disclosure Statement, Monsanto agreed to take financial responsibility, as between itself and Reorganized Solutia only, for a significant portion of the Legacy Environmental Liabilities, including complete responsibility for future remediation at certain sites never owned or operated by Solutia, or to which Solutia never sent waste, and share future remediation responsibility at certain shared sites adjacent or proximate to Solutia's Anniston and Krummrich plant sites. The first \$50 million in Environmental Liabilities at those shared sites will be funded by proceeds from the Rights Offering; the next \$50 million, less amounts expended by Monsanto during the pendency of the Chapter 11 Cases for remediation at such sites, will be paid by Monsanto; the next \$325 million will be paid by Reorganized Solutia. Any additional amounts exceeding the aggregate amounts described above, would be shared equally by Reorganized Solutia and Monsanto. In addition, subject to the terms of the Relationship Agreement, Monsanto agreed to bear, and to allow Reorganized Solutia to defer, up to \$25 million of certain expenses in excess of \$30 million annually that are payable by Reorganized Solutia with respect to such sites, subject to Solutia's agreement to repay such deferred amounts over two years.(43)

(c) Legacy Tort Liabilities

Under the Relationship Agreement, as more fully described in Section VIII.B.4 of this Disclosure Statement, Monsanto, between itself and Reorganized Solutia only, agreed to take financial responsibility for all Tort Claims. As a result, on the Effective Date, Monsanto would be solely responsible, as between itself and Reorganized Solutia only, for all costs related to the defense, mediation, arbitration, judgment and settlement of the Tort Claims and would indemnify Reorganized Solutia with respect to such Tort Claims. Since the Petition Date, Monsanto has paid all costs of this nature arising in connection with the Tort Claims and, pursuant to the Relationship Agreement and the Amended Plan, shall not be reimbursed for such costs. Under the Amended Plan, as of the Effective Date, Reorganized Solutia will no longer be responsible for indemnifying Pharmacia or Monsanto with respect to such Tort Claims. The Debtors currently estimate that the ultimate liability for asserted Tort Claims will range between \$15 and \$40 million. This estimate does not account for: (a) future Tort Claims that could be asserted for

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(43) The ability to defer up to \$25 million of certain expenses in excess of \$30 million annually provides certainty with respect to these obligations, which, among other things, is important to Solutia's ability to seek exit financing on favorable terms.

68

pre-Spinoff conduct; (b) the hundreds of additional lawsuits asserting thousands of claims, which have been commenced directly against Monsanto (for which Monsanto, under the Distribution Agreement, could have asserted potentially billions in dollars in surrogate claims against Solutia's Estates absent the Monsanto Settlement); and (c) defense costs.

(d) Legacy Pension Liabilities

Solutia realized cost savings of its pension liabilities by freezing the pension plan as described in Section V.C.1.(g)(iii) hereof. Solutia plans to retain responsibility for the Legacy Pension Liabilities after emergence from the Chapter 11 Cases as it believes the qualified pension plan is an effective tool for helping to retain long-term employees.

4. APPROPRIATE CAPITAL STRUCTURE AND CONVERSION OF DEBT  
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(a) Capital Structure as of Petition Date

As of the Petition Date, Solutia had, on a consolidated basis, over \$1.2 billion in aggregate long-term indebtedness, consisting of secured and

unsecured notes, a bank credit facility and a synthetic lease financing arrangement. Outside Chapter 11, Solutia's subsidiary SESA had (euro)200 million of 10 percent Senior Secured Notes outstanding (the "Euro Notes").

Upon filing for Chapter 11, Solutia entered into a \$525 million DIP Credit Facility on January 16, 2004 which has since been amended five times during the Chapter 11 Cases. In general, the amendments modified, among other things, the mandatory prepayment terms and covenants regarding the disposition of assets and investments, certain notice provisions and the interest rate. The fifth amendment increased the DIP Credit Facility to \$1.225 billion, consisting of a \$975 million fully drawn term loan and a \$250 million borrowing-based revolving credit facility, which includes a \$150 million letter of credit subfacility. Of the \$1.225 billion, \$150 million was utilized to partially finance Solutia's acquisition of Akzo Nobel's interest in the 50/50 Flexsys joint venture between Solutia and Akzo Nobel. The net proceeds from the sale of the Solutia's Dequest(R) water treatment phosphonates business were used to pay-down the balance of the term loan. The DIP Credit Facility has a maturity date of March 31, 2008.

In August 2006, SESA entered into a (euro)200 million Facility Agreement (the "Euro Facility Agreement") using the proceeds, among other things, to refinance the outstanding Euro Notes. The Euro Facility Agreement terminates on July 31, 2011 and is secured by substantially all of the assets of SESA and its subsidiaries.

In conjunction with the Flexsys Acquisition, Flexsys entered into a \$200 million Secured Facilities Agreement on April 27, 2007. This facility was used together with the \$150 million intercompany loan from Solutia as described above to retire Flexsys' prior credit facility and complete the Flexsys Acquisition. The facility was subsequently upsized by an additional \$25 million.

69

(b) Capital Structure upon Emergence; Exit Financing Facility

Upon emergence from Chapter 11, Reorganized Solutia will have an improved balance sheet and more appropriate capital structure. Under the Amended Plan, a significant portion of Solutia's prepetition debt will be converted to equity. As of the Petition Date, Solutia had outstanding the following unsecured notes: (a) \$300 million under the 2027 Notes and (b) \$150 million under the 2037 Notes, which will be converted to equity.

D. FINANCIAL PERFORMANCE DURING BANKRUPTCY

Solutia, including its non-Debtor subsidiaries, reported, on a consolidated basis for the fiscal year ended December 31, 2006 and 2005, net income of approximately \$11 million and \$8 million, respectively, and a net loss of approximately \$316 million in fiscal 2004. This compares to net losses in 2003, 2002 and 2001, the three years leading up to Solutia's bankruptcy filing, of approximately \$987 million, \$151 million and \$59 million, respectively. Net sales in 2006, 2005 and 2004 were approximately \$2.9 billion, \$2.8 billion and \$2.7 billion, respectively, while net sales in 2003, 2002 and 2001 were approximately \$2.4 billion, \$2.3 billion and \$2.3 billion, respectively. As of December 31, 2006, Solutia reported, on a consolidated basis, approximately \$2.0 billion in total assets and approximately \$3.4 billion in total liabilities, including approximately \$1.85 billion of liabilities subject to compromise.

Certain events preceding the filing date, as well as management's reorganization strategy and execution against the four principal objectives outlined in Section V.C. of this Disclosure Statement, have created a significant number of non-recurring, non-operational accounting events, which significantly affect comparability of Solutia's financial performance from 2003 through 2006. Excluding these impacts as well as the significant cost of the reorganization process itself, Solutia would have reported EBITDAR, which is earnings before interest, taxes, depreciation, amortization and reorganization items, in 2006, 2005 and 2004 of \$262 million, \$226 million and \$147 million, respectively. The identification of the items to reconcile these non-GAAP earnings to GAAP measures is located at Exhibit J to this Disclosure Statement.

Solutia's Annual Report, as amended, on Form 10-K for the fiscal year ended December 31, 2006 is annexed to this Disclosure Statement as Exhibit C.

VI.  
SUMMARY OF LEGAL PROCEEDINGS



Because of the size and nature of Solutia's businesses, Solutia is party to numerous legal proceedings. Most of these legal proceedings have arisen in the ordinary course of Solutia's business and involve claims for money damages. Whether these claims are or will be liquidated or resolved in the Bankruptcy Court or in some other jurisdiction depends upon the nature of the claims and the debt arising therefrom. Generally, if the debt underlying such claims was incurred by one of the Debtors prior to the Confirmation Date, such debt, in accordance with section 1141 of the Bankruptcy Code, will be discharged through bankruptcy, depending upon the nature of the relief sought, regardless of whether the claim is liquidated and resolved before or after the Effective Date. Claims arising from conduct occurring after the Effective Date,

70

unless provided for under the Amended Plan, generally are not dischargeable through bankruptcy, and will be handled by Reorganized Solutia in the ordinary course of its business after emergence.

Following is a summary of Solutia's significant legal proceedings:(44)

A. LEGAL PROCEEDINGS IN THE BANKRUPTCY COURT

1. THE JPM ADVERSARY PROCEEDING

On May 27, 2005, JP Morgan as the predecessor to the Prepetition Indenture Trustee under the Prepetition Indenture, filed the JPM Adversary Proceeding, seeking declaratory judgment that the 2027/2037 Notes are entitled to valid and perfected security interests in certain of Solutia's assets and seeking adequate protection pursuant to section 363 of the Bankruptcy Code.

The JPM Adversary Proceeding relates to Solutia's refinancing of its credit facilities in 2002 and 2003. When Solutia refinanced its credit facilities on July 25, 2002, the Noteholders obtained a pro rata security interest in certain of Solutia's assets under the "equal and ratable" provision of the Prepetition Indenture. On October 8, 2003, Solutia refinanced its credit facilities, as described in Section IV.D.5(c) of this Disclosure Statement, thereby reducing its outstanding debt secured by certain assets below the threshold level that triggered the "equal and ratable" provision of the Prepetition Indenture. Solutia contended that, as a result, the 2027/2037 Notes returned to their original unsecured status.

The Prepetition Indenture Trustee alleged that the October 8, 2003 refinancing had no effect on the security interests and liens that were created in July 2002. Alternatively, the Prepetition Indenture Trustee argued that the liens should be reinstated as a matter of equity. Solutia contended that the Prepetition Indenture only requires Solutia to provide security interests to the Noteholders when debt secured by certain collateral exceeds 15 percent of Solutia's Consolidated Net Tangible Assets (as defined in the Prepetition Indenture). Solutia contended that because debt secured by the restricted collateral did not exceed this threshold following the October 8, 2003 refinancing, the Noteholders were not entitled to security interests in certain collateral, and therefore Solutia could not have breached the Prepetition Indenture by failing to provide them.

Trial of the JPM Adversary Proceeding commenced on May 23, 2006 and concluded on July 10, 2006. On May 1, 2007, the Bankruptcy Court ruled in favor of Solutia holding that the Noteholders do not have, and are not entitled to, a lien on any of the Debtors' assets. The Bankruptcy Court also found that the 2027/2037 Notes were properly de-securitized under the express terms of the Prepetition Indenture. Thereafter, on May 17, 2007, the Bankruptcy Court

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(44) This summary is not intended as an exhaustive description of all pending legal matters or proceedings in which Solutia or its Debtor and non-Debtor affiliates are involved. Certain legal proceedings may be subject to appeal in or outside the Bankruptcy Court. Nothing in this discussion is deemed to be an admission by Solutia or any of their Debtor or non-Debtor affiliates of any liability or wrongdoing.

71

entered the final judgment (the "Final Judgment") in the JPM Adversary

Proceeding. As a result of the Final Judgment in Solutia's favor, under the Amended Plan, Solutia has proposed to give the Holders of the 2027/2037 Notes the same level of recovery as the General Unsecured Creditors.

Before the Bankruptcy Court's decision, Wilmington Trust was substituted as the plaintiff in the JPM Adversary Proceeding. (45) On May 29, 2007, Wilmington Trust filed a timely notice of appeal of the Final Judgment. On the same date, the Ad Hoc Notes Committee, which previously had intervened in the JPM Adversary Proceeding, also filed a timely notice of appeal of the Final Judgment. The appeal filed by Wilmington Trust is pending before the Honorable George B. Daniels, United States District Judge of the United States District Court for the Southern District of New York. The appeal filed by the Ad Hoc Notes Committee is pending before the Honorable Loretta A. Preska, United States District Judge of the United States District Court for the Southern District of New York. It is likely that both appeals will be consolidated. In both appeals, the appellants' opening brief is due on July 13, 2007. Oral argument has not been set, and it is uncertain when any decision will be rendered. Any decision by the District Court could be further appealed to the Second Circuit Court of Appeals.

Unless the Final Judgment is affirmed or the appeal is otherwise  
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dismissed, an appellate court could determine that the 2027/2037 Notes are  
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secured. In that event, the claims of the Prepetition Indenture Trustee could be reclassified and recoveries by the Noteholders and General Unsecured Creditors may be adjusted accordingly.

2. EQUITY COMMITTEE ADVERSARY PROCEEDING AGAINST MONSANTO AND  
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PHARMACIA  
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On March 7, 2005, the Equity Committee commenced the Equity Committee Adversary Proceeding by filing a complaint against Monsanto and Pharmacia (the "Equity Committee Complaint"). The Equity Committee Complaint seeks the disallowance of the claims filed by Monsanto and Pharmacia against Solutia's bankruptcy Estates and a reallocation of substantial amounts of the Legacy Liabilities from Solutia's balance sheet to that of Monsanto and Pharmacia, based on alleged wrongful and inequitable conduct by Monsanto and Pharmacia. In particular, the Equity Committee Complaint alleges that as part of the Spinoff, Pharmacia forced Solutia to assume excessive liabilities and insufficient assets such that Solutia was destined to fail from its inception.

The Noteholders' Committee and the Trade Committee have intervened in the Equity Committee Adversary Proceeding. Solutia and the Creditors' Committee have intervened in the Equity Committee Adversary Proceeding as neutral parties due to the importance of the proceeding with respect to Solutia's bankruptcy case.

In May 2005, Monsanto and Pharmacia filed a motion to dismiss the Equity Committee Complaint or, in the alternative, to stay the adversary proceeding, which was later denied by the

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(45) On March 12, 2007, the Court entered a Stipulation and Order substituting Wilmington Trust, which replaced JPMorgan as the Prepetition Indenture Trustee, as plaintiff in the JPM Adversary Proceeding.

Bankruptcy Court. In August 2005, Solutia filed with the Bankruptcy Court a Statement and Reservation of Rights in Response to Equity Committee's Complaint and Objection to Claims, in which Solutia expressed its view that the issues and disputes raised in the Equity Committee Complaint would be resolved through the Amended Plan confirmation process.

In August 2006, Solutia filed a motion to stay the Equity Committee Adversary Proceeding, alleging that the Equity Committee lacked proper standing to pursue the claims in the Equity Committee Adversary Proceeding on behalf of Solutia. In September 2006, the Bankruptcy Court ruled that the Equity Committee did not have standing to pursue claims on behalf of Solutia because Solutia had already pursued claims against Monsanto and Pharmacia and entered into a settlement agreement with respect to those claims. However, the Bankruptcy Court also ruled that the Equity Committee did have standing under section 502 of the Bankruptcy Code to pursue its own objections to the claims of Monsanto and Pharmacia.

In November 2006, the parties to the Equity Committee Adversary

Proceeding submitted their outstanding disputes to mediation. Ultimately, the parties were unable to reach a settlement, but the parties did, however, agree to an evergreen standstill of the proceeding. On April 6, 2007, the Equity Committee provided written notice to Monsanto and Pharmacia terminating the standstill agreement. In addition, the Equity Committee has requested that the Bankruptcy Court schedule the Equity Committee Adversary Proceeding for trial.

At a hearing on May 18, 2007, the Bankruptcy Court ruled that it would consider the reasonableness of Solutia's proposed settlement of claims asserted by and against Pharmacia and Monsanto in these Chapter 11 Cases. The Settlement Approval Hearing is scheduled to commence on September 5, 2007. At this hearing, the Equity Committee will challenge the terms of the Monsanto Settlement and the Retiree Settlement. In the event that the Equity Committee is successful at the Settlement Approval Hearing, the Monsanto Settlement and the Retiree Settlement will not be approved and the Amended Plan may not be confirmable. If, however, the Bankruptcy Court approves the terms of the Monsanto Settlement and the Retiree Settlement, pursuant to the standards governing the approval of settlements under Bankruptcy Rule 9019, then the Equity Committee Adversary Proceeding will necessarily be dismissed with prejudice.

3. THE EQUITY COMMITTEE'S VIEW OF THE EQUITY COMMITTEE ADVERSARY  
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PROCEEDING (46)  
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In its first-day filings, Solutia reported that it filed for Chapter 11 relief principally because of the Legacy Liabilities that Pharmacia unilaterally imposed through the Spinoff. Yet Solutia - which is closely bound to Monsanto and Pharmacia by operating agreements and as Pharmacia's former Chemicals division - has declined throughout these cases to seriously or actively challenge the claims and rights of Monsanto and Pharmacia. The Equity Committee believes that the Creditors' Committee has also failed to challenge Monsanto and Pharmacia.

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(46) The views asserted in this section are solely those of the Equity Committee. Solutia, the Creditors' Committee, the Ad Hoc Trade Committee, the Retirees' Committee, Monsanto and Pharmacia do not agree with, support or adopt in any way whatsoever, the allegations made by the Equity Committee in this section.

73

Therefore, responsibility for reclaiming value for all parties-in-interest by challenging Monsanto and Pharmacia has been devolved upon the Equity Committee.

During the early stages of these Chapter 11 cases, the Equity Committee requested discovery of the Debtors, Pharmacia, Monsanto and Goldman Sachs in mid-2004. As a result of that process, the Equity Committee determined that at the time of the Spinoff, Pharmacia created Solutia as a vehicle to take on potentially devastating Legacy Liabilities and leave Pharmacia with a clean balance sheet, and that Pharmacia did so knowing that Solutia lacked adequate capital to satisfy the liabilities being allocated to it. The Equity Committee and its advisors concluded that Solutia was undercapitalized from its inception due to the undisclosed remediation costs and toxic tort liabilities that were transferred to it from Pharmacia.

The Equity Committee believes that Pharmacia's awareness of and concern regarding Solutia's undercapitalization is evidenced by, among other things, Pharmacia's failure to disclose the full extent of the Legacy Liabilities being palmed off on to Solutia to either the debt rating agencies that determined Solutia's investment grade credit rating or to the then and future public shareholders of Solutia.

Based on the Equity Committee's review of the underlying documents, it appears that in structuring the Spinoff, Pharmacia knew or should have known that significant residual environmental contamination existed at its historical chemicals plants due to Pharmacia's failure to invest in environmental controls at the time it manufactured such infamous chemicals and other hazardous materials as dioxin, agent orange and PCBs. However, the Equity Committee believes that the true risks associated with Pharmacia's historical production of these infamous chemicals had never been disclosed to its own shareholders/investors, including the risks that certain events, if they occurred, could cause the environmental liabilities to exceed \$1 billion. Instead, the Equity Committee believes that the information Pharmacia provided to the public in connection with the Spinoff and the ultimate sale of Solutia stock was incomplete and misleading. The Equity Committee believes that the

public disclosures by Pharmacia painted a picture of a company with manageable environmental and tort exposure in the \$250 million range. In particular, the Equity Committee believes that the disclosures made to unsuspecting equity holders failed to adequately describe the significant environmental challenges and costs that Pharmacia knew it faced.

After its investigation and evaluation of claims, on March 7, 2005, the Equity Committee filed the a complaint (the "Equity Committee Complaint") seeking (i) recharacterization of Monsanto and Pharmacia's indemnity claim as equity; (ii) equitable subordination of Monsanto and Pharmacia's interests to equity interests; (iii) equitable disallowance of Monsanto and Pharmacia's claims based on the Legacy Liabilities; (iv) disallowance of Monsanto and Pharmacia's claims based on unjust enrichment; (v) disallowance of Monsanto and Pharmacia's claims based on equitable estoppel; (vi) disallowance of Monsanto and Pharmacia's claims under Section 502(d); (vii) contribution under CERCLA Section 113(f); (viii) a declaration that certain provisions of the Agreement that created Solutia (the "Distribution Agreement") are unconscionable and therefore unenforceable; (ix) implied indemnity for Solutia; (x) avoidance of fraudulently transferred liabilities; and (xi) disallowance of contingent liability claims under Section 502(e)(1)(B).

74

Ultimately, the Equity Committee seeks the disallowance of the claims filed by Monsanto and Pharmacia against Solutia's bankruptcy Estates and a reallocation of hundreds of millions of dollars of the Legacy Liabilities from Solutia's balance sheet to that of Monsanto and Pharmacia, based on alleged wrongful and inequitable conduct by Monsanto and Pharmacia. In particular, the Equity Committee Complaint alleges that as part of the Spinoff, Pharmacia forced Solutia to assume excessive liabilities and insufficient assets such that Solutia was destined to fail from its inception.

In addition to the Equity Committee Complaint, at the Bankruptcy Court's direction, the Equity Committee has diligently evaluated Solutia's continued exposure to environmental and tort liability. The Equity Committee retained an environmental expert to assist in this evaluation and analysis. While there are significant points of agreement with the Debtors, the Equity Committee's environmental expert believes that the ultimate cost to remediate off-site contamination at Anniston will be substantially higher than the Debtors' estimate.

The Equity Committee alleges that, with respect to the Anniston, Alabama site, Pharmacia knew well before the Spinoff the following:

- o From 1929 until 1971, most of the PCB's manufactured in the United States were produced at the Anniston plant. During this period, adequate environmental controls were not in place at Anniston to prevent the release of PCBs into the environment.
- o Consequently, the Equity Committee believes that Anniston is one of the most contaminated PCB sites in the country. There are over 30 miles of impacted waterways downstream from the former manufacturing facility, including waters in the State of Alabama that are used for drinking water and recreational purposes. Fishing in waterways downstream of Anniston has been prohibited since 1996 because of high PCB concentrations in aquatic organisms.
- o The Equity Committee's environmental expert believes that if regulators were to require the excavation of the PCB contaminated sediments that are impacting fish and the floodplain, it would likely have a material impact on Solutia's financial condition.
- o Under Section 107 of CERCLA, the Equity Committee believes that Monsanto was liable to federal and state natural resource trustees for natural resource damages resulting from its PCB manufacturing activities at Anniston.
- o As early as 1987, the environmental manager for the Anniston facility warned the head of the chemical business that "[i]t should be made clear, however, that no monies have been reserved for a major site cleanup program." The manager's memorandum went on to note that "[a] requirement for removal and disposal of contaminated soil ... would require major, undefined expenditures."
- o The Equity Committee believes that since the 1960's, Pharmacia has been aware that fish in Choccolocco Creek downstream of the facility have PCB levels in excess of

the Food and Drug Administration tolerance level. In 1993, the State of Alabama banned fishing in Choccolocco Creek.(47)

- o In 1970, Pharmacia analyzed hogs in the Anniston area and found PCB concentrations in the hog fat of roughly 2%. There are significant livestock grazing areas in the flood plains along Choccolocco Creek. Yet, after the 1970 hog analysis, The Equity Committee believes that Pharmacia never conducted any follow-up work to assess the possible uptake by livestock and crops in the flood plains of Choccolocco Creek. In addition, the Equity Committee believes that Pharmacia never notified regulators or warned farmers who might have conducted their own investigations.
- o In 1996, the Agency for Toxic Substances and Disease Registry ("ATSDR") and ADPH classified the segment of Choccolocco Creek impacted by Pharmacia's PCBs as a "public health hazard." This classification was "based on evidence that individuals living around ... Snow Creek and fishing in Choccolocco Creek could have adverse health effects from exposure to contaminants in sediment, soil, fish and water." During that same time period, in apparent recognition of the hazards presented by PCB's in the environment, the Equity Committee believes that Old Monsanto instituted a property purchase program in which it offered to buy out entire Anniston neighborhoods to facilitate ease of construction.

Currently, pursuant to Order of the Court entered on May 18, 2007, the Equity Committee's Adversary Proceeding is stayed pending a hearing on the reasonableness of the Monsanto and Retiree Settlement. That hearing is scheduled to commence on September 5, 2007. At that hearing, the Equity Committee intends to present the Bankruptcy Court with evidence as to the Equity Committee's allegations and intends to vigorously challenge the reasonableness of the Monsanto and Retiree Settlement. The Equity Committee believes that the Monsanto and Retiree Settlement (and, as a result, the Amended Plan) is far too generous to Monsanto and Pharmacia in light of their potential exposure for the Legacy Liabilities and poses far too heavy of a burden on Reorganized Solutia. The Monsanto and Retiree Settlement cannot meet the standard for approval of settlements under the Bankruptcy Code and Rules. The Equity Committee believes that the Monsanto and Retiree Settlement is wholly unreasonable and therefore, should be rejected.

If the Monsanto and Retiree Settlement is not approved, the current Amended Plan will not be confirmable. The Equity Committee believes that it would then be free to pursue actions, including the Equity Committee Adversary Proceeding, that could effectively return over a billion dollars in value to the Estates, providing full recoveries for Allowed Unsecured Claims

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 (47) The Agency for Toxic Substances and Disease Registry, a public health agency of the U.S. Department of Health and Human Services, "agrees that the current no-consumption advisories issued by the Alabama Department of Public Health (ADPH) are warranted." See ATSDR Media Announcement, Jan.

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 15, 2004, available at [www.atsdr.cdc.gov/NEWS/anniston1011504.html](http://www.atsdr.cdc.gov/NEWS/anniston1011504.html) (last visited July 9, 2007).

and meaningful recoveries for the holders of Equity Interests in Solutia in excess of the Debtors' current projections.

#### 4. LITIGATION AMONG PHARMACIA, MONSANTO AND SOLUTIA

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Since the Petition Date, Solutia, Pharmacia and Monsanto have engaged in a variety of proceedings regarding their respective rights and obligations under the Distribution Agreement, and with respect to the Legacy Liabilities.

##### (a) Distribution Agreement Rejection

On the Petition Date, Solutia filed a motion for an order approving rejection of the Distribution Agreement (the "Rejection Motion"). The Rejection Motion sought Bankruptcy Court authority to reject the Distribution

Agreement and its attendant indemnity obligations flowing from Solutia to Pharmacia and Monsanto.

In January 2004, Pharmacia and Monsanto objected to the Rejection Motion (the "Rejection Objection"). In the Rejection Objection, Pharmacia and Monsanto argued that the Distribution Agreement and the Spinoff Agreements were one integrated contract. Thus, according to the Rejection Objection, Solutia could only assume or reject the entire "package" of the Spinoff Agreements. The Rejection Objection also claimed that Solutia's attempt to reject the Distribution Agreement was unsound for business reasons, because Solutia would not be able to operate without the Spinoff Agreements. Alternatively, Pharmacia and Monsanto argued that the Distribution Agreement was not "executory" within the meaning of section 365 of the Bankruptcy Code and thus could not be rejected.

In February 2004, Solutia filed a response to the Rejection Objection (the "Rejection Response"). In the Rejection Response, Solutia stated that the Distribution Agreement was not an executory contract. Thus, Solutia requested that the Bankruptcy Court issue a declaratory judgment allowing them to breach the Distribution Agreement. Solutia also argued that the Distribution Agreement was a distinct stand-alone agreement, and was separable from the Spinoff Agreements. Alternatively, Solutia argued that the rejection of the Distribution Agreement was supported by sound business judgment, because it would not require Solutia to surrender its chemical assets transferred in the Spinoff or otherwise force Solutia to terminate operations.

In February 2004, a hearing on the Rejection Motion, the Rejection Objection and the Rejection Response was held in the Bankruptcy Court. No decision has been rendered on these pleadings.

(b) The Adversary Proceedings

Solutia has commenced several adversary proceedings against Monsanto and Pharmacia:

(i) The Benefits Adversary.

77

On the Petition Date, Solutia filed a complaint seeking a declaratory judgment that Pharmacia was responsible for the payment of benefits for certain Solutia Retirees in the event Solutia was relieved of some or all of such obligations (the "Benefits Adversary"). Solutia asserted that Pharmacia was responsible for these obligations because (a) Pharmacia promised the Retirees certain lifetime and vested retiree benefits, (b) Pharmacia improperly assigned to Solutia the obligation to provide certain retiree benefits in violation of Pharmacia's contractual promises and its fiduciary duties under ERISA, and (c) Pharmacia promised the Retirees lifetime and vested benefits on which the Retirees relied.

(ii) The Indemnity Adversary.

In April 2004, Solutia commenced another adversary proceeding against Pharmacia and Monsanto seeking a declaratory judgment that all indemnity obligations pursuant to the Distribution Agreement and the Separation Agreement were dischargeable (the "Indemnity Adversary"). Solutia sought from the Bankruptcy Court a declaratory judgment that: (a) the indemnity rights of Pharmacia and Monsanto against Solutia arising from the Distribution Agreement are dischargeable prepetition "claims" under the Bankruptcy Code; (b) any contingent indemnity Claims held by Pharmacia or Monsanto against Solutia must be estimated or disallowed under the Bankruptcy Code; and (c) the Distribution Agreement is not "executory" within the meaning of section 365 of the Bankruptcy Code.

(iii) The Monsanto/Pharmacia Avoidance Action.

In December 2005, Solutia filed a complaint in the Bankruptcy Court entitled Solutia Inc. vs. Monsanto Company and Pharmacia Corporation, Case No. 05-03353 (PCB) (the "Monsanto/Pharmacia Avoidance Action"), seeking to avoid certain allegedly preferential and fraudulent transfers to Monsanto and Pharmacia including preferential transfers to Monsanto totaling \$2,272,704 in satisfaction of unsecured credit extended to the Debtors and the transfer of the Legacy Liabilities to Solutia. (See Section VI.A.8 hereof for a discussion of preferential and fraudulent transfers).

(c) The Standstill Agreement and Treatment in the Amended Plan.

The Indemnity Adversary, the Benefits Adversary and the Monsanto/Pharmacia Avoidance Action commenced against Monsanto and Pharmacia have not been adjudicated in the Bankruptcy Court. Instead, Solutia, Monsanto and Pharmacia, with the consent of the Creditors' Committee, have entered into

several successive standstill agreements (collectively, the "Standstill Agreement"), which has stayed the actions. These actions, together with the Rejection Motion and the other Settled Adversary Proceedings, will be settled and withdrawn pursuant to the Amended Plan.

The Equity Committee believes that if the Debtors were successful with these actions, the judgments could have resulted in the elimination of significant claims asserted by Monsanto and Pharmacia and the reallocation of hundreds of millions of dollars of liabilities back to Monsanto's and Pharmacia's balance sheets.

78

(d) Monsanto's Proof of Claim

In November 2004, Monsanto filed a proof of Claim with the Bankruptcy Court asserting a contingent, unliquidated(48) and unsecured non-priority Claim against Solutia (the "Monsanto Proof of Claim"). The Monsanto Proof of Claim is based on Solutia's indemnity obligations under the Distribution Agreement and allegations that Solutia is a successor in interest with respect to the Legacy Liabilities. As such, the Monsanto Proof of Claim seeks indemnification for claims brought against or paid by Monsanto, including Tort Claims, environmental Claims, retiree Claims and third-party contract Claims and expenses incurred by Monsanto with respect to such Claims. These alleged claims (including Pharmacia's claim discussed immediately below) are significant and many arise from the indemnification obligations imposed on Solutia at the time of the Spinoff. The Equity Committee agreed to allow Monsanto to bring its Claim current on or before June 30, 2007. As a result, on June 29, 2007, Monsanto filed its revised claim with the Bankruptcy Court.

The Equity Committee believes that the Debtors have significant defenses to these claims based on the inequitable transfer of the Legacy Liabilities to Solutia at that time.

In satisfaction of its Claims and based on its contributions, Monsanto will receive 20% of the New Common Stock of Reorganized Solutia, which will be worth approximately \$240 million at the midpoint enterprise value.

(e) Pharmacia's Proof of Claim

In November 2004, Pharmacia filed a proof of Claim with the Bankruptcy Court asserting a contingent, unliquidated and unsecured non-priority Claim against Solutia (the "Pharmacia Proof of Claim"). The Pharmacia Proof of Claim, like the Monsanto Proof of Claim, is based on Solutia's indemnity obligations under the Distribution Agreement, and its alleged status under the Distribution Agreement as the successor in interest with respect to the Legacy Liabilities. Accordingly, the Pharmacia Proof of Claim asserted indemnification Claims against Solutia for claims brought against Pharmacia, including Tort Claims, environmental Claims, retiree Claims and third-party contract Claims.

Pursuant to the Bar Date Order (as hereinafter defined), Monsanto and Pharmacia were authorized to (a) amend each of their respective proofs of claim to reflect additional claims and (b) file additional proofs of claim pursuant to Bankruptcy Rule 3005 that they believe they are entitled to file on behalf of additional creditors. Solutia, Monsanto and Pharmacia have subsequently agreed, through a series of stipulations (the "3005 Stipulations"), to extend the deadline by which Monsanto and Pharmacia must amend their proofs of claim, or file such additional proofs of claim. Pursuant to the most recent 3005 Stipulation, Monsanto and Pharmacia's time to amend their proofs of claim, or file additional proofs of claim, has been extended through October 1, 2007. Solutia, Monsanto and Pharmacia intend to enter into additional 3005 Stipulations as necessary. All such Claims will be resolved pursuant to the

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(48) The Monsanto Proof of Claim also included a liquidated portion.

79

Relationship Agreement and the Amended Plan. On April 11, 2007, the Equity Committee filed its motion seeking an order of the Bankruptcy Court compelling Monsanto and Pharmacia to file final amended/and or additional proofs of claims by a date no later than 21 days after entry of an order directing them to do so. The Equity Committee subsequently agreed to withdraw that portion of the motion which sought to compel, or set a deadline for, Monsanto and Pharmacia to file surrogate claims on behalf of third parties. The Equity

Committee also agreed to allow Pharmacia to bring its claims current on or before June 30, 2007. As a result, on June 29, 2007, Pharmacia filed its revised claim with the Bankruptcy Court.

5. THE EPA ADVERSARY PROCEEDING  
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In February 2004, Solutia commenced an adversary proceeding against the United States of America, acting on behalf of the EPA, seeking a declaratory judgment that the remediation obligations pursuant to the Anniston Consent Decree are claims subject to discharge pursuant to section 101(5) of the Bankruptcy Code and the automatic stay pursuant to section 362 of the Bankruptcy Code (the "EPA Adversary"). Solutia also sought the same relief with respect to other sites not owned by Solutia. As a result of a motion for partial summary judgment on these issues related to Anniston, Solutia and the EPA entered into a stipulation on April 30, 2004 (the "EPA Stipulation"), which provided that certain of Solutia's obligations under the Anniston Consent Decree were subject to the automatic stay pursuant to section 362 of the Bankruptcy Code and that the EPA could prosecute the amounts of such obligations in the United States District Court for the Northern District of Alabama. All of the issues in the EPA Adversary will be resolved pursuant to the Amended Plan as a result of Solutia's assumption of their obligations pursuant to the Anniston Consent Decree under the Amended Plan.

6. THE RETIREES ADVERSARY PROCEEDING  
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In May 2004, the Retiree's Committee commenced an adversary proceeding seeking (a) a declaratory judgment that Pharmacia and Monsanto are liable for the Retirees' benefit claims in the event Solutia obtains relief pursuant to Bankruptcy Code section 1114 and (b) that Pharmacia's and Monsanto's claims for indemnity related to Retiree Claims should be equitably subordinated (the "Retiree Adversary Proceeding"). Both Pharmacia and Monsanto opposed the litigation. The Retiree Adversary Proceeding is subject to a standstill agreement and will be deemed to be withdrawn with prejudice pursuant to the terms of Retiree Settlement described in Section VIII.B herein.

7. CALPINE ARBITRATION  
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Prior to the Petition Date, Solutia entered into a series of long-term agreements with Calpine Central, L.P. ("Calpine Central"), Decatur Energy Center, LLC ("Decatur" and together with Calpine Central, "Calpine") and certain affiliates of Calpine pursuant to which a natural gas co-generation facility (the "Co-gen Facility") was built on land leased from Solutia at Solutia's plant in Decatur, Alabama.

The agreements between the parties included the following: (1) the Second Amended and Restated Lease, Steam Sales and Shared Services Agreement, dated January 31, 2001 (as amended, the "Principal Agreement"); (2) a Facility Lease Addendum to the Principal

80

Agreement (as amended, the "Facility Lease Addendum"); (3) a Steam Sales Addendum to the Principal Agreement (as amended, the "Steam Sales Addendum"); and (4) the Second Amended and Restated Operating and Maintenance Agreement (as amended, the "O&M Agreement") (collectively, the "Calpine Agreements"). Each of the Calpine Agreements was for a 20-year term, subject to early termination under certain circumstances.

Pursuant to the Calpine Agreements, Solutia agreed, among other things, (a) lease from Decatur an undivided 20% interest in the Co-gen Facility for a fixed monthly payment of \$357,000; (b) to purchase from Decatur 100% of its steam requirements (with the exception of steam Solutia was permitted to self-generate) in return for both a variable and fixed capacity payment based on the amount of steam Solutia required and (c) to pay Calpine Central a fixed monthly fee of \$332,150 and a monthly fuel payment for the operation and maintenance of Solutia's 20% interest in the Co-gen Facility during the term of the Agreements.

On May 13, 2004, Solutia filed a Motion seeking to reject, inter alia, the Steam Sales Addendum, the Facility Lease Addendum and the O&M Agreement. The rejection of these agreements was approved by a Stipulation and Order of the Court dated May 26, 2004.

On November 24, 2004, Decatur filed its proof of claim against Solutia, asserting claims totaling \$351,220,357 for damages resulting from Solutia's rejection of the Steam Sales Addendum and the Facility Lease Addendum. Calpine Central filed its proof of claim in the amount of



\$31,496,976 for damages resulting from Solutia's rejection of the O&M Agreement.

On August 25, 2005, Solutia filed an objection to the proofs of claim filed by Decatur and Calpine Central (the "Calpine Claims") and requested that its objection be resolved by arbitration. By Order dated November 4, 2005, this Court granted Solutia's request to resolve its objections to the Calpine Claims by arbitration pursuant to the arbitration provisions contained in the Calpine Agreements.

Between November 20, 2005 and January 20, 2006, Solutia commenced three arbitration proceedings (one for each contract) against Decatur and Calpine Central. On September 12, 2006, these three arbitration proceedings were consolidated into a single arbitration proceeding before a panel of three arbitrators before the International Institute of Conflict Prevention and Resolution, CPR File G-05-60H (the "Arbitration Proceeding").

The parties have engaged in extensive discovery (exchanging over 800,000 pages of documents) in the Arbitration Proceeding and have exchanged initial and supplemental expert reports. According to the report of Calpine's expert witness, Decatur's damages, not counting mitigation, are \$429,711,762 and Calpine Central's damages are \$73,054,619. According to the report of Solutia's expert witness, Decatur and Calpine Central suffered no damages, unless one analyzes Decatur and Calpine Central as a single entity, in which case the consolidated entity's damages are approximately \$13,654,000. On June 29, 2007, Decatur and Calpine Central filed

81

amended proofs of claim with the Court asserting damages in the amount estimated by Calpine's expert. (49)

On June 5, 2007, Solutia agreed upon a settlement in principle (the "Calpine Settlement") with Decatur and Calpine Central to resolve Solutia's objection to the Calpine Claims. Under the Calpine Settlement, Decatur and Calpine Central will be granted an Allowed Class 13 General Unsecured Claim for \$140 million against Solutia, which claim will be treated similarly to all other Allowed General Unsecured Claims. The Calpine Settlement is subject to the execution of formal documentation, approval by the Board of Directors of Calpine Corporation (scheduled for July 16, 2007), approval by this Court and approval by the bankruptcy court presiding over the chapter 11 cases of Decatur and Calpine Central. After the Calpine Board of Directors has approved the Calpine Settlement, Solutia will seek this Court's approval of the Calpine Settlement pursuant to, inter alia, Bankruptcy Rule 9019 by separate motion, which will describe the Calpine Settlement in more detail. If the Calpine Board of Directors does not approve the Calpine Settlement, then the parties have agreed to proceed with the Arbitration Proceeding, which is currently scheduled for hearing on August 27-30 and September 5-7, 2007.

8. AVOIDANCE ACTIONS

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A number of transactions occurred prior to the Petition Date that Solutia believes may have given rise to claims, including preference actions, fraudulent transfer and conveyance actions, rights of setoff and other claims or causes of action under sections 510, 544, 547, 548, 549, 550 and/or 553 of the Bankruptcy Code and other applicable bankruptcy or non-bankruptcy law (collectively, the "Avoidance Actions").

Pursuant to section 546(a) of the Bankruptcy Code, the statute of limitations with respect to the commencement of avoidance or recovery actions under sections 544, 545, 547, 548 and 553 of the Bankruptcy Code expired on December 17, 2005, i.e., two years after the Petition Date. Starting on December 14, 2005, and concluding on December 17, 2005, Solutia commenced Avoidance Actions in connection with a variety of prepetition payments and other transfers. Solutia commenced these Avoidance Actions to preserve the causes of action for the benefit of Solutia's Estates. A schedule of the Avoidance Actions commenced by Solutia is attached as Exhibit H. On January 10, 2006, Solutia filed a Motion for Order Extending Deadline to Serve Avoidance Complaints and Canceling or Adjourning Pretrial Conferences, seeking an extension of the deadline for serving summonses and complaints in connection with the Avoidance Actions, which motion was granted. While the summons and complaints have been issued and served on all defendants, the defendants have no obligation to respond and no litigation shall proceed until further notice in writing by Solutia that the Avoidance Action will be pursued. If the Amended Plan is confirmed, certain of these Avoidance Actions may be released, and others may continue to be pursued.

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(49) Solutia reserves the right to contest the amendment of Decatur and

(a) Preference Actions

Under sections 547 and 550 of the Bankruptcy Code, a debtor may seek to avoid and recover certain prepetition payments and other transfers made by the debtor to or for the benefit of a creditor in respect of an antecedent debt, if such transfer (i) was made when the debtor was insolvent and (ii) enabled the creditor to receive more than it would receive in a hypothetical liquidation of the debtor under Chapter 7 of the Bankruptcy Code where the transfer had not been made. Transfers made to a creditor that was not an "insider" of the debtor are subject to these provisions generally only if the payment was made within 90 days prior to the debtor's filing of a petition under Chapter 11 of the Bankruptcy Code (the "Preference Period"). Under section 547, certain defenses, in addition to the solvency of the debtor at the time of the transfer and the lack of preferential effect of the transfer, are available to a creditor from which a preference recovery is sought. Among other defenses, a debtor may not recover a payment to the extent such creditor subsequently gave new value to the debtor on account of which the debtor did not, among other things, make an otherwise unavoidable transfer to or for the benefit of the creditor. A debtor may not recover a payment to the extent such payment was part of a substantially contemporaneous exchange between the debtor and the creditor for new value given to the debtor. Further, a debtor may not recover a payment if such payment was made, and the related obligation was incurred, in the ordinary course of business of both the debtor and the creditor. The debtor has the initial burden of proof in demonstrating the existence of all the elements of a preference and is presumed to be insolvent during the Preference Period. The creditor has the initial burden of proof as to the aforementioned defenses.

(b) Fraudulent Transfer and Conveyance Actions

Generally, a conveyance or transfer is fraudulent if: (i) it was made with the actual intent to hinder, delay or defraud a creditor (i.e., an intentional fraudulent conveyance); or (ii) (a) reasonably equivalent value was not received by the transferee in exchange for the transfer and (b) the debtor was insolvent at the time of the transfer, was rendered insolvent as a result of the transfer or was left with insufficient capitalization as a result of the transfer (i.e., a constructive fraudulent conveyance). Two primary sources of fraudulent conveyance law exist in a chapter 11 case.

(i) Section 548 of the Bankruptcy Code

The first source is section 548 of the Bankruptcy Code, under which a debtor in possession or bankruptcy trustee may avoid fraudulent transfers that were made or incurred on or within one year before the date that a bankruptcy case is filed.

(ii) Section 544 of the Bankruptcy Code

The second source is section 544 of the Bankruptcy Code--the so-called "strong-arm provision"--under which the debtor in possession (or creditors with bankruptcy court permission) may have the rights of a creditor under state law to avoid transfers as fraudulent. State fraudulent conveyance laws generally have statutes of limitations longer than one year and are applicable in a bankruptcy proceeding pursuant to section 544 of the Bankruptcy Code if the statute of limitations with respect to a transfer has not expired prior to the filing of the

bankruptcy case. If such statute of limitations has not expired, the debtor in possession (or creditors with bankruptcy court permission) may bring the fraudulent conveyance claim within the time period permitted by section 546 of the Bankruptcy Code notwithstanding whether the state statute of limitations period expires prior to the expiration of such time.

B. PENDING LEGAL PROCEEDINGS OUTSIDE THE BANKRUPTCY COURT

1. CASH BALANCE PLAN LITIGATION

Since October 2005, current or former participants in the Solutia Pension Plan have filed three class actions alleging that the Solutia Inc. Employees' Pension Plan (the "Solutia Pension Plan") is discriminatory based

upon age and that the lump sum values of individual account balances in the Solutia Pension Plan have been, and continue to be, miscalculated. Two of these cases, captioned Davis v. Solutia, Inc. Employees' Pension Plan and Hammond v. Solutia, Inc. Employees' Pension Plan, are still pending against the Solutia Pension Plan and were consolidated in September 2006 with similar cash balance pension plan cases pending in the Southern District of Illinois against Monsanto and the Monsanto Company Pension Plan (Walker v. The Monsanto Pension Plan) and the Pharmacia Cash Balance Pension Plan, Pharmacia Corporation, Pharmacia and Upjohn, Inc., and Pfizer Inc. (Donaldson v. Pharmacia Cash Balance Pension Plan). The plaintiffs in the Solutia Pension Plan cases seek to obtain injunctive and other equitable relief (including money damages awarded by the creation of a common fund) on behalf of themselves and the nationwide putative class of similarly situated current and former participants in the Solutia Pension Plan. Neither Solutia nor any of the other Debtors have been named as a defendant in any of these cases.

A Consolidated Class Action Complaint was filed by all of the plaintiffs in the consolidated case on September 4, 2006. The plaintiffs in the complaint alleged three separate causes of action against the Pension Plan: (a) the Pension Plan violates ERISA by terminating interest credits on prior plan accounts at the age of 55; (b) the Pension Plan is improperly backloaded in violation of ERISA; and (c) the Pension Plan is discriminatory on the basis of age.

On August 7, 2006, the Seventh Circuit Court of Appeals issued its decision in Cooper v. IBM Personal Pension Plan, finding that the calculation of IBM's cash balance plan formula - which is comparable to the Solutia Plan - did not constitute age discrimination under ERISA. On January 16, 2007, the United States Supreme Court declined to hear an appeal of the Cooper case, thus confirming the order of the Seventh Circuit.

Motions for class certification were filed in late 2006 by the plaintiffs against each of the defendants and briefing on such motions has been completed. With respect to the Solutia Pension Plan, plaintiffs moved to certify a class only with respect to the claim that termination of interest credits violate ERISA.

Solutia is the sponsor and administrator of the Solutia Pension Plan. A negative outcome in this litigation could affect Solutia because the Solutia Pension Plan will not be terminated, and will continue after the Debtors' emergence from the Chapter 11 Cases.

84

## 2. SIP PLAN LITIGATION

On October 7, 2004, a purported class action titled Dickerson v. Feldman was filed in the New York District Court against a number of defendants, including former officers and employees of Solutia and Solutia's Employee Benefits Plan Committee and Pension and Savings Fund Committee. Neither Solutia nor any of the other Debtors is named as a defendant. The action alleged breach of fiduciary duty under ERISA and sought to recover alleged losses to the Solutia Inc. Savings and Investment Plan ("SIP Plan") during the period from December 16, 1998 to the date the action was filed. The investment of SIP Plan assets in Solutia's common stock was alleged to have been imprudent because of the risks and liabilities related to Solutia's legacy environmental and litigation liabilities and because of Flexsys' alleged involvement in the matters described in Section VI.B.3(b) of this Disclosure Statement. The action sought monetary payment to the SIP Plan to recover the losses resulting from the alleged breach of fiduciary duties, as well as injunctive and other appropriate equitable relief, reasonable attorney's fees and expenses, costs and interest. In addition, Dickerson filed a proof of claim in the amount of \$269 million against Solutia in the Chapter 11 Cases.

Dickerson then sought to withdraw the reference of his ERISA claim from the Bankruptcy Court to the New York District Court so that the proof of claim and the purported class action could be considered together by the District Court. On March 11, 2005, the District Court denied without prejudice Dickerson's motion to withdraw the reference. The Dickerson plaintiffs subsequently amended their initial complaint to add several current officers and directors of Solutia as defendants. On July 5, 2005, the defendants filed motions to dismiss Dickerson's amended complaint. Dickerson also had filed an amended proof of Claim in the amount of \$290 million against Solutia on September 1, 2005, based on his amended complaint. On September 7, 2005, Dickerson filed a motion for class certification of his proof of Claim.

On March 30, 2006, the District Court granted the defendants' motion to dismiss on the grounds that the Dickerson plaintiff lacked standing to sue and that the complaint failed to state a claim on which relief may be granted.

The dismissal of Dickerson's cause of action resulted in dismissal of the entire purported class action, including claims asserted on behalf of the unnamed purported class members. On April 3, 2006, Dickerson filed an appeal of the dismissal with the United States Court of Appeals for the Second Circuit. The parties have fully briefed the appeal, the oral argument occurred on May 21, 2007 and the appeal is pending.

Solutia filed an objection to Dickerson's Claim in June of 2006 on the basis that the dismissal of the underlying lawsuit was dispositive of the Claim. Dickerson filed a response seeking a stay of the Court's consideration of the objection pending the resolution of Dickerson's appeal in the Second Circuit. On June 21, 2007, Solutia filed a supplemental objection to Dickerson's Claim asserting that the Claim arises from the purchase or sale of securities and thus, even if such Claim survives appeal and is allowable, it is subject to subordination pursuant to Bankruptcy Code section 510(b). Accordingly, under the Amended Plan, the Dickerson Claim is classified in Class 19 as "Security Claims" and will be discharged without any Distributions.

On June 25, 2007, a new purported class action entitled Reiff v. Metz was filed in the United States District Court, Southern District of New York against the same defendants named

in the Dickerson lawsuit. The factual allegations and legal claims in Reiff appear to be virtually identical to those of Dickerson, however, the purported class representative in Reiff is a current Solutia employee whereas the purported class representative in Dickerson is not.

[In the event Dickerson's Claim is not subordinated pursuant to section 510(b) of the Bankruptcy Code and Dickerson is ultimately successful in his lawsuit, it could result in Dickerson's Claim asserted in the amount of \$29 million being allowed as a General Unsecured Claim. Solutia and Dickerson are discussing a resolution of the objection and a settlement of the Dickerson Claim. The proposed settlement would, (a) allow Dickerson relief from the automatic stay and plan injunction provisions to pursue his alleged prepetition and postpetition claims against Solutia, but (b) limit any recovery available to Dickerson to insurance proceeds.]

3. SIGNIFICANT LEGAL PROCEEDINGS INVOLVING NON-DEBTOR  
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AFFILIATES OF SOLUTIA  
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(a) Flexsys Patent and Related Litigation

Flexsys America L.P. ("Flexsys America"), recently acquired by Solutia as part of the Flexsys Acquisition, holds various patents covering inventions in the manufacture of rubber chemicals, including patents describing and claiming a manufacturing process for 4-aminodiphenylamine ("4-ADPA"), a key building block for the manufacture of 6PPD and IPPD, as well as a manufacturing process for 6PPD and IPPD, which function as anti-degradants and are used primarily in the manufacture of rubber tires.

Legal Proceedings in the United States

The ITC proceeding. In February 2005, Flexsys America filed a complaint with the U.S. International Trade Commission ("ITC"), requesting that the ITC initiate an investigation against Sinorgchem Co. Shangdong, a Chinese entity ("Sinorgchem"), Korea Kumho Petrochemical Company, a Korean company ("KKPC"), and third party distributors of Sinorgchem. Flexsys America claims that the process Sinorgchem used to make 4-ADPA and 6PPD, its sale of 6PPD for importation into the U.S., and Sinorgchem's sale of 4-ADPA to KKPC and KKPC's importation of 6PPD into the U.S. were covered by Flexsys America's patents. Accordingly, Flexsys America requested that the ITC issue a limited exclusion order prohibiting the importation into the United States of 4-ADPA and 6PPD originating from these entities. In February 2006, an Administrative Law Judge ("ALJ") of the ITC determined that Flexsys America's patents were valid, that the process used by Sinorgchem to make 4-ADPA and 6PPD was covered by Flexsys America's patents, and that Sinorgchem and its distributor, but not KKPC, had violated section 1337 of the U.S. Tariff Act. In July 2006, the ITC substantially upheld the ALJ's decision, and subsequently issued a limited exclusion order against Sinorgchem and its distributor prohibiting them from importing 4-ADPA and 6PPD manufactured by Sinorgchem into the United States. Sinorgchem has appealed the ITC decision to the United States Court of Appeals for the Federal Circuit. Briefing has been completed and oral arguments are scheduled for August 2007.

Flexsys America L.P. v. Kumho Tire U.S.A., Inc. et al. In January 2005, Flexsys America filed suit in United States District Court for the

certain other tire distributors seeking monetary damages as well as injunctive relief. This action is currently stayed pending resolution of the ITC matter described above.

In re Rubber Chemicals Antitrust Litigation. In April 2006, KKPC filed suit against Flexsys America in the United States District Court for the Central District of California for alleged violations of the Sherman Act, breach of contract, breach of the implied covenant of good faith and fair dealing, declaratory relief, intentional interference with prospective economic advantage, disparagement and violations of the California Business & Professions Code. This matter was subsequently transferred to the United States District Court, Northern District of California. Flexsys America has filed a motion to dismiss KKPC's complaint, which is currently pending before the Court.

#### Legal Proceedings in Korea

In April 2004, Flexsys America filed a patent infringement action in Korean Civil Court against KKPC seeking to enjoin it from manufacturing 6PPD in violation of Flexsys America's Korean patent. Flexsys America believes Sinorgchem manufactures 4-ADPA using Flexsys America's patented process, that KKPC imports Sinorgchem's 4-ADPA into Korea and uses it to manufacture 6PPD for the production of rubber tires for sale in Korea. In late 2004, the Korean District Court dismissed the action and found Flexsys America's Korean patent invalid. The District Court's decision was upheld on appeal by the Korean High Court. Flexsys America has appealed the decision to the Supreme Court of Korea.

Also in April 2004, Sinorgchem filed an action with the Korean Intellectual Property Tribunal ("IPT") seeking to invalidate Flexsys America's Korean patent. The IPT issued a decision invalidating significant claims of Flexsys America's Korean patent. The IPT decision was reversed on appeal by the Patent Court of Korea. Sinorgchem has appealed the decision to the Supreme Court of Korea.

Solutia expects the Supreme Court of Korea to render decisions in both cases in early 2008.

#### Legal Proceedings in Europe and China

Various parties, including Sinorgchem and other competitors of Flexsys America, have filed other, separate actions in patent courts in Europe and China seeking to invalidate certain of Flexsys America's patents issued in those jurisdictions. One decision has been issued to date by the European Patent Office under which it upheld the validity of significant claims of Flexsys America's patent. Decisions in the other pending cases are not expected before the end of 2007.

Flexsys is not a Debtor in the Chapter 11 Cases and liabilities, if any, associated with this, or other Flexsys litigation, will not be subject to treatment or discharge in the Chapter 11 Cases.

#### (b) Other Flexsys Related Litigation

Antitrust authorities in the United States, Europe and Canada have been investigating past commercial practices in the rubber chemicals industry, including the practices of Flexsys. The practice being investigated occurred during the period that Flexsys was a 50/50 joint venture between Solutia and Akzo Nobel. The European Commission issued its findings from its investigation in 2005, in which the Commission granted Flexsys full immunity from any potential fines. Investigations regarding the industry may still be on-going in the United States and Canada, but to date, no findings have been made against Flexsys in either country. In addition, a number of purported civil class actions have been filed against Flexsys and other producers of rubber chemicals on behalf of indirect purchasers of rubber chemical products. A series of such purported class actions have been filed against Flexsys in various state courts in the United States and in four courts in Canada. However, all of these cases have been dismissed, or are currently subject to confirmed or tentative settlements. For information concerning other significant Flexsys litigation, please see the description in the "Commitments and Contingencies" footnote in Flexsys' financial statements, a copy of which is attached as an Exhibit to Solutia's 2006 Annual Report on Form 10K which is

As noted above, Flexsys is not a Debtor in the Chapter 11 Cases and liabilities, if any, associated with this or other Flexsys litigation will not be subject to treatment or discharge in the Chapter 11 Cases.

(c) Ferro Antitrust Investigation

Competition authorities in Belgium and several other European countries are investigating past commercial practices of certain companies engaged in the production and sale of butyl benzyl phthalates ("BBP"). One of the BBP producers under investigation by the Belgian Competition Authority ("BCA") is Ferro Belgium sprl, a European subsidiary of Ferro Corporation ("Ferro"). Ferro's BBP business in Europe was purchased from Solutia in 2000. Solutia received an indemnification notice from Ferro and has exercised its right, pursuant to the purchase agreement relating to Ferro's acquisition of the BBP business from Solutia, to assume and control the defense of Ferro in proceedings relating to these investigations. On July 7, 2005, the BCA Examiner issued a Statement of Objections regarding its BBP investigation in which SESA, a European non-Debtor subsidiary of Solutia, along with Ferro Belgium sprl and two other producers of BBP, is identified as a party under investigation with respect to its ownership of the BBP business from 1997 until the business was sold to Ferro in 2000. SESA's written comments to the Statement of Objections were submitted on August 31, 2005 and presented at an oral hearing before the BCA on September 6, 2005. The Examiner submitted its Reasoned Report to the BCA on December 22, 2005. Solutia is not named as a party under investigation in the Reasoned Report. SESA will have an opportunity to submit comments to the BCA on the Reasoned Report in writing and at a subsequent oral hearing on a date that has not yet been determined by the BCA. Solutia and SESA are fully cooperating with the BCA in this investigation. Because the indemnification obligations with respect to these matters are obligations of SESA, which is not a Debtor in the Chapter 11 Cases, such indemnification

obligations, if any, will not be subject to treatment or discharge in the Chapter 11 Cases and Solutia will, directly or indirectly, bear the full cost of any fines assessed against SESA.

4. COMMERCIAL LITIGATION  
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(a) Litigation against INEOS Americas LLC

Solutia Canada Inc. ("Solutia Canada") filed suit in Quebec Court in December 2006, alleging breach of contract by INEOS Americas LLC ("INEOS"). In late 2002, Solutia Canada negotiated a Stock and Asset Sale Agreement for the sale of its Resimenes & Additives business to UCB S.A ("UCB"). As part of this agreement, Solutia Canada agreed to exclude from the agreement the assets of its LaSalle Plant in Quebec, and separately entered into the LaSalle Toll Agreement ("LTA") with UCB. The LTA passed through all the benefits and risks of ownership of the LaSalle operations to UCB, other than pre-closing environmental liabilities. Solutia Canada agreed in the LTA to operate its LaSalle Plant for the benefit of UCB and to provide all the necessary services to convert UCB's raw materials on a cost-neutral basis. Thus, UCB agreed to pay Solutia Canada for all of its actual, direct and indirect costs incurred in connection with the performance or supply of services under the LTA or in holding itself ready to perform or supply those services. In the years after its execution, the LTA was assigned by UCB to Cytec Industries, Inc., then to INEOS.

On January 31, 2006, INEOS notified Solutia Canada of its intention to terminate the LTA effective January 31, 2008. INEOS' decision to terminate the LTA will likely trigger the shutdown of all activities at the LaSalle Plant, resulting in termination costs recoverable by Solutia Canada against INEOS. Solutia Canada estimates that the overall termination costs associated with the termination of the LTA and the shutdown of the LaSalle Plant will total approximately \$31 million (CAD). Solutia Canada provided INEOS with an estimate of the expected termination costs prior to the notice of termination. INEOS disputes the overall amount of Solutia Canada's termination costs.

Solutia Canada filed suit against INEOS for breach of the LTA with respect to termination costs. On March 26, 2007, INEOS filed a cross-demand against Solutia Canada for approximately \$1.15 million (CAD), alleging that Solutia Canada improperly charged INEOS on its October and November 2006 invoices for items which INEOS claims are not actual, direct or indirect costs under the LTA. INEOS reserved the right to amend its demand for additional alleged overpayments on any future invoices through the remaining term of the LTA. Solutia Canada denies INEOS' allegations.

Solutia Canada is not a Debtor in the Chapter 11 Cases and liabilities, if any, associated with this litigation will not be subject to treatment or discharge in the Chapter 11 Cases.

5. OTHER MATTERS  
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(a) Probst v. Monsanto and Solutia

On February 22, 2000, a group of 35 former Solutia employees who were terminated by Solutia and became employees of Astaris, a former joint venture between Solutia and FMC

89

Corporation, filed a charge with the Equal Employment Opportunity Commission ("EEOC") alleging age discrimination under the Age Discrimination in Employment Act against Pharmacia and Solutia (collectively, the "Probst Charge").

The Probst Charge alleged that the transfer of employees to Astaris resulted in age discrimination because the employees were no longer covered by the Solutia Pension Plan as of their transfer date. The Probst Charge also alleged that Pharmacia's conversion of the (Old) Monsanto Pension Plan from a final average pay formula to a cash balance formula defined benefit pension plan was age discriminatory and that Solutia's adoption of a mirror cash balance pension plan and continued administration of that plan is age discriminatory. Further, the Probst Charge claimants alleged that Solutia and Pharmacia misrepresented the effect that the conversion from a final average pay formula to a cash balance formula defined benefit pension plan would have on older workers.

The EEOC started its investigation of the Probst Charge in 2000, and Solutia cooperated with the EEOC. After an initial period of investigation, the inquiry was generally dormant for several years. The EEOC did not formally conclude its investigation until September 2006, at which time the EEOC dismissed the charges and issued separate right-to-sue notices to all 35 former employees. In the right-to-sue notices, the EEOC noted that the employees had received a greater benefit under the new cash balance pension plan than they would have under the previous plan, and that cash balance pension plans are not, by their nature, discriminatory on the basis of age. Pursuant to the terms of the right-to-sue notices, the employees were required to file any suits under the ADEA within 90 days of receipt of the notices. The 90-day period expired in December 2006, and Solutia has not been served with any lawsuits to date arising out of the Probst Charge.

On November 23, 2004, Probst filed a proof of claim in the Chapter 11 Cases, attaching the Probst Charge. The Probst proof of claim was filed as an unsecured, non-priority, contingent and unliquidated disputed Claim. Solutia intends to object to the Probst Claim now that the EEOC investigation has concluded and the period during which the employees had the right to bring suit under the ADEA has passed.

(b) Department of Labor Investigation

Solutia was contacted in 2005 by the Department of Labor ("DOL"), through the Employee Benefits Security Administration informing Solutia that it wanted to conduct an investigation of Solutia's SIP Plan. Solutia fully cooperated with the DOL throughout the investigation.

On December 6, 2006, the DOL issued a letter stating that, based on the facts gathered, it appeared that Solutia, through its fiduciaries, breached its fiduciary obligations and violated provisions of ERISA with respect to the SIP Plan. Specifically, the DOL stated that it did not find sufficient evidence that: (i) the Pension and Savings Funds Committee ("PSFC") sufficiently monitored the Solutia Stock Fund option within the SIP Plan to determine if the Solutia Stock Fund continued to be a prudent investment for the SIP Plan prior to December 15, 2003; and (ii) the Solutia Board of Directors, CEO and PSFC, prior to December 15, 2003 adequately monitored the SIP Plan fiduciaries, including the PSFC, the Employee Benefits Plan Committee,

90

and the Northern Trust Company of Connecticut. The DOL did not assert in its letter that the SIP Plan or its participants had been harmed by these alleged breaches. Further, the DOL did not find that the offering of the Solutia Stock Fund as an investment option in the SIP Plan was itself a violation of ERISA, or that it caused any participant to suffer investment losses. Further, the

DOL did not assert any monetary fines or penalties against the Company based on its findings to date. The DOL stated in the letter that its findings were subject to the possibility that additional information could lead the DOL to revise its views.

The DOL did not choose to file suit against the Solutia fiduciaries, instead offering Solutia the opportunity to voluntarily discuss how the alleged violations may be corrected. Solutia submitted additional information to the DOL in January 2007 to support the Company's request for reconsideration of the DOL's findings.

On June 27, 2006, substantially past the November 30, 2004 bar date for filing claims, the Department of Labor filed a proof of Claim for an unsecured claim in an unliquidated amount. There is insufficient information included in the Claim to determine whether it pertains to this investigation of the SIP Plan.

VII.  
REORGANIZED SOLUTIA  
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A. BUSINESS OVERVIEW  
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As described in Section IV.A of this Disclosure Statement, Solutia, together with its Debtor and non-Debtor subsidiaries, is a global manufacturer and marketer of high-performance chemical and polymer-based materials. Reorganized Solutia will function as a single integrated operating company with a foundation comprised of five significant business lines--Nylon, Saflex, Flexsys, CPFilms and Specialty Products--each of which provides materials principally to the transportation, construction and manufacturing industries.

Solutia's global headquarters is located in St. Louis, Missouri. Solutia also has corporate offices in Belgium, Brazil and Singapore. Solutia and its subsidiaries operate 27 manufacturing sites, eleven technical centers and over 30 sales offices around the world. Upon the closing of Flexsys on May 1, 2007, Solutia's global workforce was comprised of approximately 5,800 employees. Approximately 200 employees served in various corporate headquarters functions or in corporate functions not specifically related to any single business. The remaining 5,600 employees were employed in one of Solutia's five primary businesses. Approximately 4,100 employees were based in the United States, with the remaining employees spread across Solutia's facilities throughout the rest of the world.

B. THE NYLON BUSINESS  
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The Nylon business consists of nylon fiber, plastics and intermediate chemical products used in construction, automotive, consumer and industrial applications. The Nylon business is the second largest Nylon 6,6 manufacturer in North America and the largest of Reorganized Solutia's businesses. The overall market for Nylon 6,6 continues to grow worldwide and, while

91

this product is mature, its use has expanded to applications where its characteristics provide the greatest value to customers.

For 2006, the Nylon business generated approximately \$1.7 billion in net sales, accounting for approximately 59% of Solutia's total net sales. The Nylon business which had approximately 2,200 employees as of December 31, 2006, operates facilities in Alvin, Texas (Chocolate Bayou), Decatur, Alabama, Foley, Alabama, Greenwood, South Carolina and Pensacola, Florida. Sales outside the domestic United States are increasing with about 31% of consolidated net sales in 2006 into markets outside the United States, compared with 20% in 2005.

The Nylon business comprises an integrated family of nylon products, as follows:

- o Solutia's Vydyne(R) nylon molding resins, Ascend(R) nylon polymers and nylon industrial fibers, which are sold into the automotive, engineered thermoplastic, apparel, textile, commercial and industrial markets in products such as knit clothing, dental floss, tires, airbags, molded automotive parts, conveyor belts, cooking bags, food packaging and camping gear.
- o Solutia's nylon carpet staple and nylon bulk continuous filament which are sold under the Wear-Dated(R) brand for residential carpet and the Ultron(R) brand for commercial



carpet, as well as under private labels for the residential, commercial and industrial markets.

- o Solutia's chemical intermediates, including adipic acid, hexamethylenediamine and acrylonitrile are used internally as feedstock for fiber and resins production and are also sold on the merchant market for use in nylon and acrylic fiber, nylon and ABS plastic, synthetic resins, synthetic lubricants, paper chemicals and plasticizers.

Solutia holds a complete set of fully integrated processes and a highly flexible set of assets in the Nylon business. Importantly, there is a growth market in Nylon for engineering thermoplastics in which Solutia can compete. Management's strategic review of the Nylon business confirmed that Nylon 6,6 remains a high-performance, cost-effective polymer providing Solutia's customers superior performance in the areas of chemical, abrasion and heat resistance and processability in a variety of end-use applications. As one of the world's few fully integrated suppliers, Solutia's Nylon business is well positioned to create and sustain a highly competitive cost position.

Managing the Nylon business, historically the most volatile of Solutia's businesses, will require management to further improve Solutia's cost position and continue to reduce its exposure to volatile raw material and energy price risks. Solutia's management believes that by altering the way in which Reorganized Solutia operates its assets, and through selected investments in reliability, significant improvements to Solutia's cost position are possible. Solutia has addressed perceived weaknesses in its cost structure by focusing its resources on improving the operating efficiency and reliability of its plants. To date, process technology improvements in the Nylon intermediates areas have been implemented which materially improve the quality, cost and reliability of these operations. Solutia also has restarted its phenol

92

to ketone alcohol assets which provide additional improvements to cost, and importantly also provide improved reliability in its Nylon business. In order to address Solutia's exposure to the volatility of natural gas and oil prices, Solutia is focused on implementing a number of projects which will significantly change the energy profile of its operations. Solutia expects that by 2008, it will reduce its exposure to natural gas and fuel oil prices and build up a corresponding increase in reliance on energy provided by coal, nuclear and other fuels at its operating sites. In addition, restructuring commercial contracts with emphasis on conversion margins while passing along input prices via formulas will be another way in which price risk may be mitigated.

Reorganized Solutia intends to focus its Nylon business on the growing markets in nylon plastics, chemicals and fibers. Given Solutia's already flexible and integrated set of Nylon assets and through additional low cost investments, Solutia intends to become a more balanced player in all three Nylon markets (reducing its emphasis on North American fiber markets). Solutia intends to continue investing in low cost fiber to plastic asset conversions in order to increase its supply and participation in the global plastics market, particularly focusing its participation in the fast growing China region. As a consequence of these conversions, Solutia's exposure to commodity staple fiber markets will be reduced. Nylon intermediate chemicals (for both nylon and non nylon applications) will continue to play an important role as will a smaller more focused fiber business. Solutia, while historically a large Nylon staple fiber supplier to the North American carpet market will now focus on participating in the growing BCF portion of the carpet market as well as supplying staple into branded segments where it remains highly valued.

Reorganized Solutia intends to use the significant cash flow generating ability of the Nylon business to fund growth opportunities in Nylon, such as the fast growing markets for nylon engineering thermoplastics, in addition to growth opportunities in the Saflex, CPFilms and specialty chemicals sets of businesses. New commercial agreements and operating improvements, combined with a more strategic, action-oriented approach to the marketplace, lead management to conclude that Nylon will play an important part of Reorganized Solutia.

#### C. THE SAFLEX BUSINESS -----

The Saflex business is the world's largest producer of PVB sheet, a plastic interlayer used in the manufacture of laminated glass for automotive and architectural applications. Besides PVB sheet, which is mostly marketed under the Saflex(R) brand, specialty intermediate PVB resin products sold under the Butvar(R) brand, optical grade PVB resin and plasticizer are

marketed and sold worldwide. Saflex is a growing business and is positioned to be the fastest growing segment of Solutia's post-emergence business portfolio.

The Saflex business generated approximately \$663 million of net sales in 2006, accounting for approximately 23% of Solutia's total net sales. The Saflex business which had approximately 1,200 employees as of December 31, 2006, operates facilities in Antwerp, Belgium, Ghent, Belgium, Newport, Wales (U.K.), Puebla, Mexico, Sao Jose dos Campos, Brazil, Singapore, Springfield, Massachusetts and Trenton, Michigan. The Saflex business is particularly dependent on international operations with 77% of consolidated net sales in 2006 into markets outside the United States, with the European market the most significant market region globally.

93

Growth in the Saflex business will be driven by the introduction of new PVB products, increased penetration of geographic markets and the creation of new primary demand for PVB interlayers and other film technologies worldwide. Solutia anticipates that over 80% of global demand growth will be in Europe and Asia and nearly half of demand growth will be in the architectural market.

Solutia's research and development programs in the Saflex business emphasize the development and commercialization of specialty products for the window glazing and specialty materials markets, such as a new acoustic safety interlayer for automotive windshields and bilayer products for automotive sunroofs. Research programs also focus on new process development for the manufacture of PVB resin and PVB sheet products, positioning Saflex as the low-cost high-quality producer of the industry.

Solutia's focused technology investments during the Chapter 11 Cases in new and enhanced products has positioned Saflex to deliver benefits to consumers in important areas such as storm and hurricane protection, thermal/solar benefits, acoustics, colors and other aesthetics in addition to the safety and security role that laminated glass has played historically. The market for PVB is very attractive as demand for flat glass has outperformed global gross domestic product for many years, while demand for laminated glass has outpaced the growth in flat glass. Demand for laminated glass continues to grow globally with exceptionally strong growth foreseen in Europe and Asia over the next five years.

Saflex will generate profitable new revenues resulting from additional investments in plant and equipment initiated during the Chapter 11 Cases and aimed at serving the rapidly emerging Asian and European automotive and architectural markets as well as delivering the capability enhancements needed to supply newly developed products to the market. Expansions of Solutia's laminated glass interlayer production capacity and capability in China and construction of a third extrusion line at Solutia's Ghent facility will significantly enhance Solutia's manufacturing presence in the growth markets of Asia and Europe in automotive and architectural applications. Solutia's acquisition of PVB capacity in Puebla, Mexico and its subsequent improvements to this capacity provides lower overall systems cost and unlimited access to the expanding market for laminated glass in Mexico. The investments, coupled with Solutia's already substantial positions in North America and Europe, lead management to believe that Solutia can create cost-advantaged positions in every major world area while ensuring that it meets the growing demand for laminated glass around the world.

Management believes that sustained investment in market development, technology and new capacity throughout the restructuring period has positioned the Saflex business for rapid, profitable growth following emergence.

D. THE FLEXSYS BUSINESS  
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The newest piece of Solutia's post emergence portfolio is Flexsys, a global leader in high quality chemicals for the rubber industry. These chemicals help cure and protect rubber, impart desirable properties to cured rubber, increase durability, and lengthen product life. Flexsys

94

products play an important role in the manufacture of tires and other rubber products such as belts, hoses, seals and footwear.

For 2006, the Flexsys business generated approximately \$606 million in net sales. Flexsys employs more than 600 people and its headquarters are in Brussels, Belgium. Flexsys products are manufactured at 15 facilities worldwide: eight in Europe, three in North America, two in South America and

two in Asia. Flexsys has 8 offices and a sales force of approximately 20 employees plus a worldwide network of agents and distributors.

Flexsys manufactures more than 50 different products which are classified into two main product groups: vulcanizing agents, principally insoluble sulphur, and rubber chemicals. Insoluble sulphur is a key vulcanizing agent manufactured predominantly for the tire industry. Flexsys is the world's leading supplier of insoluble sulphur marketed under the trade name of Crystex(R). Flexsys has three product groups within rubber chemicals: anti-degradants; accelerators; and other rubber chemicals.

Flexsys has been enhancing profitability by focusing its portfolio on products that demonstrate a competitive advantage, investing in new low-cost world scale manufacturing facilities, and introducing new low cost technologies to the rubber chemicals market. It has capitalized on its historic technology leadership position, strong commercial relationships with industry leading customers and global manufacturing and distribution network to maintain and grow its business.

Solutia expects to take advantage of administrative and commercial synergies between Solutia and Flexsys, which has operated as a standalone company since 1995. Moreover, Solutia believes that it is uniquely qualified to restructure Flexsys and capture the benefits of any resulting operational and financial improvement. Like Solutia, Flexsys is a global specialty chemicals business that specializes in the "know how" of manufacturing market-leading products. In addition, Solutia's management is conducting a comprehensive and systematic strategic review of the Flexsys business similar to the strategic reviews carried out on Solutia's other material businesses during the Chapter 11 Cases. This strategic review will help focus management on integration and on the overall strategy related to this business going forward.

E. THE CPFILMS BUSINESS

CPFilms is another fast growing films business in Solutia which, like Saflex, adds functionality to glass. As the world's leading producer of high quality branded aftermarket window films, CPFilms will continue to focus on growing primary demand for window films both in the United States and globally. Solutia's CPFilms business manufactures and sells special custom coated window films under the brands Llummar(R), the world's best-selling brand of window film, Vista(R), a high performance line of products recognized by the design community as a leader in residential and commercial buildings, Gila(R), the leading brand of solar window film for the do-it-yourself retail market, and Formula One(R) high performance automotive films. CPFilms also manufactures various films for use in tapes, automotive badging, optical and colored filters, shades, packaging, computer touch screens, electroluminescent displays, and cathode ray tube and flat panel monitors.

95

For 2006, the CPFilms business generated approximately \$214 million of net sales, accounting for approximately 7% of Solutia's total net sales. The CPFilms business which had approximately 700 employees as of December 31, 2006, operates facilities in Martinsville, Virginia, Canoga Park, California, and Runcorn, U.K. During 2006, Solutia relocated the CPFilms' business team leads from Martinsville, Virginia to Solutia's corporate headquarters in St. Louis, Missouri. This move gives CPFilms management greater access to Solutia's senior executive management team and to other global resources. The CPFilms business is largely domestic but increasingly focused on sales from international operations with about 37% of consolidated net sales in 2006 into markets outside the United States.

CPFilms has been growing at a rate of more than 6% annually. CPFilms operates in a market where brands, product performance and innovation, quality and customer service support premium pricing. Growth is driven by the development of innovative solutions to meet consumer demand for safety and security, energy efficiency and decorative qualities in both automotive and architectural after-market window glazing applications and through the continued global expansion of branded products. To help create and support this growth, new investments in technology, marketing and plant and equipment have been made in the CPFilms business.

Relatively low market penetration in many expanding global economies and a relatively high utility and demand for the products' performance qualities, suggest a substantial growth opportunity for the category and for CPFilms as the global market leader. Reorganized Solutia will focus on driving product awareness in more developed markets as well as developing new markets around the world where the benefits of solar, control, energy efficiency, safety, security and aesthetics, are increasingly valued. Reorganized Solutia intends to place strategic emphasis on reinforcing and building CPFilms'

already strong position in the branded aftermarket window films segment. Additionally, CPFilms will focus on restructuring its product distribution channels, with particular emphasis on its domestic distribution, where it believes greater efficiencies and additional cost savings can be achieved.

F. THE SPECIALTY PRODUCTS BUSINESS  
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The Specialty Products business represents a unique set of niche businesses serving a diverse set of markets and end-users in the aerospace, manufacturing and industrial markets. These businesses are well-positioned and, in many cases, are world leaders, and historically have generated cash flows beyond that required to fund their continued growth. Solutia has strengthened these leading positions during the Chapter 11 Cases by continuing to invest in technology and customer service, and also through significant investments in new plant and equipment. The Specialty Products businesses, collectively, generated approximately \$265 million of net sales in 2006, accounting for approximately 9% of Solutia's total net sales.

As of December 31, 2006, approximately 800 people were employed in the Specialty Products business. Plastic products are manufactured in Ghent, Belgium and St. Louis, Missouri. Technical products are manufactured in Newport, Wales (U.K.). Heat transfer fluids are manufactured in Anniston, Alabama, Alvin, Texas (Chocolate, Bayou), Newport, Wales (U.K.) and Sao Jose dos Campos, Brazil. Aviation Fluids are manufactured in Anniston, Alabama. The

96

Specialty Products businesses are particularly dependent on international operations with approximately 75% of consolidated net sales in 2006 into markets outside the United States.

The principal product lines of the Specialty Products business are as follows:

- o PLASTIC PRODUCTS - a variety of products including entrance matting and automotive spray suppression flaps sold under the brands Astroturf(R), CLEAN Machine(R) and Clearpass(R).
- o HEAT TRANSFER FLUIDS - Therminol(R) heat transfer fluids used for indirect heating or cooling of chemical processes in various types of industrial equipment and in solar energy power systems. The fluids provide enhanced pumping characteristics, because they remain thermally stable at high and low temperatures. Therminol(R) fluids are leading products in the worldwide high temperature liquid phase market.
- o AVIATION FLUIDS - Skydrol(R) brand aviation hydraulic fluids and Skykleen(R) brand of aviation solvents supplied across the aviation industry. The Skydrol(R) line includes fire-resistant hydraulic fluids, which are used in more than half of the world's commercial aircraft.

Solutia competes in the plastic products business under various brand names including Astroturf(R), Clean Machine(R) and Clearpass(R), and by using continuous injection molding technologies to manufacture and market worldwide spray suppression mats for heavy trucking and premium-priced, high-performance entry matting, together with a range of other plastic products for use in the pet, poultry and sound suppression markets. Growth in these businesses will be primarily driven by new legislation regulating spray suppression systems for heavy trucking and product innovations that capitalize on continuous injection molding technology.

Solutia competes in the heat transfer fluid business by providing engineering solutions for high temperature heat transfer applications. Sales are typically made to engineering companies who design and build chemical and plastics manufacturing facilities, with continuing sales to the operators of facilities designed for use with Solutia's heat transfer fluids such as synthetic fiber manufacturing, oil and gas processing, pharmaceutical manufacturing, barge and terminal heating and solar energy power systems. Growth is dependent on new product development and the rate of worldwide new factory construction.

Solutia competes in the aviation fluid business by servicing technical needs of and selling products to airframe manufacturers and companies operating and/or servicing passenger or cargo airplane fleets. Growth is driven by increases in worldwide miles flown by passenger and cargo airline fleets.

Reorganized Solutia intends to identify and exploit opportunities to

reinforce and renew its industry leading positions within the Specialty Products business.

G. CAPITAL OBLIGATIONS TO BE SATISFIED OR COMPROMISED UPON EMERGENCE

As of the Petition Date, Solutia reported, on a consolidated basis, approximately \$1.2 billion in aggregate long-term indebtedness, primarily consisting of secured and unsecured notes, a bank credit facility and a synthetic lease financing arrangement. As set forth in the following table, Solutia plans to satisfy this indebtedness including indebtedness incurred under the DIP Credit Facility, the Senior Secured Notes, the Euro Facility Agreement and the Flexsys Secured Facilities Agreement from the proceeds of the Exit Financing Facility and other sources, as described in greater detail in Section VII.H.2 of this Disclosure Statement.

<TABLE>  
<CAPTION>

ANTICIPATED SOURCES AND USES OF CASH AT EMERGENCE (\$ AMOUNT IN MILLIONS) (50)

SOURCES:	USES:		<C>
	<C>	<C>	
(1) Surplus Cash(51)	156	DIP (Drawn)	924 (52)
(2) Exit Revolver(53)	59	Flexsys Term/Revolver(54)	150
Exit Term Loan B - USD Tranche	600	Senior Secured Notes(55)	223
Exit Term Loan B - Euro Tranche	600	Pension Funding	103
Exit Subordinated Bonds	400	Euro Loan	213
Maryville Note	20	Other cash outflows to facilitate emergence (Advisor fees, cure payments, etc)	172
Rights Offering Proceeds	250	Maryville Note	20
		Retiree Trust	175
		Funding Co	75
		Minimum Cash Balance	30

<FN>

(50) Assumes emergence occurs on June 30, 2007.

(51) Cash balance reduced to \$30 million at emergence with no restrictions.

(52) Pursuant to the Fifth Amendment, which was approved by the Bankruptcy Court on January 25, 2007, the DIP Credit Facility consists of (a) a \$975 million fully drawn term loan and (b) a \$250 million borrowing base revolving credit facility. The net proceeds of the sale of Dequest(R) water treatment phosphonates business were used to pay-down the term loan portion of the DIP Credit Facility.

(53) Total Revolver \$400 million: after letter of credits drawings pro forma liquidity on June 30, 2007 would be approximately \$300 million.

(54) As described above, of the \$1.225 billion DIP Credit Facility, \$150 million was utilized to partially finance Solutia's acquisition of Akzo Nobel's interest in the 50/50 Flexsys joint venture between Akzo Nobel and Solutia.

(55) The Allowed Amount of the Senior Secured Note Claims is subject to a determination of the Senior Secured Noteholders' rights under applicable law. Solutia believes that the Allowed amount of the Senior Secured Notes Claim will fall in a range between \$208 and \$223 million, with the low end of the range determined using the constant interest method as of September 30, 2007. However, the Senior Secured Notes Trustee has asserted that its claims on behalf of the Senior Secured Noteholders could exceed this amount. As set forth in the table above, to the extent that the Allowed amount of the Senior Secured Note Claims is \$223 million, Solutia believes that it will be able to obtain sufficient Cash from the Exit Financing Facility to pay these claims in full.

</TABLE>

<C>	<C>	<C>	<C>
TOTAL SOURCES	\$2,085	TOTAL USES	\$2,085

</TABLE>

1. DIP CREDIT FACILITY & PREPETITION SECURED BANK DEBT

The DIP Credit Facility served to replace Solutia's prepetition revolving credit facility. On October 8, 2003, the Borrowers entered into the Bank Credit Agreement with Ableco Finance LLC, a unit of Cerberus Capital Management, L.P. and other syndicate lenders, including Wells Fargo Foothill, Inc. and Congress Financial Corporation. The Bank Credit Agreement provided for a three-year, \$350 million revolving credit facility guaranteed by the Guarantors, and was secured by liens consisting of certain of the Borrowers' and Guarantors' working capital assets and real property, facilities and equipment. The funds borrowed under the Bank Credit Agreement were used to refinance and retire Solutia's then-existing bank credit facility, for general working capital purposes and to pay fees and expenses related to the Bank Credit Agreement. On December 19, 2003, Solutia, Solutia Business Enterprises Inc. and each of Solutia's other Debtor subsidiaries obtained the Interim DIP Facility. The Interim DIP Facility provided up to \$500 million in debtor-in-possession financing, which was secured by substantially all of Solutia's assets and from which Solutia made an initial borrowing of \$75 million. The Interim DIP Facility was subsequently replaced by the DIP Credit Facility which was used to retire the Borrowers' obligations pursuant to the Bank Credit Agreement.

On January 16, 2004, pursuant to authorization from the Bankruptcy Court, Solutia entered into the \$525 million DIP Credit Facility. The DIP Credit Facility was used by Solutia and its Debtor subsidiary Solutia Business Enterprises Inc. to retire their respective obligations under the Bank Credit Agreement and the Interim DIP Facility.

The DIP Credit Facility has subsequently been amended five times. The various amendments to the DIP Credit Facility modified, among other things, the mandatory prepayment terms and covenants regarding disposition of assets and investments, certain notice provisions, the interest rate, the refinancing of the Euro Notes and the term of the final maturity date from December 19, 2005 to March 31, 2008. See Section V.A.2 of this Disclosure Statement for further details on amendments to the DIP Credit Facility.

The DIP Credit Facility, as amended, consists of: (a) a \$975 million fully drawn term loan and (b) a \$250 million borrowing-based revolving credit facility, which includes a \$150 million letter of credit subfacility. Of the \$1.225 billion facility, \$150 million was utilized to partially finance Solutia's acquisition of Akzo Nobel's interest in the 50/50 Flexsys joint venture between Solutia and Akzo Nobel. The net proceeds from the sale of the Solutia Dequest(R) water treatment phosphonates business were used to pay-down the balance of the term loan.

2. SENIOR SECURED NOTES

As of the Petition Date, Solutia had outstanding approximately \$223 million (which takes into account an unamortized original issue discount of \$41.3 million) of 11.25% senior secured notes due July 5, 2009 (the "Senior

Secured Notes") issued pursuant to that certain indenture between SOI Funding Corporation and HSBC Bank USA, as indenture trustee, dated July 9, 2002, which was subsequently amended by a supplemental indenture among Solutia, SOI

100

Funding Corporation and certain of Solutia's subsidiary guarantors as defined therein, and HSBC Bank USA, dated July 25, 2002 (together, the "2009 Indenture"). By agreement dated January 16, 2004, The Bank of New York replaced HSBC Bank USA as indenture trustee for the Senior Secured Notes. The Senior Secured Notes are secured by liens on Solutia's accounts receivable, inventory, capital stock of certain Debtor subsidiaries, capital stock of certain subsidiary guarantors, certain intercompany loans, intellectual property and certain joint venture interests. In connection with the order approving the DIP Credit Facility, the Senior Secured Notes Trustee was granted, for the benefit of the 2009 Noteholders, superpriority administrative expense claims and junior replacement liens in the 2009 Post-Petition Collateral (as described in the DIP Credit Facility).

On June 22, 2007, Solutia objected to claim no. 6210 filed by the Senior Secured Notes Trustee in the aggregate amount of \$223 million. Solutia's objection seeks to reduce and allow the Senior Secured Notes Trustee's claim to \$208 million as of the Effective Date, which consist of (a) \$181.7 million funded on account of the Senior Secured Notes at their issuance and (b) amortized OID of \$26.3 million (assuming an Effective Date of September 30, 2007). Solutia expects to pay the Allowed amount of the Senior Secured Note Claims with a portion of the proceeds from the Exit Facility. Distribution to the Noteholders will be made through the Senior Secured Notes Trustee and will be subject to the Senior Secured Notes Trustee's charging lien.

(a) Additional Claims

In addition to its secured claim for \$223 million, the Senior Secured Notes Trustee also alleges that it is entitled to assert General Unsecured Claims for (i) 101% of the aggregate principal amount of the Senior Secured Notes as a result of a "Change of Control" allegedly occurring under the Amended Plan, and (ii) at least \$25 million in damages allegedly arising from the interruption of the Noteholders' expectation of an uninterrupted payment stream under the Senior Secured Notes. Neither of these claims is specifically identified in the Notes Trustees' proof of claim, which was filed as a secured claim.

Solutia believes that the Senior Secured Notes Trustee is required to seek leave from the Bankruptcy Court to amend claim no. 6210 now that this claim is the subject of a pending claim objection. See *In re Argus Group 1700, Inc.*, 206 B.R. 737, 748 (Bankr. E.D. Pa. 1996); and See *In re Drexel Burnham Lambert Group, Inc.*, 159 B.R. 420, 425 (Bankr. S.D.N.Y. 1993). Solutia intends to oppose both of these additional claims in connection with its objection to the Senior Secured Notes Trustee's Claim.

(b) Impairment

As an impaired class, the Senior Secured Notes are entitled to vote to accept or reject the Amended Plan. For voting purposes only, the Holders of the Senior Secured Notes will be entitled to vote the full face amount of their claim, or \$223 million.

To the extent that the Senior Secured Notes Trustee successfully amends claim no. 6210 to include its alleged General Unsecured Claims, which claims will remain subject to a pending objection, and wants to vote this General Unsecured Claim to accept or reject the Amended Plan, then the Senior Secured Notes Trustee will need to seek allowance of this claim for voting

101

purposes pursuant to Bankruptcy Rule 3018. The Senior Secured Notes Trustee also has asserted that it is entitled to vote contingent guarantee claims that the Senior Secured Notes Trustee may hold against certain of Solutia's subsidiaries. These contingent guarantee claims are likely to remain unliquidated because Solutia, Inc., the obligor on account of the Senior Secured Notes, expects to pay the Allowed amount of the Senior Secured Note Claims in cash in full. Any allowance of these claims for voting purposes will similarly need to be determined by separate motion before the Bankruptcy Court pursuant to Bankruptcy Rule 3018.

(c) Cramdown

To the extent that the Holders of the Senior Note Claims vote to

reject the Amended Plan, Solutia nevertheless believes that it can still proceed to confirm the terms of the Amended Plan pursuant to the "cram down" provisions of section 1129(b) of the Bankruptcy Code. See Section XII.C. This section of the Bankruptcy Code requires, among other things, that Solutia provide the Holders of the Senior Secured Note Claims with the "indubitable equivalent" of such claims. A cash payment in the Allowed amount of the Senior Secured Notes claims is the indubitable equivalent of such claims. See *In re Temple Zion*, 125 B.R. 910 (Bankr. E.D. Pa 1991) (holding that cash payment of the allowed amount of a claim is the indubitable equivalent).

3. RETIREE TRUST  
-----

As described in more detail in the Retiree Settlement Agreement, on the Effective Date Reorganized Solutia will contribute \$175 million in cash proceeds from the Rights Offering to the Retiree Trust intended to qualify as a "voluntary employees' beneficiary association" under section 501(c)(9) of the Internal Revenue Code. The Cash contributed to the Retiree Trust will be used to reimburse Reorganized Solutia for costs associated with providing OPEB to Pre-Spin Retirees in accordance with the terms of the Retiree Settlement Agreement. Moreover, as a class, the Retirees will receive an Allowed, non-priority unsecured claim in the amount of \$35 million, based on the value of agreed upon reductions to Retiree benefits that Solutia could not unilaterally impose on the Retirees. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust.

4. FUNDING CO  
-----

On the Effective Date, Reorganized Solutia will establish a special purpose, tax-efficient, bankruptcy remote limited liability company subsidiary funded with the \$75 million in proceeds from the Rights Offering remaining after the creation and funding of the Retiree Trust. In accordance with the terms of the Relationship Agreement: (a) \$50 million will be available to pay for Environmental Liabilities in connection with the Shared Sites; and (b) \$25 million will be available to offset Reorganized Solutia's continuing Legacy environmental, OPEB, or other Legacy Liability obligations.

5. HEADQUARTERS FINANCING  
-----

On August 26, 1999, Solutia entered into a synthetic lease financing arrangement for the construction of its principal headquarters located at 575 Maryville Centre Drive, St. Louis, Missouri (the "Headquarters Financing"). Pursuant to the terms of the Headquarters Financing and a related trust agreement, dated as of February 23, 1999 (as subsequently amended as of

August 1, 1999), Solutia, in its capacity as a lessee, and United Missouri Bank & Trust, N.A., as a lessor and mortgage certificate trustee, issued mortgage trust certificates to various purchasers. The trust certificates were issued to obtain financing to purchase the headquarters property and pay certain transaction costs in connection with the Headquarters Financing. As of the Petition Date, Solutia had \$43.3 million principal amount of outstanding senior secured mortgage trust certificates, which have a composite interest rate of 7.19% and maturity date of August 25, 2007. The lenders filed two Proofs of Claim with respect to the Headquarters Financing. A Proof of Claim was filed that asserted a Secured Claim of \$43 million plus accruing interest and fees for the outstanding amounts owing by Solutia under the Headquarters Financing and a Proof of Claim was filed in an identical amount based on Solutia's guarantee of the Headquarters Financing. On June 20, 2007, Solutia and the lenders entered into an agreement, subject to Bankruptcy Court approval, resolving the lenders' claims in exchange for a new secured note and an Allowed General Unsecured Claim in amounts agreed upon by the parties. Specifically, the lenders will have an Allowed Secured Claim in the amount of \$20 million and an Allowed General Unsecured Claim in the amount of \$27.1 million. On July 6, 2007, Solutia filed a motion and accompanying memorandum of law seeking approval of its agreement with the lenders. (Dkt. Nos. 4005 and 4006).

6. EURO NOTES  
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In August, 2006, Solutia's indirect 100% owned subsidiary Solutia Services International S.C.A./Comm. V.A. ("SSI"), a subsidiary of SESA, closed on a (euro)200 million Facility Agreement (the "Euro Facility Agreement") guaranteed by SESA and CPFilms Vertriebs GmbH, a subsidiary of SESA. SESA used the proceeds of the Euro Facility Agreement to refinance all of the Euro Notes on August 1, 2006 at a prepayment premium of 3%, as required pursuant to the Euro Notes, for a total redemption amount of approximately (euro)215 million,



including accrued interest.

The Euro Facility Agreement has a five-year term, with a termination date of July 31, 2011. The Euro Facility Agreement originally consisted of a (euro)160 million term loan and a (euro)40 million term loan. The (euro)40 million term loan was repaid from the proceeds of the sale of Solutia's pharmaceutical services business and therefore only the (euro)160 million term loan remains outstanding. The Euro Facility Agreement contains certain financial covenants relating to the performance of SESA and its subsidiaries as well as other customary terms and conditions.

Solutia retains the option to repay the Euro Facility Agreement in full as of the Effective Date from the proceeds of the Exit Financing Facility, as further described in Section VII.H.2 of this Disclosure Statement.

7. FLEXSYS FINANCING  
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In conjunction with the Flexsys Acquisition, Flexsys entered into a \$200 million Secured Facilities Agreement on April 27, 2007. This facility was used together with a \$150 million intercompany loan from Solutia to retire Flexsys' existing credit facility and complete the Flexsys Acquisition. The facility was subsequently upsized by an additional \$25 million. Flexsys retains the option to repay this facility as of the Effective Date from the proceeds of the Exit Financing Facility as described in Section VII.H.2 of the Disclosure Statement.

103

8. 2027/2037 NOTES  
-----

As of the Petition Date, Solutia had outstanding \$300 million in 2027 Notes and \$150 million in 2037 Notes issued pursuant to the Prepetition Indenture. Pursuant to the Amended Plan, as more fully described in Exhibit A to this Disclosure Statement, the Holders of the 2027/2037 Notes will receive equity in Reorganized Solutia in exchange for their notes.

9. TRADE CLAIMS AND OTHER UNSECURED OBLIGATIONS  
-----

Prior to the Petition Date, Solutia incurred debt with several Creditors in the ordinary course of its business. The Claims related to these obligations are more fully described in Exhibit A to this Disclosure Statement. Pursuant to the Amended Plan, the Holders of Trade Claims and other Unsecured Obligations will receive equity in Reorganized Solutia in exchange for their Claims.

10. COMMON STOCK AND COMMON STOCK DERIVATIVES  
-----

Prior to the Petition Date, Solutia's common stock traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "SOI." As a result of Solutia's bankruptcy filing, the NYSE suspended trading in Solutia's common stock on December 17, 2003 and, on February 27, 2004, delisted the securities from the exchange. Following suspension of trading on the NYSE, Solutia's common stock has been quoted on the OTC Bulletin Board and on the Pink Sheets Electronic Quotation Service maintained by The Pink Sheets LLC under the ticker symbol "SOLUQ.OB."

As of February 28, 2007, Solutia had 104,459,578 shares of common stock issued and outstanding, and had no preferred shares issued or outstanding; in addition, as of March 31, 2007, Solutia had 7,197,059 stock options outstanding.

Pursuant to the Amended Plan, each Holder of Common Stock in Solutia Inc. will receive their Pro Rata share of the Warrants to purchase up to 3.5% of the New Common Stock with a strike price of \$14.16, provided that Holders of Claims and/or Equity Interests in each of Classes 11, 12, 13, 14, 15 and 20 vote to accept the Amended Plan. If any of Classes 11, 12, 13, 14, 15 and 20 vote to reject the Amended Plan, the Holders of Common Stock in Solutia Inc. will not receive any Distributions under the Amended Plan. On the Effective Date, all existing common stock of, and existing warrants and options to purchase common stock in Solutia Inc. will be cancelled.

104

Based on public filings as of February 23, 2007, Solutia believes the

following persons or entities beneficially own 5% or more of the outstanding common stock of Solutia:

<TABLE>

<CAPTION>

STOCKHOLDER	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Ardsley Advisory Partners(56)	7,303,500	6.99%

</TABLE>

(a) TRADING RESTRICTIONS TO PRESERVE SOLUTIA'S NET OPERATING  
-----  
LOSS INCOME ATTRIBUTES  
-----

To preserve Solutia's NOLs (as defined herein), on February 21, 2006, the Bankruptcy Court entered an Order ("the "NOL Order"), which, among other things, requires: (a) certain beneficial owners of at least 4,700,681 shares (representing approximately 4.5% of all issued and outstanding shares) of Solutia's equity securities (a "Substantial Owner") to notify Solutia and the Bankruptcy Court that they are Substantial Owners; (b) Substantial Owners to file a notice with Solutia and the Bankruptcy Court before any acquisition or disposition of Solutia equity securities or options to acquire or dispose of Solutia equity securities; and (c) any other person or entity to file a notice with Solutia and the Bankruptcy Court before any acquisition of Solutia equity securities, or option to acquire Solutia equity securities, that would make such person or entity a Substantial Owner. The NOL Order allows Solutia to object in the Bankruptcy Court to any such transactions, within thirty days of receipt of notice of such transactions, if the transaction poses a material risk of adversely affecting Solutia's ability to utilize the NOLs or other tax attributes. Any acquisition or disposition to which Solutia objects would not become effective unless and until approved by an order the Bankruptcy Court.

Under the NOL Order, any purchase, sale or other transfer of Solutia equity securities in violation of the restrictions in the NOL Order would be void ab initio as an act in violation of the NOL Order and would therefore confer no rights on the proposed transferee.

H. REORGANIZED SOLUTIA'S STRUCTURE  
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As set forth above, all of Solutia's existing common stock and options and warrants to purchase Solutia's existing common stock will be cancelled on the Effective Date. Shares of the New Common Stock of Reorganized Solutia will be issued pursuant to the Amended Plan on the terms set forth below. Holders of existing shares of Common Stock in Solutia Inc. will receive their Pro Rata Share of the Warrants, if, and only if, classes 11, 12, 13, 14, 15 and 20 vote to accept the Amended Plan

1. NEW COMMON STOCK  
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Following Solutia's emergence from bankruptcy, the capital stock of Reorganized Solutia is expected to be listed on the New York Stock Exchange.

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(56) Including the following affiliates of Ardsley Advisory Partners: Ardsley Partners I, Philip J. Hempelman, Ardsley Offshore Fund Ltd., Ardsley Partners Fund II, L.P. and Ardsley Partners Institutional Fund, L.P.

105

2. EXIT FINANCING FACILITY  
-----

Solutia will seek an Exit Financing Facility of up to \$2.0 billion (including undrawn availability on the revolving loan) to replace all of its existing secured debt obligations, satisfy various bankruptcy related costs, and provide adequate liquidity for on-going operations. The Exit Financing Facility is expected to include some combination of institutional term loans, a revolving loan, a letter of credit facility, high yield bonds or second lien loans, depending on many factors, including the strength of the capital markets. Solutia has not yet selected a lead exit facility lender but has received numerous indications of interest.

VIII.

One of Solutia's goals at the commencement of the Chapter 11 Cases was to achieve a reallocation of the Legacy Liabilities. As such, when the Original Plan was filed on February 14, 2006, its foundation was the Global Settlement, i.e., a settlement among Solutia, the Creditors' Committee, the

Retirees' Committee, Monsanto and Pharmacia, which, among other things, contemplated an appropriate reallocation of the Legacy Liabilities. The operative agreements for this settlement are the Relationship Agreement (which is described in Section VIII.B.4.(g)) and the Retiree Settlement Agreement (which is described in Section VIII.B.1(c)). Certain of the terms of the Global Settlement have been revised, and each of these are described below. However, the Relationship Agreement and the Retiree Settlement Agreement are preserved, allowing Solutia to maintain the reallocation of the Legacy Liabilities, which is critical to the Amended Plan and the Debtors' emergence from the Chapter 11 Cases.(57)

A. EVENTS LEADING TO THE CURRENT RESOLUTION OF THE LEGACY LIABILITIES

1. THE AGREEMENT IN PRINCIPLE

After stabilizing its businesses, Solutia began negotiations with its stakeholders to construct a plan of reorganization based on a consensual resolution of the competing claims and interests against Solutia's Estates and their assets. Solutia's primary constituencies at the time were the Creditors' Committee, the Retirees' Committee and Monsanto. During these negotiations, the Creditors' Committee was represented by three of Solutia's then largest holders of the 2027/2037 Notes. After approximately six months of intense and at times acrimonious negotiations, on June 7, 2005, Solutia, Monsanto and the Creditors' Committee reached an agreement in principle (the "Agreement in Principle") that provided for a reallocation of the Legacy Liabilities among Solutia and Monsanto, as well as a framework for necessary

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(57) The Equity Committee did not participate in the majority of the negotiations concerning the terms of the Global Settlement. The Equity Committee believes that the current allocation of the Legacy Liabilities as set forth in the Amended Plan and described in this Disclosure Statement is unreasonable, particularly in light of the defenses and objections that the Debtors possess against Monsanto and Pharmacia, as well as the affirmative claims for reallocation of the Legacy Liabilities which the Equity Committee believes could be brought by the Debtors against Monsanto and Pharmacia.

negotiations regarding post-employment benefit reductions with the Retirees' Committee and the treatment of claims asserted by personal injury claimants, the unsecured creditors and Monsanto.

2. THE ORIGINAL PLAN

During the months succeeding the announcement of the Agreement in Principle, the original parties to the Agreement in Principle (with the exception of the noteholder members of the Creditors' Committee who had sold their position in the 2027/2037 Notes upon the public announcement of the terms of the Agreement in Principle), as well as the Retirees' Committee, engaged in continuing, intense discussions concerning the proposed reallocation of the Legacy Liabilities, the post-confirmation rights and obligations among the parties and the treatment of certain classes of claims. As a result of these negotiations, among other things, the actual terms under which Monsanto agreed to assume financial responsibility as between itself and Solutia for the Legacy Claims and Environmental Liabilities were negotiated, and Solutia, the Retirees' Committee, the Creditors' Committee and Monsanto entered into the Retiree Settlement.

The Agreement in Principle, as modified by the negotiations among the parties that occurred between June 2005 and February 2006, and the Retiree Settlement, which are referred to collectively herein as the "Global Settlement," provided the basis for Solutia to file the Original Plan.

The confirmation process for the Original Plan, however, did not proceed. In part, the JPM Adversary Proceeding and the Equity Committee Adversary Proceedings stalled the Original Plan process. The unresolved adversary proceedings, however, were not the only reasons that the

confirmation process stalled. Many of the stakeholders with whom Solutia negotiated the Global Settlement are no longer involved in the Chapter 11 Cases and their successors wanted to negotiate a new deal. Most notably, the three significant holders of the 2027/2037 Notes who personally negotiated the Agreement in Principle resigned from the Creditors' Committee. These holders have been replaced by new holders that purchased the 2027/2037 Notes, who were collectively represented by the Ad Hoc Notes Committee and not the Creditors' Committee.

3. THE GLOBAL SETTLEMENT  
-----

- (a) Material terms of the Global Settlement remain unchanged by the terms of the Amended Plan

The Amended Plan has resulted in certain modifications to the Global Settlement as it was presented to the Bankruptcy Court and Solutia's stakeholders in February 2006. However, significant material terms of the Global Settlement have not changed, including:

- o The Reallocation of the Legacy Liabilities. Under the terms -----  
of the Amended Plan, Monsanto continues to assume financial responsibility for all Tort Claims, all Legacy Site Claims and certain portions of the Shared Site Claims, each in accordance with the terms of the Relationship Agreement.
- o The Relationship Agreement. The Relationship Agreement and -----  
its terms have not been altered in any material respect since February 2006.

107

- o The Retiree Settlement. The Amended Plan leaves the Retiree -----  
Settlement unaltered. Benefit payments for Solutia's 20,000 Retirees will be secured by a trust initially funded with \$175 million in cash proceeds from the Rights Offering and the New Common Stock received on account of the Retiree Claim. Reorganized Solutia will continue to benefit from agreed reductions in Retiree benefits that will provide it with over \$110 million in cost savings.

- (b) Changes to the Global Settlement since February 2006

The material changes to the Global Settlement since February 2006 are set forth below:

- o The Rights Offering. Under the Global Settlement, Monsanto -----  
agreed to backstop the Rights Offering; Monsanto will no longer backstop the Rights Offering. Holders of General Unsecured Claims and the 2027/2037 Notes are entitled to participate in the Rights Offering. The Rights will be allocated between these two classes Pro Rata based on the estimated Claim amount for each class. The Rights are being offered to Eligible Holders at a 25% discount to Solutia's implied mid-point equity valuation. The discount applied to the Rights may change as a result of negotiations among Solutia and its stakeholders; provided that the Rights -----  
Offering generates \$250 million and that Monsanto receives 20% of the New Common Stock after taking into account any dilution as a result of the Rights Offering.

108

- o Monsanto Claim. Monsanto filed an amended claim on June 29, -----  
2007, asserting Claims against Solutia in the aggregate amount of at least \$824.5 million.
- o The Elimination of the General Unsecured Claims Pool -----  
Adjustment. Under the Global Settlement the number of shares -----  
of New Common Stock to be distributed to Monsanto and the Holders of General Unsecured Claims was subject to

adjustment based on the Allowed Amount of General Unsecured Claims. This adjustment has been eliminated from the Amended Plan.

- o Treatment of CPFilms Claims. Under the Original Plan, -----  
 CPFilms Claims were treated as General Unsecured Claims. Pursuant to the Amended Plan, CPFilms Claims will be separately classified and paid cash in full on the Effective Date.

B. DETAILED DISCUSSION OF TERMS OF THE REALLOCATION OF THE LEGACY  
 -----  
 LIABILITIES  
 -----

1. SETTLEMENT OVERVIEW  
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(a) The Monsanto Claim

Monsanto asserts claims against Solution in the aggregate amount of at least \$824.5 million plus unliquidated claims, fees, costs and charges. Monsanto's asserted liquidated claim is comprised of the following:

<TABLE>  
 <CAPTION>

-----  
 MONSANTO LIQUIDATED CLAIM CALCULATION  
 -----

Amounts Spent on Solutia's behalf as of (May 31, 2007) (in \$ millions)

<C>	<C>
Environmental	
Environmental Remediation (Legacy Sites)	15.7
Environmental Remediation (Shared Sites)	46.3
	-----
Subtotal	62.0
-----	
Litigation Defense Costs	
Fees & Expenses	87.1
Settlements	66.8
	-----
Subtotal	153.9
	=====

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 (58) Under section 502(e) of the Bankruptcy Code, the \$215.9 million that Monsanto has spent during these Chapter 11 Cases on Solutia's behalf for litigation defense and environmental remediation at the Legacy Sites and Shared Sites may constitute allowed General Unsecured Claims based on the terms of the Distribution Agreement. See In re Drexel Burnham Lambert Group, Inc., 146 B.R. 98, 102 (Bankr. S.D.N.Y. 1992) (claims for reimbursement or contribution that are paid, therefore fixed, are treated as prepetition claims). Moreover, absent the Monsanto Settlement, Monsanto would likely argue that the \$215.9 million that Monsanto has spent on Solutia's behalf since the Petition Date constitutes an Administrative Claim under section 507(a) (2) under the Bankruptcy Code. See In re Jartran, Inc., 886 F.2d 859, 871 (7th Cir. 1989) (expenditures may be treated

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Total Spending as of May 31, 2007	215.9 (58)
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Other Claim Elements	
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Estimated Future Tort/Environmental Spending	179 (59)

Anniston Settlement	428.7 (60)
Other (PCL3 Claims)	0.9
TOTAL LIQUIDATED MONSANTO CLAIM	824.5

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The allowance and treatment of the Monsanto Claim provides myriad benefits to Solutia including:

- o Treating the Monsanto Claim as a General Unsecured Claim, and not an Administrative Expense Claim, despite the fact that a substantial portion of the Monsanto Claim relates to monies that Monsanto has spent on Solutia's behalf since the Petition Date. Solutia believes that because such claims arise from the prepetition indemnity obligations, the claims should be treated as general unsecured claims; however, without the Monsanto Settlement and Retiree Settlement, Monsanto would assert that it is entitled to an administrative expense claim for such amounts;
- o Capping Monsanto's recovery under the Amended Plan, regardless of the future costs of the Legacy Liabilities being assumed by Monsanto under the Amended Plan and the Relationship Agreement;
- o Allowing Solutia to avoid significant litigation regarding Monsanto's unliquidated Claims (Monsanto's Proof of Claim seeks payment for indemnification obligations under the Distribution Agreement);
- o Removing a substantial Unliquidated Claim, which could be in excess of \$1 billion, from the General Unsecured Claims Class -- in this regard, fixing Monsanto's claim will accelerate distributions to all creditors; and
- o Eliminating the cost, uncertainty and risk associated with litigation regarding the Monsanto Claim -- if Solutia were unsuccessful in this litigation, it could be fatal to the Amended Plan and significantly diminish, if not eliminate completely, recoveries

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as administrative expense claims if they are actual and necessary costs and expenses of preserving the estate that benefit the estate as a whole).

(59) Monsanto expects to spend \$179 million in connection with future legacy tort and legacy environmental liabilities. The estimated future tort liability component is based on historical settlement and judgment costs and past attorney's fees related to such actions. The estimated future environmental liability component is based on the amount Monsanto expects to spend on Legacy Site environmental remediation (discounted to present value at a rate of 3.5%).

(60) Monsanto alleges that Solutia breached the Anniston Settlement Agreement and asserts a claim for \$428.7 million (net of insurance proceeds) as a result of this alleged breach.

110

for General Unsecured Creditors (one element of the Monsanto Claim related to the Anniston Consent Decree could result in liabilities in excess of \$425 million).

(b) Monsanto's Contributions to Solutia's Reorganization

The following is a summary of Monsanto's contributions to Solutia pursuant to the terms of the Relationship Agreement and the Amended Plan. In exchange for the Monsanto Claim Distribution, the releases provided to it under the Amended Plan, and the payment of certain of its professional fees in connection with the Chapter 11 Cases, Monsanto has agreed to make the following contributions to Solutia's reorganization:(61)

- (i) As Between Itself and Solutia, Monsanto Is Taking Financial Responsibility for All Tort Claims.

Benefits to Solutia:

- o Eliminates Solutia's liabilities with respect to past and future Tort Claims arising from conduct occurring prior to the Spinoff -- for those Tort Claims for which a proof of claim was filed in Solutia's Chapter 11 Cases, Solutia estimates that these liabilities will ultimately range between \$15 and \$40 million in the aggregate;
- o Obviates the need for Solutia to litigate and/or negotiate with holders of Tort Claims and their representatives regarding the approximately \$17 billion in Tort Claims asserted against Solutia's Estates (as well as potentially billions of dollars in additional Tort Claims which Monsanto could assert through surrogate claims absent the Monsanto Settlement) -- allowing Solutia to avoid expensive and protracted litigation in various courts since such Tort Claims cannot be liquidated by the Bankruptcy Court;
- o Removes the Holders of Tort Claims from the General Unsecured Claims Class, which (a) reduces the size of the General Unsecured Claims Class, increasing recoveries for the General Unsecured Creditors and (b) speeds up the timing of distributions to General Unsecured Creditors by eliminating the delays and reserve amounts associated with litigating over numerous Disputed Claims; and
- o Removes contingent liabilities from Solutia's balance sheet, providing necessary certainty to the capital markets by eliminating the Reorganized Debtors' future tort risk, which will enable Solutia to obtain exit financing on competitive terms.

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(61) Under the Monsanto Settlement, Monsanto has agreed to make contributions to Solutia's reorganization pursuant to the terms of the Relationship Agreement and the Amended Plan and such obligations will be included in the express terms of the Bankruptcy Court's Confirmation Order. Monsanto is not providing a cash reserve or any other form of security to assure its performance under these agreements.

111

- (ii) Monsanto Is Taking Financial Responsibility, As Between Itself and Solutia Only, for Certain Environmental Remediation and Clean-Up Obligations.
  - (a) Monsanto Is Taking Responsibility, As Between Itself and Solutia Only, for All Environmental Liabilities at the Legacy Sites

Benefits to Solutia:

- o Saves Solutia a minimum of \$150 million in potential environmental cleanup and remediation costs.
- o Removes any potential Claims asserted in connection with the Legacy Sites from the General Unsecured Claims Class, which (a) increases recoveries for General Unsecured Creditors and (b) speeds up the timing of distributions to General Unsecured Creditors by eliminating the delays and reserve amounts associated with numerous Disputed and Unliquidated Claims.
- o Saves Solutia the significant costs associated with the administration and litigation of the environmental obligations at the Legacy Sites; and
- o Removes contingent liabilities from Solutia's balance sheet, improving Solutia's access to Capital Markets at competitive terms, which will increase Reorganized Solutia's liquidity.
  - (b) Monsanto Is Sharing Financial Responsibility with Solutia for Obligations at Shared Sites.

Benefits to Solutia:

- o The first \$50 million of remediation and cleanup costs at the Shared Sites will be paid through Funding Co;
- o Monsanto will pay the next \$50 million in costs (this amount will be reduced by any amounts expended by Monsanto with respect to the Shared Sites during the pendency of the Chapter 11 Cases)--Solutia would otherwise have been responsible for paying these amounts in full as Administrative Expense Claims;
- o Reorganized Solutia will be responsible for the next \$325 million, however, Monsanto will provide Reorganized Solutia with the ability to cap its liability in any calendar year at \$30 million, which will improve Reorganized Solutia's liquidity position and cash flow; and(62)

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 (62) The annual \$30 million cap on Reorganized Solutia's liabilities with respect to the Shared Sites provides certainty for Solutia with respect to these obligations, which, among other things, is important to Solutia's, ability to seek exit financing on favorable terms.

112

- o Monsanto and Solutia will share all costs associated with remediation at Shared Sites in excess of \$425 million evenly.
  - (iii) Settlement of Litigation among Pharmacia, Monsanto and Solutia.

Benefits to Solutia:

- o The Amended Plan settles and resolves and necessarily withdraws the following adversary proceedings and contested matters:
  - o The Rejection Motion;
  - o The Benefits Adversary;
  - o The Indemnity Adversary; and
  - o The Monsanto Pharmacia Avoidance Action.
- o As the above-referenced actions are critical to a resolution of the issues attendant to the allocation of the Legacy Liabilities among Solutia, Monsanto and Pharmacia, absent a consensual resolution, Solutia would be forced to engage in fact intensive, expensive and protracted litigation regarding the Spinoff and the Distribution Agreement;
- o A settlement alleviates the risk associated with these matters--were Solutia to litigate these matters and lose it could impede its ability to emerge from the Chapter 11 Cases.
  - (iv) Monsanto Will Continue To Operate Under the Commercial and Operating Agreements, and Will Extend the Terms of the Master Operating Agreement.

Benefits to Solutia:

- o On the Effective Date, the Commercial and Operating Agreements shall be assumed by Reorganized Solutia, subject to the Chocolate Bayou Settlement, and the Master Operating Agreement shall be extended beyond its initial term. Accordingly, Solutia will continue to reap the benefits associated with the Commercial and Operating Agreements for an extended period of time. Not only are the Commercial and Operating Agreements critical to Solutia's business operations, they also contain very favorable terms and enable Solutia to take advantage of certain efficiencies, which result directly in additional profits for Solutia; and
- o Solutia avoids the disruption in its business operations associated with having to replace the Commercial and Operating Agreements in the near term.
- o As described herein, under the Chocolate Bayou Settlement,



facility, in a manner that does not have a material impact on Solutia's business plan or its restructuring. See Section VIII.B.7(a) of this Disclosure Statement for a discussion regarding the Chocolate Bayou Agreements.

(c) The Retiree Settlement

Another important component of Solutia's reallocation of the Legacy Liabilities is the Retiree Settlement, which would not have been possible as a stand-alone settlement. In exchange for the Retiree Claim and the creation of the Retiree Trust, the Retirees will release their claims against Solutia, Monsanto and Pharmacia.

Benefits to Solutia:

- o Modifications agreed to pursuant to the Retiree Settlement provide Reorganized Solutia with approximately \$110 million in cost savings in connection with the provision of medical and other post employment benefits to Retirees. The modifications giving rise to the savings could not have been imposed unilaterally;
- o Resolves a significant number of Claims asserted against Reorganized Solutia for Retiree Benefits and excludes such Retiree Claims from the General Unsecured Claims Class;
- o Creates the Retiree Trust funded with \$175 million in cash proceeds from the Rights Offering (and the proceeds of the New Common Stock allocated on account of the Retiree Claim) to pay benefits to Retirees, thus ensuring that the Retirees' benefits, as modified by the terms of the Retiree Settlement, will be paid in the future;
- o Avoids the need for the costs and delays associated with litigation with respect to the Unliquidated Claims of Retirees; and
- o The release provided to Monsanto for Legacy OPEB liabilities as part of the Retiree Settlement induced Monsanto to enter into the Relationship Agreement.

(d) Settlement With Pharmacia

The final component of the reallocation of the Legacy Liabilities is the settlement of claims with Pharmacia. In exchange for certain releases provided under the Amended Plan, Pharmacia will waive its claims (other than claims for indemnification arising under Exhibit N of the Relationship Agreement as described in Section VIII.B) and settle its litigation against Solutia. Because of the inter-relationship of Pharmacia and Monsanto, and the triangle of indemnities created by the Monsanto Spinoff and the Separation Agreement, Pharmacia's agreement was necessary to effectuate the releases of Claims contemplated by the Amended Plan.

Benefits to Solutia:

- o The settlement with Pharmacia waives significant Unliquidated Claims against Solutia relating to indemnification obligations arising from the Spinoff and the

Distribution Agreement--the only consideration for Pharmacia's waiver of its Claims are the releases provided in the Amended Plan;

- o The benefits from the resolution of litigation among Pharmacia, Monsanto and Solutia described above also apply to the settlement with Pharmacia; and
- o Removes the Pharmacia Proof of Claim from the General Unsecured Claims Class which provides the same benefits as described above in connection with the resolution of the Monsanto Claim.

Pursuant to the Relationship Agreement and the Amended Plan, Monsanto will take financial responsibility, as between itself and Reorganized Solutia only, for all Tort Claims. In broad terms, the Tort Claims relate to property damage, personal injury, products liability or premises liability or other damages arising out of or related to exposure to asbestos, PCB, benzene, vinyl chloride, silica, butadiene, pentachlorophenol, styrene tars and other chemicals manufactured before the Spinoff. Solutia never manufactured, sold or used any of these materials, except for small, controlled amounts of asbestos insulation still in limited use at some of its plants.

More than 8,500 Tort Claims related to the Legacy Tort Liabilities were filed against Solutia in the Chapter 11 Cases. In addition, hundreds of other individuals have commenced actions directly against Pharmacia and/or Monsanto. Tort Claims, as defined in the Amended Plan, and for which Monsanto will be financially responsible under the terms of the Amended Plan include any such claims of these individuals against Solutia to the extent the claims of such individuals fit within the definition of "claim" under section 101(5) of the Bankruptcy Code, whether or not a proof of Claim has been filed against Solutia by such individuals.

The overwhelming majority of claimants filing Tort Claims have provided only minimal information concerning their Claims, and hundreds have provided no information whatsoever. Despite the absence of meaningful information submitted by these claimants, a manual review of the Proofs of Claim has permitted Solutia to divide these Claims into the following six categories (reflecting the respective number of proofs of claim filed with respect to each category): Asbestos (3,668); Dioxin (2,775); PCB (768); Silica (277); Other (multiple chemical exposure) (411); and Unspecified (571).

As a result of the filing of the Chapter 11 Cases, Solutia transferred the defense of and responsibility for all litigation associated with Tort Claims to Monsanto, and Monsanto has taken responsibility, as between itself and Solutia, for the management of these litigations, including the payment of judgments, settlements, defense costs, and other administrative costs. Monsanto's expenditures with respect to Tort Claims, both during the Chapter 11 Cases and following the Effective Date (in connection with Monsanto's agreement to take financial responsibility for Tort Claims under the Amended Plan), form a portion of the Monsanto Claim.

115

### 3. OVERVIEW OF TORT CLAIMS FOR WHICH MONSANTO HAS AGREED TO TAKE FINANCIAL RESPONSIBILITY

#### (a) Premises-Based Asbestos Claims

Like a great number of other companies that used high-temperature manufacturing processes, Pharmacia used asbestos insulating materials in piping and other equipment at its chemical plants. Under the Distribution Agreement, Solutia has potential premises asbestos exposure arising principally from four facilities: Chocolate Bayou, Texas; Nitro, West Virginia; Texas City, Texas; and W.G. Krummrich in Sauget, Illinois. Asbestos claimants have also asserted a smaller number of Claims arising from other locations.

Solutia has been named as a defendant (along with Monsanto, Pharmacia, and numerous other premises owners) in actions brought by employees of contractors who allege that they were exposed to asbestos at Pharmacia's facilities, at which Solutia took over operations long after the use of asbestos was discontinued, and the facilities of those other owners. In the vast majority of these cases, discovery is necessary to determine whether the claimants actually worked on-site at any facility for which Solutia has potential liability, the extent of that work, and the potential for exposure to friable asbestos-containing materials.

In addition to the nearly 3,700 asbestos-related Claims that have been filed in the Chapter 11 Cases, there are more than 520 different asbestos-related lawsuits, involving an estimated 3,500 to 4,500 different plaintiffs, that have been filed against Pharmacia or Monsanto, for which Solutia may have indemnification exposure pursuant to the Distribution Agreement.

As of the Petition Date, 12,000 plaintiffs had brought asbestos-related lawsuits that implicated Solutia's indemnity obligations under the Distribution Agreement, but only 3,700 Proofs of Claim asserting Tort Claims have been filed in the Chapter 11 Cases. Most of the proof of

Claim forms that have been submitted are brought on behalf of individual Claimants. A few Claim forms appear to seek to include a large number of Claimants. Thus, while 3,700 proof of Claim forms have been filed in the Chapter 11 Cases, the actual number of Claims (measured on a per-person basis) is likely higher, and may exceed 12,000 Claims.

Pursuant to the Relationship Agreement and the Amended Plan, Monsanto has agreed to take financial responsibility, as between itself and Reorganized Solutia only, for all Tort Claims, and its expenditures in this regard, both during the Chapter 11 Cases and following the Effective Date, form a portion of the Monsanto Claim.

(b) Dioxin Claims

By number, the second largest category of Tort Claims asserted in the Chapter 11 Cases relates to alleged dioxin contamination arising from the operation of the Nitro Plant. Beginning in 1948, Pharmacia began manufacturing an herbicide (2,4,5-trichlorophenoxyacetic acid, or 2,4,5-T) at the Nitro Plant. The process used to manufacture 2,4,5-T resulted in the formation of a waste byproduct called 2,3,7,8-tetrachlorodibenzoparadioxin ("2,3,7,8-TCDD" or "2,3,7,8-dioxin"). Pharmacia discontinued the manufacture of 2,4,5-T and thus eliminated the formation of 2,3,7,8-dioxin in 1969. Solutia never manufactured 2,4,5-T.

116

Approximately 2,300 current and former residents from several communities surrounding the Nitro Plant (the "Nitro Tort Plaintiffs") have filed proofs of claim in the Chapter 11 Cases asserting claims against Solutia for property damage, personal injuries and medical monitoring arising from alleged exposure to dioxin. In addition to the claims filed against Solutia, two separate lawsuits are pending in Putnam County, West Virginia, against Pharmacia and Monsanto. These suits similarly allege injuries suffered from exposure to dioxin produced at the Nitro Plant. Counsel to the Nitro Tort Plaintiffs, the Calwell Practice, PLLC and James F. Humphrey, and Associates, LC (collectively, the "Calwell Practice") assert that the claims of the Nitro Tort Plaintiffs, and the claims pending in the Putnam County cases are worth hundreds of millions of dollars.

The dioxin Tort Claims that have been filed in the Chapter 11 Cases do not assert that the holders of such Claims suffer from any present physical injury. Rather, these claimants seek the creation of an undefined "medical monitoring fund," and also seek damages associated with alleged property value diminution.

Despite the large number of dioxin Tort Claims filed, the environmental evidence concerning dioxin exposure in Nitro, West Virginia is sparse. In fact, the Calwell Practice recently performed interior dust sampling of the Nitro Community Center, elementary school, and high school. Those samples were reviewed by the EPA-Region III, which concluded recently that none of the scenarios demonstrated an unacceptable risk from exposure to dioxin.

Past attempts to impart liability to Pharmacia have been similarly rejected. Mr. Calwell tried and lost an 11-month jury trial against Pharmacia alleging damages from dioxin exposure. See *Boggess v. Monsanto Company*, 829 F.2d 34 (4th Cir. 1987) (unpublished).

The lack of historical data regarding judgments or settlements is consistent with the EPA's judgment that there is no evidence of an unacceptable risk associated with dioxin related to the Nitro Plant.

Solutia believes, subject to confirmatory due diligence, that all of the Nitro Tort Plaintiffs' claims are Tort Claims (as defined in the Amended plan). As Tort Claims, the Nitro Tort Plaintiffs' claims will be Reinstated and will "pass-through" Solutia's Chapter 11 Cases to be resolved by Monsanto in the ordinary course of business.(63) Pursuant to the Relationship Agreement and the Amended Plan, Monsanto has agreed to take financial responsibility, as between itself and Reorganized Solutia only, for all Tort Claims, and its expenditures in this regard form a portion of the Monsanto Claim.

(c) PCB Claims

Historically, Solutia has faced a significant number of Claims alleging PCB exposure or contamination seeking damages for personal injury and property damage. Pharmacia

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(63) To the extent that confirmatory due diligence reveals that any of the Nitro Tort Plaintiffs' claims are not Tort Claims, these claims would be

General Unsecured Claims. The Nitro Tort Plaintiffs' General Unsecured Claims, if any would be entitled to the same treatment as all other General Unsecured Claims in Class 13 under the Amended Plan.

117

manufactured and sold PCBs to a number of large industrial customers. Pharmacia discontinued the manufacture and sale of PCBs in 1971 at the Anniston Plant and 1977 at the W.G. Krummrich Plant.

Solutia's largest prepetition exposure associated with PCB Claims occurred in connection with litigation concerning the Anniston Plant. Collectively, that litigation involved the Claims of more than 18,200 plaintiffs who sought compensatory and punitive damages for exposure to PCBs. The plaintiffs asserted personal injury, medical monitoring, property damage and emotional distress (the "Anniston PCB Cases").

Pursuant to the Anniston Global Settlement Agreement, as described in Section IV.D.5.(a) of this Disclosure Statement, Solutia's total responsibility with respect to the Anniston PCB Cases was capped at ten annual \$5 million payments, totaling \$50 million in the aggregate. During the Chapter 11 Cases, Solutia has made 3 of these payments. Solutia will continue to be obligated to make these payments following the Effective Date. Monsanto and its insurers paid \$550 million in cash, in exchange for an agreement which included an obligation by Solutia to deliver to Monsanto certain warrants to acquire Solutia common stock. Monsanto alleged that Solutia breached their agreement by failing to deliver the warrants, and Solutia's alleged default under this agreement constitutes a portion of the Monsanto Claim.

Many of the PCB Tort Claims filed in the Chapter 11 Cases were brought by residents near the Anniston Plant. The remaining PCB Claims were brought by other individuals located elsewhere, who seek compensation for physical injuries and property damage.

In addition to the 768 PCB Tort Claims filed in the Chapter 11 Cases, several lawsuits recently have been filed against Monsanto and/or Pharmacia relating to PCB exposure including the GE litigation described in Exhibit M.

Estimation of the PCB Tort Claims that have been filed in the Chapter 11 Cases (or otherwise asserted) would have posed several challenges. For example, because of the lack of information submitted with a PCB Tort Claim, it is difficult to determine how many of these Claims are brought by multiple Claimants. Additionally, there is uncertainty as to the value of each Claim based on historical data. The historical average valuation for PCB-related Claims before the Anniston Global Settlement Agreement was entered into is lower than the average value for PCB Claims settled in the Anniston cases. Monsanto's agreement to take financial responsibility for Tort Claims under the Amended Plan alleviates the difficulties, and risks, attendant to any attempt formally to estimate these claims as part of the Amended Plan process.

(d) Silica

A handful of silica Tort Claims have been filed in the Chapter 11 Cases. Typically brought by asbestos-plaintiffs' counsel, the silica Tort Claims follow a similar pattern to the asbestos Tort Claims. Specifically, these claimants assert that they may have been exposed to silica used by Pharmacia, but also assert that potential liability may be found at dozens of other potential defendants' operations. Silica Claims typically have been resolved through voluntary dismissals by plaintiffs (when they acknowledge that they do not have evidence relating to Pharmacia or Solutia) or settled for the nuisance value of individual Claims.

118

Pursuant to the Amended Plan and Relationship Agreement, Monsanto has agreed to take financial responsibility, as between itself and Reorganized Solutia only, for silica-related Tort Claims.

(e) Other Claims/Unspecified Claims

The remaining Tort Claims asserted against Solutia are composed of two general categories: (i) unique Claims relating to discrete chemical exposure or (ii) Claims that lack any specificity to determine the nature of the alleged harm. For example, Solutia has identified six Claims that assert that the claimants were exposed to benzene, which is a common industrial solvent and a component in gasoline. One claimant asserts exposure to vinyl chloride. Monsanto has agreed to take financial responsibility, as between itself and Solutia only, for such Tort Claims as part of the Amended Plan and the Relationship Agreement.

4. SETTLEMENT OF LEGACY ENVIRONMENTAL LIABILITIES  
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Pursuant to the Relationship Agreement, the sites giving rise to the Legacy Environmental Liabilities generally fall into the following categories (described in further detail below):

- o Retained Sites: Sites owned and/or operated by Pharmacia  
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prior to, and by Solutia following, the Spinoff, and certain related off-site contamination, and non-owned sites to which Solutia sent waste at any time after the Spinoff (the "Retained Sites").
- o Legacy Sites: Sites owned by Pharmacia but never owned or  
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operated by Solutia, and certain related off-site contamination, and disposal locations used, but not owned, by Pharmacia prior to the Spinoff to which Solutia never sent waste (the "Legacy Sites").
- o Shared Sites: Sites never owned or operated by Solutia (with  
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minor exceptions) (the "Shared Sites"), but which have been affected by historical contamination from the Anniston Plant or the W.G. Krummrich Plant (Sauget).
- o Certain Waste Sites: Sites which are not categorized as  
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Retained Sites, Legacy Sites or Shared Sites and were never owned or operated by either Pharmacia or Solutia but to which both (a) Solutia and (b) Pharmacia (during the period prior to the Spinoff) sent waste giving rise to CERCLA (or any state law equivalent) liability shall qualify as both a Retained Site and a Legacy Site.

Another potentially significant source of potential Legacy Environmental Liabilities, which relates to each of the four categories of sites, are claims associated with natural resource damages ("NRD") pursuant to Section 107(a)(4)(C) of CERCLA or equivalent state or local laws. NRD Claims are discussed separately below.

119

(a) Retained Sites (Solutia-Owned or Operated Sites)

Retained Sites consist primarily of facilities and properties Solutia has owned or operated following the Spinoff and certain related off-site contamination. (64) This includes (i) facilities owned and/or operated post Spinoff, (65) as well as former plants and landfills closed prior to the Spinoff, for which fee simple title was transferred to Solutia under the Distribution Agreement, and migration of contamination from such sites, (ii) certain other contaminated property that is contiguous or proximate to properties owned or operated by Pharmacia prior to the Spinoff, and migration of contamination from such sites and (iii) sites to which Solutia sent waste after the Spinoff. The Retained Sites are listed on Exhibit A to the Relationship Agreement.

Solutia's environmental remediation obligations at the Retained Sites are not "claims," as defined by section 101(5) of the Bankruptcy Code, but rather continuing obligations of Solutia that are unaffected by the Chapter 11 Cases. Consistent with this status, the proofs of Claim filed by the United States of America (on behalf of the EPA) against Solutia and by other state governments set forth that, with respect to remediation obligations at owned and operated sites, such Claims are "filed in a protective manner." Accordingly, Solutia expects that no Allowed Claim (and no distribution thereon) will result from the United States' or other governmental entity's proofs of Claim filed with respect to such obligations.

Solutia currently projects that it will incur remediation costs for the Retained Sites in the aggregate amount of approximately \$82 million over the next five years. Although this projection only includes costs through 2011, remediation work will continue on Retained Sites under the federal Resource Conservation and Recovery Act ("RCRA") program and related state programs for several years. While the EPA has not yet determined final remediation measures for many of these sites, Solutia projects that for the Retained Sites, the highest annual expenditures will occur during the 2007-2011 period, with an average annual cost of \$16 million. Beyond 2011, Solutia expects that annual remediation costs will begin gradually declining from \$16 million a year as the amount of remedial work declines and is

replaced by the operation of treatment systems and maintenance activities. As discussed in Section VIII.B.4.(a) herein, pursuant to the Amended Plan and the Relationship Agreement, Solutia will continue to be responsible for the environmental liabilities at the Retained Sites.

(b) Legacy Sites (Never Owned or Operated by Solutia)

Legacy Sites consist primarily of sites that Solutia has never owned or operated or to which it never sent waste, with minor exceptions. In general, the Legacy Sites are one of three types: (i) former Pharmacia facilities that were sold or otherwise conveyed to other parties prior to the Spinoff, (ii) waste disposal sites never owned or operated by Pharmacia but to which Pharmacia sent waste prior to the Spinoff and (iii) property to which contamination migrated from one of the foregoing facilities or sites. At the time of the Petition Date, pursuant to the Distribution Agreement, Solutia was managing more than 50 Legacy Sites with active

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(64) As of this date, Monsanto has not spent any amounts on the Retained Sites.

(65) Such facilities include, without limitation, the Idaho phosphate mining and processing facilities of P4 Production LLC operated by Solutia after the Spinoff until May 31, 2000.

120

remediation. There also may be additional not-yet-identified Legacy Sites that were owned or operated or used for disposal by Pharmacia or one of the predecessor companies it acquired. The Legacy Sites are listed on Exhibit B to the Relationship Agreement.

Solutia ceased handling and paying Legacy Site obligations upon the commencement of the Chapter 11 Cases. As discussed above, Pharmacia remains directly liable at these sites due to its activities prior to the Spinoff, and Monsanto remains contractually liable to Pharmacia under the Separation Agreement in the event Solutia fails to satisfy the liabilities for these sites. Solutia has, for the most part, transferred remedial work or payment obligations at these sites to Monsanto, which, consistent with the Interim Protocol, has agreed to undertake this work or payment obligation acting as Pharmacia's agent. In most such instances where there are work obligations, acting in that capacity, Monsanto has requested, and Solutia has permitted, Solutia's remediation managers to continue managing the work on Monsanto's behalf and Monsanto has paid all costs except for Solutia's remediation managers' salaries and benefits. Solutia is aware of no Legacy Sites at which cleanup work formerly being performed or managed by Solutia is going untended as a result of Solutia's filing of the Chapter 11 Cases. The costs incurred by Monsanto as a result of Solutia's cessation of performance of its Distribution Agreement obligations with respect to these sites, both during the Chapter 11 Cases and following the Effective Date, represent a portion of the Monsanto Claim.

Based on very rough estimates prepared prior to the Petition Date, Solutia believes the cost of the long term remedial obligations at these sites is over \$100 million. As discussed in Section VIII.B.1.(ii)(a) herein, pursuant to the Amended Plan and the Relationship Agreement, Monsanto will take responsibility, as between itself and Reorganized Solutia, for the Legacy Environmental Liabilities related to the Legacy Sites. In light of the significant known and contingent liabilities associated with the Legacy Sites, Monsanto's agreement to undertake responsibility for such sites will be of considerable value in reducing the burden of Legacy Environmental Liabilities for Solutia upon emergence from bankruptcy.

(c) Shared Site Areas (Anniston and Sauget)

Shared Site Areas consist of the off-site areas adjacent to or near two of the Retained Sites, the Anniston, Alabama Plant and the W.G. Krummrich Plant in Sauget, Illinois. These Shared Sites are not owned by Solutia (with the exception of "Site R" a narrow strip of property in Site Q, and the Containment Cell (in Cahokia and Sauget, Illinois), as well as the Central Staging and Soil Management Area (the Miller Property) and the South Staging and Soil Management Area (both in Anniston, Alabama). The Shared Sites are listed on Exhibit C to the Relationship Agreement.

During the Chapter 11 Cases, Solutia has ceased funding remediation efforts at the Shared Sites not owned by Solutia. Pursuant to the Interim Protocol, Monsanto has (as Pharmacia's agent) undertaken the work Solutia was performing at these off-site areas prior to the Petition Date. As with several of the Legacy Sites, Solutia's remediation managers are managing this work for Monsanto. Monsanto, acting as Pharmacia's agent, currently bears all costs, as

between itself and Solutia, for the non-Solutia owned Shared Sites, except for the salaries and benefits of Solutia's remediation managers.

121

The costs incurred by Monsanto as a result of Solutia's cessation of performance of its obligations under the Distribution Agreement with respect to the Shared Sites represent a portion of the Monsanto Claim.

Solutia currently projects aggregate remediation costs with respect to Shared Sites to be approximately \$104 million over the next five years. Such costs will be shared between Solutia and Monsanto pursuant to the arrangement discussed in Section VIII.B.1.(ii)(b) herein. Significant additional costs will be required with respect to the Shared Sites after 2011. Although the EPA has not yet determined final remedies for these sites, Solutia estimates that the highest annual expenditures after the 2007-2011 period will occur during the five-year period immediately following 2011. During that period, major remediation work at both the Sauget and Anniston Shared Sites is expected to be required and costs are projected to be consistently about \$25 million a year. Thereafter, remedial work will continue for some time, but annual costs should begin to decline as the amount of remedial work lessens and only operation of treatment systems and maintenance activities remain.

The Equity Committee asserts that the largest exposure in the future relates to these Shared Sites. The Equity Committee has requested that the Debtor provide disclosure of costs post 2011. The Equity Committee's environmental expert estimates that the total of such liability could be higher than the Debtors' estimates.

(d) Certain Waste Sites

Pursuant to the Relationship Agreement, the responsibility for environmental liabilities applicable to Solutia, Pharmacia and Monsanto at a Certain Waste Site will be allocated among Solutia and Monsanto according to the volume and toxicity of waste sent by Solutia, on the one hand, and Pharmacia, on the other hand, to such Certain Waste Site or by such other reasonable measures to which the Parties may agree consistent with customary allocation principles.

(e) Natural Resource Damages at Anniston and Sauget

The Legacy Environmental Liabilities also include potential liability for the NRDs resulting from Pharmacia's operations prior to the Spinoff. CERCLA, the federal "superfund" law, creates a separate category of liability for "damages for injury to, destruction of, or loss of natural resources, including the reasonable costs of assessing such injury, destruction or loss." See 42 U.S.C. Section 9607(a)(4)(C). In general, NRDs represent the residual damage to natural resources after cleanup is complete, as well as certain measures of damage prior to cleanup.

Proofs of Claim filed by the federal and state trustees for natural resources (the "Natural Resource Trustees") facially assert NRD Claims of between \$366 million and \$604 million for the Anniston off-site areas (i.e., the Anniston Shared Site) and approximately \$32 million for the Sauget off-site areas (i.e., the Sauget Shared Site). Solutia believes these Claims are aimed primarily at preserving the Natural Resource Trustees' rights and are not the result of any NRD assessment having been completed by the Natural Resource Trustees. Typically, NRD amounts are not assessed until final site cleanup measures are known. Given Solutia's desire to emerge from the Chapter 11 Cases with as much certainty as possible regarding its future liabilities and the extensive data currently available as a result of the environmental investigations that have

122

already been performed at the Anniston and the W.G. Krummrich Plants and related off-site areas, Solutia developed estimates of the range of its NRD liability at the Anniston and Sauget sites. The Natural Resource Trustees do not necessarily agree with Solutia's characterization of their claims as set forth in this paragraph.

Solutia has retained two experts, Dr. David Ludwig and Dr. William Desvousges, to prepare NRD estimates. Dr. Ludwig of Blasland, Bouck and Lee, Inc. ("BBL") is an expert in the assessment of ecological damages. Dr. Desvousges, formerly of Triangle Research Associates, an affiliate of BBL, is an economist with recognized expertise in determining lost natural resource human use values, such as lost fishing or other recreational uses caused by environmental contamination. Dr. Desvousges' and Dr. Ludwig's analyses

performed to date of the Anniston and Sauget NRD Claims conclude that the potential NRD liability at Anniston and Sauget is in the range of \$14.2 million to \$51.3 million. The Natural Resource Trustees dispute these estimates. The NRD Claims asserted in the Chapter 11 Cases will be unimpaired under the Amended Plan, and will be treated as Shared Site liabilities under the Relationship Agreement. Accordingly, Monsanto has agreed, solely as between itself and Solutia, to contribute funds towards such liabilities consistent with the terms of the Relationship Agreement.

(f) Miscellaneous Prepetition Environmental Claims

A variety of parties have filed proofs of claim for miscellaneous costs that may qualify as prepetition environmental Claims. To the extent such Claims constitute Allowed Claims, they will be treated as General Unsecured Claims pursuant to the Amended Plan.

(g) The Terms of the Relationship Agreement

In accordance with the terms of the Relationship Agreement, Monsanto agrees to take responsibility, as between itself and Reorganized Solutia only, for a significant portion of the Legacy Environmental Liabilities, including Monsanto's agreement to be responsible for all Legacy Environmental Claims related to future cleanup at the Legacy Sites and to share a portion of the Legacy Environmental Claims related to future cleanup responsibility at the Shared Sites. The sharing by Monsanto and Solutia of Legacy Environmental Claims related to future cleanup responsibility at the Shared Sites is in accordance with the following formula, which is based upon agreed estimates of potential remediation costs:

- o The first \$50 million will be paid by proceeds from the Rights Offering and contributed to Funding Co;
- o The next \$50 million in Environmental Liabilities less postpetition amounts expended by Monsanto during the pendency of the Chapter 11 Cases with respect to Shared Sites, which totaled approximately \$64.2 million through March 31, 2007, will be paid by Monsanto;
- o Monsanto will receive an administrative expense claim for any amounts it expends in excess of \$50 million;
- o The next \$325 million will be paid by Reorganized Solutia;

123

- o Any amounts in excess of the foregoing amounts, which is believed to represent a "reasonable worst case" remediation estimate (excluding future operation and maintenance costs), will be shared equally by Reorganized Solutia and Monsanto;
- o Reorganized Solutia's payments in connection with the Shared Sites in any calendar year will be capped at \$30 million, with Reorganized Solutia having the option to defer amounts over \$30 million and having such amounts be borne in the interim by Monsanto, but subject to Reorganized Solutia's agreement to repay such deferred amounts and a \$25 million limit on the amount of credit that may be outstanding at any time (thus Solutia will again be obligated to pay amounts over \$55 million).

5. MONSANTO'S SETTLEMENT OF ADVERSARY PROCEEDINGS, CONTESTED  
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MATTERS, DISPUTES AND THE MONSANTO PROOF OF CLAIM  
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In accordance with the terms of the Amended Plan, Solutia and Monsanto agree to (a) resolve the litigation regarding the Distribution Agreement, including proceedings related to the Rejection Motion, the Benefits Adversary, the Indemnity Adversary and the Retiree Adversary, (b) resolve the Avoidance Action Solutia commenced against Monsanto and (c) settle the Monsanto Proof of Claim.

6. MONSANTO'S AGREEMENT TO WAIVE CLAIMS FOR INDEMNITY AND  
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CONTRIBUTION AGAINST SOLUTIA  
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In accordance with and subject to the terms of the Amended Plan and the Relationship Agreement, Monsanto agrees to forever waive and release Solutia from any and all indemnity obligations to Monsanto arising under the Distribution Agreement or any other agreement, including any amendments to the



7. MONSANTO'S AGREEMENT TO ENTER INTO THE RELATIONSHIP  
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AGREEMENT AND CONTINUE THE COMMERCIAL AND OPERATING  
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AGREEMENTS  
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In accordance with and subject to the terms of the Amended Plan and the Relationship Agreement, Monsanto agrees (a) not to take action in connection with Solutia's failure to perform under the Distribution Agreement, (b) to enter into the Relationship Agreement and (c) subject to the Chocolate Bayou Settlement, to continue in effect the Commercial and Operating Agreements and extend the Master Operating Agreement. Monsanto's Claims for Solutia's breach of the Distribution Agreement shall be deemed to constitute a portion of the Monsanto Claim. Reorganized Solutia and Monsanto will continue to perform under the Commercial and Operating Agreements so that obligations outstanding thereunder are performed in the future. Following is a summary of the Commercial and Operating Agreements that are most significant to Solutia's operations.

(a) Chocolate Bayou Agreements

There are four agreements that define the relationship between Monsanto and Solutia at the Chocolate Bayou, Texas facility (the "Chocolate Bayou Agreements"). The Master Operating Agreement is the primary governing document of the relationship. The Master

124

Operating Agreement defines the operational rights and obligations of the parties whereby Solutia provides manufacturing services for Monsanto's disodium iminodiacetic acid ("DSIDA") facility at Chocolate Bayou. DSIDA is an intermediate for Roundup(R) herbicide. Pursuant to the Master Operating Agreement, Monsanto pays for a proportionate share of Solutia's fixed overhead costs at the Chocolate Bayou facility. The Master Operating Agreement has an original term of 20 years from September 1, 1997, to continue indefinitely thereafter until either party gives at least 24 months prior written notice of termination. Either party may terminate the Master Operating Agreement, subject to various notice requirements, if either Monsanto or Solutia ceases operations at the Chocolate Bayou facility.

The other three agreements that make up the Chocolate Bayou Agreements are supply agreements whereby Solutia provides Monsanto's requirements for these raw materials for Monsanto's DSIDA production. Each of these agreements contains pricing terms that are based upon Solutia's cost of production. Therefore, the supply agreements provide Solutia with a stable and predictable profit margin on the supply of these raw materials to Monsanto. The HMTA supply agreement has an initial term of 10 years from September 1, 1997, to continue indefinitely thereafter until either party gives at least two years prior written notice of termination. Monsanto may also terminate the agreement at any time with only 12 months prior written notice if it ceases to use HMTA in the production of DSIDA at the Chocolate Bayou facility. The Formalin supply agreement has an initial term from September 1, 1997 to February 28, 2007, to continue indefinitely thereafter until either party gives at least two years prior written notice of termination. The HCN supply agreement has an initial term of 10 years from September 1, 1997, to continue indefinitely thereafter until either party gives at least two years prior written notice of termination.

Solutia and Monsanto have recently reached an agreement in principle to amend the Chocolate Bayou Agreements. The parties are in the process of finalizing definitive written amendments (the "Amendments") to the Chocolate Bayou Agreements. The Amendments would modify the term of the Chocolate Bayou Agreements to automatically expire on December 31, 2012, establish new minimum annual purchase commitments for certain of the raw materials which would decline over the course of the five year term at existing contract pricing, and redefine Monsanto's exit obligations upon termination of the Master Operating Agreement. Under the amended Chocolate Bayou Agreements, the existing termination rights would be replaced, and Monsanto would have the right to terminate the Chocolate Bayou Agreements upon 12 months' prior written notice given on or after January 1, 2009. In the event Monsanto exercised its right of early termination, upon the effective date of such termination, Monsanto would be obligated to pay Solutia a lump sum amount equal to the remaining minimum purchase commitments under certain of the raw material agreements. Monsanto's exit obligations under the Master Operating Agreement with respect to the DSIDA facility at Chocolate Bayou would be defined as a one-time lump sum payment of \$30 million (the "Exit Payment") payable on the earlier of December 31, 2012 or the effective date of any early termination. Solutia intends to submit the Amendments for Bankruptcy Court

approval.

(b) HMD Supply Agreement

Solutia also sells HMD to Monsanto pursuant to a supply agreement. Monsanto uses HMD as a raw material to produce herbicides. The HMD supply agreement requires Monsanto

125

to purchase all of its requirements of HMD for its Muscatine facility from Solutia. Therefore, the agreement provides Solutia with a stable, long-term customer for its HMD production. The HMD supply agreement has an initial term of 10 years from September 1, 1997, to continue indefinitely thereafter until either party gives at least one year prior written notice of termination.

8. THE RETIREE SETTLEMENT  
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The Retiree Settlement will resolve the various litigations regarding the Retirees' benefits, as well as the Claims the individual Retirees have filed against Solutia. Pursuant to the Retiree Settlement, Solutia will modify the post-employment benefits provided to Retirees. These modifications will provide Solutia with a significant savings, and many of these modifications would not be possible without the Retirees' consent. In addition, the Retiree Settlement will alleviate Solutia's Legacy OPEB Liabilities with regard to Retirees who retired prior to the Spinoff (the "Pre-Spin Retirees") through the funding of the Retiree Trust. The Retiree Settlement does not affect non-OPEB claims held by Retirees, including any Tort Claims that may be held by individual Retirees.

The Retiree Settlement is conditioned upon, and made possible only because of, Monsanto's Agreement to take financial responsibility, as between itself and Solutia, for Legacy Liabilities as part of the Monsanto Settlement. The Retiree Settlement preserves post employment medical and other benefits for Solutia's 20,000 retirees, subject to consensual benefit reductions that Solutia estimates will save Reorganized Solutia approximately \$110 million.

o In particular, the Retiree Settlement provides for:

- o Creation of the Retiree Trust. On the Effective  
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Date, Solutia will contribute \$175 million in cash proceeds from the Rights Offering to the Retiree Trust. These funds will be used solely to reimburse Solutia for costs associated with the payment of benefits for Pre-Spinoff Retirees. The Retiree Trust provides continuing and substantial protections for continued payments of Retirees' benefits.
- o Modification to Medical Benefits. Reorganized  
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Solutia can limit the amount it pays each year for retiree medical expenses, change deductibles and prescription drug co-payments and cap the amount of benefits paid to individual retirees after the age of 65.
- o Modification to Life Insurance Benefits. Life  
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insurance benefits has been capped for employees who retired before December 31, 2001 and eliminated for those who retired after that date.
- o Retiree Claim. The Retirees, as a class, will  
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receive an allowed, non-priority unsecured claim in the aggregate amount of \$35 million, which is based on the value of agreed-upon reductions to benefits that Solutia could not have unilaterally imposed on the Retirees. The shares of New Common Stock and any proceeds from their later sale shall reimburse Reorganized Solutia for

126

payments related to OPEB for Pre- and Post-Spin Retirees. The Retiree Claim and all rights and

obligations associated therewith, including voting rights, will be held and managed by the Retirees' Committee as the authorized representative for the Retirees. On the Effective Date, all OPEB claims filed by individual Retirees shall be disallowed and expunged as duplicative of the Retiree Claim.

- o Retiree Release. The Retirees have agreed to -----  
release Solutia, Monsanto and Pharmacia, any employee benefit plans of Monsanto or Pharmacia and their respective officers, directors, employees, affiliates, successors, assigns, representatives, agents, advisors and professionals from all claims related to "retiree benefits" (as defined in section 1114(a) of the Bankruptcy Code).

Solutia will seek approval of the Retiree Settlement at the Settlement Approval Hearing.

9. THE PHARMACIA SETTLEMENT  
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While not a principal party to the negotiations resulting in the Relationship Agreement, Pharmacia has agreed to release Solutia from certain obligations owed to Pharmacia, including any indemnity obligations arising under the Distribution Agreement or any other agreement or otherwise related to the Legacy Liabilities or any other Claims (collectively, the "Pharmacia Contribution"). As described in Section VIII.C.9, Solutia has agreed, pursuant to the terms of the Relationship Agreement, to provide Pharmacia with certain new indemnities. In addition, Pharmacia has agreed to: (a) waive the Pharmacia Claim and (b) receive no Distributions under the Amended Plan on account of the Pharmacia Claim.

C. CONSIDERATION RECEIVED UNDER THE AMENDED PLAN  
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1. MONSANTO'S CONSIDERATION  
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In consideration for the Monsanto Contribution and the release of the Monsanto Claim, Monsanto will receive (a) 20% of the New Common Stock on account of the Monsanto Claim; worth approximately \$240 million at the midpoint of the enterprise value (b) an Allowed Administrative Claim for all documented out of pocket Environmental Liabilities amounts that it has spent related to the Retained Sites, and to the Shared Sites in excess of \$50 million during the Chapter 11 Cases(66); and (c) subject to the continuing liability described in the Amended Plan and Relationship Agreement pertaining to Tort Claims, Legacy Site Claims and NRD Claims, releases from and injunctions against any and all Claims relating to Solutia or the Legacy Liabilities, other than Tort Claims and Environmental Liability Costs, and an agreement to condition the Amended Plan on similar releases respecting Retirees and certain other claimants.

In addition, Reorganized Solutia has agreed to pay the reasonable fees and to reimburse the reasonable expenses of Monsanto's Professionals for work substantially related to the

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(66) Based on the information received from Monsanto, the Environmental Liabilities at the Shared Sites, as of May 31, 2007, equal \$65.9 million.

Chapter 11 Cases, in an amount equal to the lesser of (a) Monsanto's actual out of pocket costs with respect to such reasonable fees and expenses and (b) the aggregate fees of the Creditors' Committee's professionals, as approved by the Bankruptcy Court. Monsanto will not be required to file any fee application or other request with the Bankruptcy Court in connection with the payment of such fees and expenses; provided, however, that if there is any

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dispute between Solutia and Monsanto or the Creditors' Committee and Monsanto regarding Monsanto's professional fees and which cannot be resolved in a reasonable period of time, then the Bankruptcy Court shall determine the amount of reasonable professional fees to be paid to Monsanto. The professionals for the Creditors' Committee have incurred approximately \$16.7 million in fees and expenses as of May 31, 2007, plus a transaction fee payable to Houlihan Lokey, the Creditors' Committee's financial advisors, upon the confirmation of the Amended Plan with a base fee of at least \$1 million plus an incentive fee, based on the interim compensation orders granted by the

The Equity Committee asserts that the Amended Plan, the Monsanto Settlement and Retiree Settlement incorporated therein provide substantial benefits to Monsanto in return for only a limited, insufficient contribution. However, if the Amended Plan is confirmed, Monsanto will receive 20% of the New Common Stock as reimbursement for the portion of the Legacy Liabilities that Monsanto has agreed to take back. In light of the Equity Committee Complaint, the Equity Committee believes that Monsanto's recovery is too beneficial and should be rejected by the Debtors' creditors.

2. PHARMACIA'S CONSIDERATION  
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In consideration for the Pharmacia Contribution, Pharmacia will receive, subject to Reorganized Solutia's continuing liability described in the Amended Plan and Relationship Agreement, the releases from and injunctions against any and all Claims relating to Solutia or the Legacy Liabilities other than Tort Claims and Environmental Liability Costs.

3. GENERAL UNSECURED CREDITORS' CONSIDERATION  
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In exchange for their Allowed Claims, and for agreeing to support the Amended Plan and the releases provided to Monsanto and Pharmacia, the Holders of Allowed General Unsecured Claims will receive their Pro Rata share, inclusive of Allowed Noteholder Claims, of the Stock Pool consisting of 49.9% of the New Common Stock. In addition, each Holder of an Allowed General Unsecured Claim that is an Eligible Holder will be entitled to participate in the Rights Offering. Holders of Allowed General Unsecured Claims that do not participate in the Rights Offering will receive a recovery of approximately 74.8 cents on the dollar. Holders of Allowed General Unsecured Claims that do participate in the Rights Offering will receive a recovery of approximately 85.3 cents on the dollar.

4. NOTEHOLDERS' CONSIDERATION  
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Holders of Allowed Noteholder Claims will receive their Pro Rata share, inclusive of Allowed General Unsecured Claims, of the Stock Pool consisting of 49.9% of the New Common Stock. In addition, each Holder of an Allowed Noteholder Claim that is an Eligible Holder will be entitled to participate in the Rights Offering. Holders of Allowed Noteholder Claims that do

not participate in the Rights Offering will receive a recovery of approximately 74.8 cents on the dollar. Holders of Allowed Noteholder Claims that do participate in the Rights Offering will receive a recovery of approximately 85.3 cents on the dollar.

5. RETIREES' CONSIDERATION  
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The Retirees will receive their future post-employment benefits as modified by the Retiree Settlement. On the Effective Date, Solutia will contribute \$175 million in cash proceeds from the Rights Offering to the Retiree Trust to assure that such future OPEB obligations are met. The Retirees, as a class, will also receive an Allowed, non-priority unsecured claim in the aggregate amount of \$35 million, which is based on the value of agreed-upon reductions to benefits that Solutia could not have unilaterally imposed. In accordance with the terms of the Retiree Settlement Agreement, the Retirees, as a class, will receive 2.2% of the New Common Stock, resulting in a recovery of 74.8 cents on the dollar. The recovery on account of the Retiree Claim will be contributed to the Retiree Trust to enhance its ability to maintain benefit payments to all Retirees for both pre- and post-spin Retirees. The Retiree Claim and all rights and obligations associated therewith will be held and managed by the Retirees' Committee as the authorized representative for the Retirees. Any and all claims filed by individual Retirees on account of reductions in their post-employment benefits as a result of Solutia's Chapter 11 Cases will be disallowed and expunged as duplicative of the Retiree Claim.

6. NEW INDEMNITIES  
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Pursuant to the Relationship Agreement, Reorganized Solutia will indemnify Monsanto and Pharmacia for losses incurred in connection with the following: (a) Environmental Liabilities in connection with the Retained Sites; (b) Environmental Liabilities in connection with the Shared Sites for

which it is liable; (c) the failure of Reorganized Solutia to make payments required to be paid by Reorganized Solutia pursuant to the Anniston Settlement Agreement or under the Anniston Consent Decree; (d) the PENNDOT litigation up to an amount not to exceed \$20 million; and (e) the Chemicals Liabilities (as defined in the Relationship Agreement) which Monsanto or Pharmacia have not otherwise agreed to take responsibility for, except for Claims not satisfied in full under the Amended Plan relating to Pharmacia or Solutia's non-qualified plans at issue in Miller v. Pharmacia Corporation, Case No. 04:04CV981.

D. THE RELEASES AND THE MONSANTO/PHARMACIA INJUNCTION ARE NECESSARY  
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COMPONENTS OF THE AMENDED PLAN  
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As described more fully in this section, the Relationship Agreement, the Retiree Settlement and Monsanto's contributions pursuant thereto will enable Solutia to emerge from the Chapter 11 Cases free from the heavy burdens of the Legacy Liabilities. Monsanto's contributions are critical to Solutia's ability to emerge from the Chapter 11 Cases. Monsanto would not enter into the Relationship Agreement without being able to obtain a release from third parties who hold Claims against Solutia. The scope and breadth of the releases provided to Monsanto and Pharmacia were negotiated extensively at arms-length by the parties, and Monsanto will not agree to the Relationship Agreement absent these releases being obtained.

129

In the Second Circuit, a debtor requesting an injunction barring suits against third parties must show that the injunction meets the standards articulated in the seminal Drexel decision and its progeny. See *In re Drexel Burnham Lambert Group, Inc.*, 960 F.2d 285, 293 (2d. Cir. 1992), cert. denied, 506 U.S. 1088 (1993); *In re Metromedia Fiber Network, Inc.* (Docket No. 04-2112) (2d. Cir. July 21, 2005); see also *In re XO Communications, Inc.*, 2005 WL 2319155, Case No. 02-12947 (AJG) (Bankr. S.D.N.Y. Sept. 23, 2005). In *Drexel*, the United States Court of Appeals for the Second Circuit approved an injunction barring future securities fraud suits against the debtor's former officers and directors. Specifically, the court noted that it could "enjoin a creditor from suing a third party, provided the injunction plays an important part in the debtor's reorganization plan." *Drexel*, 960 F.2d at 293. As part of the *Drexel* reorganization, the debtor and its directors and officers had entered into a settlement agreement with the SEC and two groups of securities fraud claimants. The settlement agreement provided, among other things, for the creation of a \$350 million fund to compensate the victims of certain fraudulent transactions and for an injunction barring future suits by third parties against the debtor's officers and directors. The bankruptcy court had removed the settlement proceedings to the District Court, which had approved the settlement, including the injunction. On appeal, the Second Circuit approved the injunction, reasoning that it was necessary to induce the directors and officers to enter into the settlement agreement, which itself was an essential element of the debtor's reorganization and made hundreds of millions of dollars available to fund creditor recoveries. See *Drexel*, 960 F.2d at 293 ("The Settlement Agreement is unquestionably an essential element of [the debtor's] ultimate reorganization. In turn, the injunction is a key component of the Settlement Agreement."); see also *In re Ionosphere Clubs, Inc. v. Shugrue*, 184 B.R. 648, 655 (Bankr. S.D.N.Y. 1995) (district court affirmed injunction, reasoning that it was "integral to a final resolution of claims and . . . necessary to give finality to the plan."); *Chateaugay*, 167 B.R. at 780 ("courts have permanently enjoined future lawsuits against non-debtors . . . where such a step was essential to confirmation of the Plan").

The Second Circuit recently reaffirmed its principal holding in *Drexel*, finding that releases enjoining creditor suits against third party non-debtors are permissible when such releases are supported by specific factual findings, are based on the unique circumstances of a particular debtor's case, and are important to the success of the debtor's plan. See *Metromedia*, at 10-16. Significantly, the United States Court of Appeals for the Second Circuit held that non-debtor releases would be upheld if the court found that "truly unusual circumstances" made the release "important to the success of the plan." *Id.* at 16; see also *XO Communications*, 2005 WL 2319155, at \*31-34 (finding that nondebtor releases were appropriate within the mandate of *Metromedia* and related Second Circuit case law).

The Chapter 11 Cases embody such "truly unusual circumstances." Under the terms of the Relationship Agreement, Monsanto has agreed to take financial responsibility for Tort Claims and certain environmental liabilities and compromise indemnity Claims, which will enable Solutia to emerge from the Chapter 11 Cases as a viable enterprise and provide meaningful distributions to its creditors under the Amended Plan. The Amended Plan, the Relationship Agreement and the Retiree Settlement reallocates the Legacy Liabilities, which

served as a driving factor in Solutia's commencement of the Chapter 11 Cases. Moreover, the Monsanto Contribution will provide for the settlement and resolution of some of Solutia's most significant monetary and non-monetary liabilities. Thus, the Monsanto Contribution as the basis for the Relationship Agreement, is the sine qua non of the Amended Plan, without which Solutia

130

would encounter tremendous hurdles that would hinder and delay its ability to complete a successful reorganization. Accordingly, under Drexel and its progeny, including the recent Metromedia and XO Communications decisions, the "financial contribution" element is satisfied.

In the Chapter 11 Cases, the Monsanto/Pharmacia Injunction and related releases are critical to induce Monsanto to make the Monsanto Contribution, which is the cornerstone of the Amended Plan. Courts in the Second Circuit have approved injunctions when such injunctions would make third parties more likely to enter into a settlement agreement critical to the success of the debtor's reorganization plan. See Drexel, 960 F.2d at 293 ("[T]he injunction limits the number of lawsuits that may be brought against Drexel's former directors and officers. This enables the directors and officers to settle these suits without fear that future suits will be filed. Without the injunction, the directors and officers would be less likely to settle."). In another case, the District Court reaffirmed that injunctions are appropriate when they are necessary to induce a third party to make an important contribution to a debtor's reorganization. See *In re Gaston & Snow*, 1996 WL 694421, Case No. 93-CIV-8517 (JGK), at \*5 (S.D.N.Y. Dec. 4, 1996). The District Court in Gaston approved a permanent injunction in a settlement agreement that released certain third parties. Citing Drexel, the court held that the injunction was properly issued because it was essential to encourage the participating third parties to contribute to the debtor by ensuring that their payments would protect them from any future actions arising from their relationship with the debtor. *Gaston & Snow*, 1996 WL 694421, at \*5 (injunction was appropriate because settling third parties "will have incentive to pay their respective [contributions] ... if they can take comfort that such payments will shield them from all future exposure for any action brought by any person for the purpose of ... contribution or indemnification."); see also *In re Labrum & Doak, LLP*, 237 B.R. 275, 306 (Bankr. E.D. Pa. 1999) (holding that injunction was justified because, absent injunctive relief, several of the settling third parties would not have had sufficient incentives to contribute the sums called for under the settlement agreement).

Monsanto will not make the Monsanto Contribution without receiving the releases from, and injunctions against, claims relating to Solutia or the Legacy Liabilities and (because of its Separation Agreement obligations to Pharmacia) unless Pharmacia receives the releases from and injunctions against any and all claims relating to Solutia or the Legacy Liabilities. Since without the required releases and injunctions for Monsanto and Pharmacia, those entities would be incurring obligations for which Solutia is ultimately responsible under the Distribution Agreement, in the absence of the required releases and injunctions in favor of Monsanto and Pharmacia, Solutia will have no relief from the Legacy Liability obligations and will not receive the required financial relief and funding provided by the Relationship Agreement. The reallocation of the Legacy Liabilities accomplished through the Relationship Agreement and the Retiree Settlement, serves as the basis for the Amended Plan, which, among other things: (a) provides for the satisfaction of all secured debt of Solutia, a substantial recovery on the Claims of unsecured creditors as negotiated with the Creditors' Committee, and other distributions in the priority and manner prescribed by the Bankruptcy Code and (b) allows for Solutia to emerge from bankruptcy as a viable entity and in an efficient manner in compliance with the requirements of the Bankruptcy Code and well positioned to produce solid financial returns.

131

The Equity Committee believes that these releases are improper and unnecessary components of the Amended Plan. The Equity Committee intends to challenge the broad releases provisions set forth in the Amended Plan.

E. THE RELATIONSHIP AGREEMENT IS CRITICAL TO THE AMENDED PLAN  
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The Relationship Agreement resolves numerous issues that have burdened Solutia since the Spinoff. The Amended Plan is premised on the Monsanto Contribution and the Pharmacia Contribution, and the Monsanto and Pharmacia Contributions, in turn, are premised on the releases and injunctions to be issued in favor of Monsanto and Pharmacia pursuant thereto. Without the Monsanto/Pharmacia Injunction and related releases, Monsanto would not agree to make the necessary contribution to Solutia's Estates. Absent a settlement

with Monsanto and Pharmacia, Solutia would have to litigate the numerous Claims relating to responsibility for Legacy Liabilities described herein before Solutia could even consider its emergence from the Chapter 11 Cases. The complexity surrounding these disputes and the protracted and costly litigation that would ensue would have a significant detrimental impact on Solutia's ability to preserve value for its creditors and would result in Solutia's Estates incurring significant administrative costs.

The Chapter 11 Cases are unique. Solutia has been hampered since its creation by virtue of the triangle of indemnity obligations associated with the Legacy Liabilities. The litigation issues surrounding these indemnity obligations are extremely complicated. There is no certainty that the indemnity obligations would be resolved in favor of Solutia if Solutia continued to litigate them. The existing litigation proceedings surrounding these issues have already imposed significant burdens on Solutia and, absent the Bankruptcy Court's confirmation of the Amended Plan, will continue to do so in the future.

The Amended Plan, the Relationship Agreement and the Retiree Settlement represent a realistic opportunity for Solutia and its creditor constituencies to reallocate and reduce the burden of the Legacy Liabilities on Solutia to a commercially reasonable level. Accordingly, Solutia believes that the settlements and compromises embodied in the Amended Plan satisfy the requirements for approval of settlements under the Bankruptcy Code and should therefore be approved by the Bankruptcy Court. Bankruptcy Rule 9019(a) provides, in relevant part, that "[o]n motion by the trustee and after notice and a hearing, the court may approve a compromise and settlement." Fed. R. Bankr. P. 9019(a). Compromises and settlements are "a normal part of the process of reorganization." See Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson, 390 U.S. 414, 424 (1968) (quoting Case v. Los Angeles Lumber Prods. Co., 308 U.S. 106, 130 (1939)).

The Amended Plan facilitates Solutia's restructuring and its emergence from bankruptcy. The Amended Plan provides for a reallocation of Legacy Liabilities and resolves the treatment of thousands of Claims, provides for the implementation of the Relationship Agreement and the continuation of the Commercial and Operating Agreements, all of which are vital to Reorganized Solutia's ongoing business operations and which will further Solutia's ability to obtain financing for the implementation of the Amended Plan and for its future operations. The Creditors' Committee supports the Amended Plan. The Creditors' Committee represents one of the most fundamental economic interests at stake in Solutia's reorganization, since its constituents will

receive a significant portion of the New Common Stock pursuant to the Amended Plan. As such, the significance of the Creditors' Committee's support of the Amended Plan cannot be overstated.

The Equity Committee does not support the Amended Plan. The Equity Committee has been an active participant during the course of the Chapter 11 proceedings and the Equity Committee believes it has been the only party in interest to conduct a meaningful investigation into the Spinoff, the Debtors' environmental liabilities and Monsanto's claims. The Equity Committee does not believe the Monsanto Settlement and the Retirement Settlement are reasonable and therefore intends to challenge the reasonableness of these settlements at the Settlement Approval Hearing.

F. APPROVAL OF THE SETTLEMENT OF THE LITIGATION AMONG MONSANTO,  
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PHARMACIA AND SOLUTIA IS CLEARLY WARRANTED  
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To approve a settlement under Bankruptcy Rule 9019, a bankruptcy court must find that the settlement is fair and equitable, reasonable, and is in the best interests of the debtor's estate. The decision to approve a particular settlement lies within the sound discretion of the bankruptcy court. See *Nellis v. Shugrue*, 165 B.R. 115, 122-23 (S.D.N.Y. 1994). In exercising its discretion, the bankruptcy court must make an independent determination that the settlement is fair and reasonable. *Id.* at 122. The court may consider the opinions of the debtor in possession and its counsel that the settlement is fair and reasonable. *Id.*; see also *In re Purofied Down Prods. Corp.*, 150 B.R. 519, 522 (S.D.N.Y. 1993). This discretion should be exercised by the bankruptcy court "in light of the general public policy favoring settlements." *In re Hibbard Brown & Co., Inc.*, 217 B.R. 41, 46 (Bankr. S.D.N.Y. 1998); *Shugrue*, 165 B.R. at 123 ("the general rule [is] that settlements are favored and, in fact, encouraged by the approval process outlined above."). In determining whether to approve a proposed settlement, a bankruptcy court need not decide the numerous issues of law and fact raised by the settlement, but rather should "canvass the issues and determine whether the settlement falls within "the range of reasonableness." See *In re W.T.*

Grant Co., 699 F.2d 599, 608 (2d Cir. 1983); see also Purified Down Prods., 150 B.R. at 522 ("the court need not conduct a 'mini-trial' to determine the merits of the underlying [dispute]").

In deciding whether a proposed settlement falls within the "range of reasonableness," courts consider several factors, such as (a) the probability of success in the litigation; (b) the difficulties associated with collection; (c) the complexity of the litigation, and the attendant expense, inconvenience and delay caused by it; and (4) the paramount interests of creditors. *Id.* (citing *Drexel v. Loomis*, 35 F.2d 800, 806 (8th Cir. 1989)); *Six West Retail Acquisition, Inc. v. Loews Cineplex Entm't Corp.*, 286 B.R. 236, 248 n.13 (S.D.N.Y. 2002); see also *In re Drexel Burnham Lambert Group, Inc.*, 960 F.2d 285, 292 (2d Cir. 1992); *Ionosphere Clubs*, 156 B.R. at 428 ("The 'reasonableness' of a settlement depends upon all factors, including probability of success, the length and cost of the litigation, and the extent to which the settlement is truly the product of 'arms-length' bargaining, and not of fraud or collusion").

As set forth above, the litigation in the Chapter 11 Cases concerning Solutia's liabilities and indemnification obligations to Monsanto and Pharmacia is complex. Resolving this litigation, and the related matters arising from the triangle of indemnity relationships, would be

133

difficult, as well as time-consuming and expensive. The settlement of the litigation among Monsanto, Pharmacia and Solutia is the product of arm's-length good faith negotiations among the parties affected by Solutia's restructuring. To that end, the Creditors' Committee observed and participated in the negotiations of the terms leading up to the Global Settlement which served as the foundation for the Original Plan, and the basis for the current settlement between Monsanto, Pharmacia and Solutia, ensuring that the interests of Solutia's unsecured creditors are adequately represented and protected. Moreover, if the Bankruptcy Court approves Solutia's settlement with Pharmacia and Monsanto, as described herein, the Equity Committee Adversary Proceeding will necessarily be dismissed with prejudice.

Given the substantial benefits to Solutia's reorganization process from the Relationship Agreement and the settlement of the litigation among Monsanto, Pharmacia and Solutia--and in light of the alternative of costly and protracted litigation, with uncertain results--Solutia believes that the settlement embodied in the Amended Plan is fair and equitable, is in the best interests of Solutia's creditors, and falls well within the "the range of reasonableness." Accordingly, Solutia believes that the Amended Plan, which is premised upon and incorporates the resolution of the litigation among Monsanto, Solutia and Pharmacia, the Relationship Agreement, the Retiree Settlement and the resulting reallocation of the Legacy Liabilities, should be approved by the Bankruptcy Court.

G. THE EQUITY COMMITTEE OPPOSES THE MONSANTO AND RETIREE SETTLEMENTS (67)

The Equity Committee and its advisors believe that the actual amount of financial responsibility being assumed by Monsanto under the Amended Plan for the Legacy Liabilities is unreasonably small in comparison to the amount of the Legacy Liabilities that will remain on Reorganized Solutia's balance sheet. The Equity Committee also believes that the Amended Plan and the Global Settlement were orchestrated by and for the benefit of Monsanto and Pharmacia, to the detriment of Solutia's other general unsecured creditors and shareholders. For example, the Amended Plan generously gifts Monsanto with an estimated general unsecured claim totaling \$824.5 million, which will entitle Monsanto to own 20% of Reorganized Solutia. Solutia also has agreed to pay reasonable fees incurred by Monsanto's professionals for work related to the Chapter 11 Cases, capped at the aggregate fees of the Creditors' Committee's professionals.

The Equity Committee believes that the Amended Plan is far too generous to Monsanto and Pharmacia, because, like the Spinoff, affords Monsanto and Pharmacia significant continuing protection from the Legacy Liabilities. While Monsanto is taking back a limited amount of the Legacy Liabilities, it is receiving a valuable recovery in stock of Reorganized Solutia. The Equity Committee believes that reorganized Solutia will remain liable for hundreds of millions of dollars in connection with a large portion of the Legacy Liabilities.

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(67) The views asserted in this section are solely those of the Equity Committee. Solutia, the Creditors' Committee, the Ad Hoc Trade Committee, the Retirees' Committee, Monsanto and Pharmacia do not agree with, support or adopt in any way whatsoever, the allegations made by the



Under the terms of the Amended Plan, Monsanto is receiving one-fifth of the value of Reorganized Solutia on account of its claims. The Equity Committee believes that the Debtors have never mounted a meaningful challenge to Monsanto's claims. The Equity Committee believes that the debtors have not even seriously challenged Monsanto's and Pharmacia's conduct in connection with the Spinoff which gave rise to these indemnification obligations and which ultimately forced Solutia into bankruptcy.

In sharp contrast to the Debtors' "treatment" of Monsanto's claims, the Equity Committee has been vigorously challenging Monsanto's claims and seeks to disallow of those claims in their entirety by, among other things, seeking to invalidate the indemnification provisions on which the claims are based. The Equity Committee asserts that doing so would effectively return the Legacy Liabilities to Monsanto's and Pharmacia's balance sheets because they will be liable for contribution and other claims by Solutia to recover any and all amounts that it has already paid for the Legacy Liabilities. The Equity Committee believes that without the indemnity, Monsanto and Pharmacia will be exclusively liable for the Legacy Liabilities related to their former PCB and dioxin manufacturing activities as owner operators at the time of the contamination. The Equity Committee believes that with Monsanto's and Pharmacia's claims eliminated, there are hundreds of millions of dollars in value that can be returned to the Estates for distribution to the Debtors' legitimate unsecured creditors and shareholders.

IX.

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE AMENDED PLAN  
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Solutia believes that the Amended Plan affords Holders of Claims the greatest opportunity for realization on Solutia's assets and, therefore, is in the best interests of such Holders. If the Amended Plan is not confirmed, however, the theoretical alternatives include (A) liquidation of Solutia under chapter 7 of the Bankruptcy Code or (B) alternative plans of reorganization or liquidation under chapter 11 of the Bankruptcy Code.

In the Fall of 2006, Solutia decided to explore an alternative plan of reorganization that, if successful, would have been funded by the proceeds of the sale of the equity of Reorganized Solutia to a third party purchaser (the "Sale Plan"). The Sale Plan contemplated maintaining the valuable benefits achieved through the Monsanto Settlement and Retirees Settlement. Under the Sale Plan, Solutia also contemplated distributing cash to its creditors instead of distributing equity in Reorganized Solutia to them.

As first described by Solutia in the Response of the Debtors to the Ad Hoc Committee of Solutia Noteholders' Opposition to Debtors' Ninth Motion to Extend the Exclusivity Period, dated November 15, 2006 (Dkt. No. 3522) and at the subsequent hearing, in late November 2006, Solutia began a month-long exploratory sales process. During this sales process, Solutia

contacted 18 potential strategic and/or financial purchasers.<sup>(68)</sup> These potential purchasers were selected either because they had expressed interest regarding Solutia during these Chapter 11 Cases or because they were known to invest in the chemical sector. During this initial phase, Solutia and/or its advisors (a) made in-person management presentations to each potential purchaser, (b) responded to follow-up questions and inquiries from each potential purchaser, (c) provided detailed updates to and sought input from each of its major stakeholders regarding the sales process, (d) enabled potential purchasers to conduct due diligence, and (e) discussed various issues relating to the potential sale and Chapter 11 Cases with the stakeholders and potential purchasers.

As a result of these efforts, on December 19, 2006, Solutia received six non-binding indications of interest. Each of the indications of interest was provided to Solutia's major stakeholders (subject to strict confidentiality). Three of the indications of interest conformed to Solutia's request that potential purchasers bid on the common stock of Reorganized Solutia, while the remaining three were non-conforming. The three non-conforming indications of interest led Solutia to explore the potential of selling certain businesses in an attempt to generate additional value (the "Modified Sale Plan").

As previously described by Solutia in the Exclusivity Pleading, dated April 20, 2007 (Dkt. No. 3726), and at the Exclusivity Hearing conducted on

May 1, 2007, under the Modified Sale Plan, Solutia would sell certain businesses, use the cash proceeds from such sales to satisfy liabilities, and pay off creditors. Solutia would then reorganize around the remaining businesses and the stakeholders whose claims were not satisfied in cash would receive the equity of Reorganized Solutia. Solutia discussed the Modified Sale Plan with its various constituents and analyzed the viability of this option. Specifically, Solutia met with and engaged in in-depth discussion about the Modified Sale Plan with, among others, the Equity Committee, including the sharing and reviewing of prepared analyses based on assumptions about the Modified Sale Plan. Ultimately, after significant consideration, discussion and analysis, Solutia's Board of Directors decided against pursuing the Modified Sale Plan for the following key reasons: (a) the indications of interests were not high enough (especially after potential purchasers refined them following due diligence), (b) the sale process would be complex due to the regulatory concerns and the Legacy Liabilities, and, as a result, the execution risk was high, (c) employee attrition due to an announced sale of industrial businesses was a major concern, and (d) because the Modified Sale Plan, including the Equity Committee's proposed structure, required Monsanto to continue to be financially responsible for a significant amount of Legacy Liabilities, while needing to rely on a significantly smaller business to take responsibility for other Legacy Liabilities, the Monsanto Settlement would be put at risk.

On April 11, 2007, the Equity Committee in an attempt to force Solutia to conduct the Modified Sale Plan filed its motion to terminate Solutia's exclusive periods. On April 20, 2007, Solutia objected to the Equity Committee's motion and sought an extension of its exclusive periods. On May 1, 2007, after a contested hearing, the Court extended Solutia's exclusive

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(68) In subsequent motions (1/29/07 and 4/20/07; Dkts. 3623 and 3726) (the "Exclusivity Pleadings"), and hearings on such motions, to further extend Solutia's exclusive periods (the "Exclusivity Hearings"), Solutia updated the Court and parties in interest on the ongoing sale process.

136

periods and reasoned that any decision to conduct a sale belongs to Solutia's Board of Directors and that there was nothing in the record to cause the Court to direct Solutia to pursue a path against the determination of Solutia's Board of Directors. (See Tr. 5/1/07 at 42)

On June 21, 2007, an investor group of Solutia's equity holders with the support of the Equity Committee, provided Solutia with an investment proposal, which proposes to provide Solutia with (a) a cash investment of \$250 million in exchange for an initial 26.2% of the convertible preferred stock of Reorganized Solutia and (b) a fully backstopped \$200 million rights offering (the "Investment Proposal"). Among other things, the Investment Proposal contemplates the sale of certain of Solutia's businesses and for Reorganized Solutia to acquire an approximately \$1.4 billion debt facility, with \$1.25 billion expected to be drawn at closing based on a June 30, 2007 reference point. Moreover, the Equity Committee Investment Proposal requires Monsanto to accept a recovery of 13.5% of the New Common Stock (as compared to 20% of the New Common Stock under the Monsanto Settlement).

Solutia and its advisors have considered the Investment Proposal and decided against pursuing it because of several deficiencies associated with the proposal. The Investment Proposal is another attempt to impose the Modified Sale Plan on Solutia, which Solutia, in its business judgment, does not believe will increase value. Solutia believes that the Investment Proposal fails for at least the following reasons: (a) the proposal does not address the reallocation of the Legacy Liabilities, which is key to any successful reorganization of Solutia, (b) the proposal requires a sale of one of Solutia's businesses to an unknown purchaser at a price above indications received for that business from the exploratory sale process conducted in Fall of 2006, and (c) the proposal is contingent on Monsanto accepting 13.5% of the New Common Stock of a company much smaller than Reorganized Solutia.

A. LIQUIDATION UNDER CHAPTER 7  
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Solutia believes that, under the Amended Plan, each Holder of Impaired Claims will receive property of a value not less than the value such Holder would receive in a liquidation of Solutia under chapter 7 of the Bankruptcy Code. Solutia's belief is based primarily upon extensive consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to Holders of Claims, including, but not limited to (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a chapter 7 trustee and professional advisors to the trustee, including investment bankers, (b) the erosion in

value of assets in a chapter 7 case in the context of the rapid liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail, (c) the adverse effects on Solutia's businesses as a result of the likely departure of key employees, and (d) the reduction of value associated with a chapter 7 trustee's operation of Solutia's businesses. Solutia's belief is also based upon the Liquidation Analysis, which is annexed to this Disclosure Statement as Exhibit F.(69) The Liquidation Analysis does not reflect the likely delay in distributions to Holders

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(69) A liquidation analysis was included as an exhibit to the Original Disclosure Statement filed on February 14, 2006. A revised exhibit, updated to reflect changes to the liquidation analysis since February 14, 2006, will be filed with the Bankruptcy Court and provided to parties in interest prior to the Disclosure Statement Hearing.

137

of Claims in a liquidation scenario, which, if considered, would only further reduce the present value of any liquidation proceeds.

Solutia believes that any liquidation analysis is speculative, as such an analysis is necessarily premised upon assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which would be beyond the control of Solutia. Thus, there can be no assurance as to values that would actually be realized in a chapter 7 liquidation, nor can there be any assurance that the Bankruptcy Court will accept Solutia's conclusions or concur with such assumptions in making its determinations under section 1129(a)(7) of the Bankruptcy Code.

For example, the Liquidation Analysis necessarily contains an estimate of the amount of Claims that will ultimately become Allowed Claims. This estimate is based solely upon a review of Solutia's books and records, the Claims filed in the Chapter 11 Cases and Solutia's estimates as to additional Claims that might be asserted in the Chapter 11 Cases or that would arise in the event of a conversion of the Chapter 11 Cases to a chapter 7 liquidation proceeding. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims, as set forth in the Liquidation Analysis. The estimate of the amount of Allowed Claims set forth in the Liquidation Analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any Distribution to be made on account of Allowed Claims under the Amended Plan. The annexed Liquidation Analysis is provided solely to disclose to Holders of Claims and Equity Interests the effects of a hypothetical chapter 7 liquidation of Solutia, subject to the assumptions set forth herein and in the Liquidation Analysis.

To the extent that confirmation of the Amended Plan requires the establishment of amounts for the chapter 7 liquidation value of Solutia and funds available to pay Claims and the reorganization value of Solutia, the Bankruptcy Court will determine those amounts at the Confirmation Hearing.

B. ALTERNATIVE PLAN TO REORGANIZATION OR LIQUIDATION  
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If the Amended Plan is not confirmed, Solutia may be liquidated pursuant to the provisions of a chapter 11 liquidating plan. In liquidations under chapter 11, Solutia's assets could be sold in an orderly fashion over a more extended period of time than in liquidations under chapter 7. Thus, a chapter 11 liquidation might result in larger recoveries than in a chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs. Because a trustee's appointment is not required in a chapter 11 case, expenses for professional fees could be lower than in a chapter 7 case, in which a chapter 7 trustee must be appointed. Any distribution to Holders of Claims under a chapter 11 liquidation plan probably would be delayed substantially. Most importantly, Solutia believes that any distributions to creditors in a liquidation scenario would fail to capture the significant "going concern" value of their business, which is reflected in the New Common Stock to be distributed under the Amended Plan. Accordingly, Solutia believes that chapter 11 liquidation would not result in distributions as favorable as those under the Amended Plan.

138

X.  
PROJECTED FINANCIAL INFORMATION  
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Attached as Exhibit D is a Projected Consolidated Income Statement, Projected Consolidated Balance Sheet and Projected Consolidated Cash Flow Statement, each of which includes the following: (A) Solutia's consolidated historical financial statement information for the period ended December 31, 2006; and (B) consolidated projected financial statement information (the "Projections") for Reorganized Solutia's five year period from 2007 through 2011 (the "Projection Period"). (70)

THE PROJECTIONS HAVE BEEN PREPARED BY SOLUTIA'S MANAGEMENT WITH THE ASSISTANCE OF ROTHSCHILD, SOLUTIA'S FINANCIAL ADVISORS. SUCH PROJECTIONS WERE NOT PREPARED TO COMPLY WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND THE RULES AND REGULATIONS OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. SOLUTIA'S INDEPENDENT ACCOUNTANTS HAVE NEITHER EXAMINED NOR COMPILED THE ACCOMPANYING PROJECTIONS AND, ACCORDINGLY, DO NOT EXPRESS AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT TO THE PROJECTIONS, ASSUME NO RESPONSIBILITY FOR THE PROJECTIONS AND DISCLAIM ANY ASSOCIATION WITH THE PROJECTIONS. EXCEPT FOR PURPOSES OF THIS DISCLOSURE STATEMENT, SOLUTIA DOES NOT PUBLISH PROJECTIONS OF ITS ANTICIPATED FINANCIAL POSITION OR RESULTS OF OPERATIONS.

MOREOVER, THE PROJECTIONS CONTAIN CERTAIN STATEMENTS THAT ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE SUBJECT TO A NUMBER OF ASSUMPTIONS, RISKS, AND UNCERTAINTIES, MANY OF WHICH ARE AND WILL BE BEYOND THE CONTROL OF REORGANIZED SOLUTIA, INCLUDING THE IMPLEMENTATION OF THE AMENDED PLAN, THE CONTINUING AVAILABILITY OF SUFFICIENT BORROWING CAPACITY OR OTHER FINANCING TO FUND OPERATIONS, ACHIEVING OPERATING EFFICIENCIES, CURRENCY EXCHANGE RATE FLUCTUATIONS, EXISTING AND FUTURE GOVERNMENTAL REGULATIONS AND ACTIONS OF GOVERNMENT BODIES, NATURAL DISASTERS AND UNUSUAL WEATHER CONDITIONS AND OTHER MARKET AND COMPETITIVE CONDITIONS. HOLDERS OF CLAIMS ARE CAUTIONED THAT THE FORWARD-LOOKING STATEMENTS SPEAK AS OF THE DATE MADE AND ARE NOT GUARANTEES OF FUTURE PERFORMANCE. ACTUAL RESULTS OR DEVELOPMENTS MAY DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED OR IMPLIED IN THE FORWARD-LOOKING

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(70) Because the Projections assume an Effective Date of June 30, 2007, the Projections for 2007 include six months of projected results for Solutia (January through June) and 6 months of projected results for Reorganized Solutia (July through December).

139

STATEMENTS, AND SOLUTIA AND REORGANIZED SOLUTIA UNDERTAKE NO OBLIGATION TO UPDATE ANY SUCH STATEMENTS.

THE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY SOLUTIA, MAY NOT BE REALIZED AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE AND WILL BE BEYOND REORGANIZED SOLUTIA'S CONTROL. SOLUTIA CAUTIONS THAT NO REPRESENTATIONS CAN BE MADE OR ARE MADE AS TO THE ACCURACY OF THE PROJECTIONS OR TO REORGANIZED SOLUTIA'S ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL BE INCORRECT. MOREOVER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED, OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. SOLUTIA AND REORGANIZED SOLUTIA DO NOT INTEND AND UNDERTAKE NO OBLIGATION TO UPDATE OR OTHERWISE REVISE THE PROJECTIONS TO REFLECT EVENTS OR CIRCUMSTANCES EXISTING OR ARISING AFTER THE DATE THIS DISCLOSURE STATEMENT IS INITIALLY FILED OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE AMENDED PLAN, HOLDERS OF CLAIMS OR INTERESTS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE PROJECTIONS.

The Projections have been prepared with the assumption that the Effective Date is June 30, 2007, and are based on, and assume the successful implementation of, Reorganized Solutia's business plan. Although Solutia presently intends to cause the Effective Date to occur as soon as practical following confirmation of the Amended Plan, there can be no assurance as to when the Effective Date will actually occur given the conditions for the Effective Date to occur pursuant to the terms of the Amended Plan. In accordance with fresh start reporting, the Projections reflect the assets and liabilities of Reorganized Solutia as of the Effective Date, in accordance with generally accepted accounting principles and are based upon their estimated fair market values.

The Projections are based on, among other things: (a) current and projected market conditions in each of Reorganized Solutia's respective markets; (b) the ability to maintain sufficient working capital to fund operations; (c) final approval of the Exit Financing Facility; and (d) confirmation of the Amended Plan.

The Projections include consolidated results for Reorganized Solutia's domestic and international operations (Debtor and Non-Debtor entities).

140

A. THE EQUITY COMMITTEE'S VIEWS CONCERNING REORGANIZED SOLUTIA'S  
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VALUATION.  
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The Equity Committee submits that the Amended Plan and these Projections substantially undervalue Solutia. The Equity Committee's financial advisors believe that Solutia's total enterprise value is significantly higher than \$2.8 billion. The Equity Committee intends to vigorously challenge this valuation as it allows Monsanto and other unsecured creditors to receive a substantial windfall while depriving public shareholders of value to which they are legally entitled.

Based on indications of interest the Debtors received for various businesses, the Equity Committee's financial advisors believe that the Debtors' enterprise value is at least \$3.2 billion. This figure is not speculative - it essentially sums up the actual price indications already offered to Solutia from interested, financially strong potential buyers. These were unsolicited offers; Solutia did not encourage potential buyers to bid on individual business segments. Further, the \$3.2 billion figure does not reflect the ultimate purchase prices that may be achieved through a competitive sale process open to financially strong parties who are willing to engage in rigorous negotiations. Thus, the Equity Committee's financial advisors believe that the Debtors' true enterprise value is well above \$3.2 billion. Recognition of the true value of Solutia would provide creditors with a full recovery on account of their Claims.

Furthermore, the Equity Committee believes that to the extent that it is successful in its pursuit seeking to disallow Monsanto's and Pharmacia's claims (in whole or in part), the distributable value of Solutia will also increase and thus, distributions to creditors will significantly increase. Accordingly, the Equity Committee does not believe that the Amended Plan is in the best interests of creditors and interest holders and the settlement underlying the Amended Plan is unreasonable.

B. SOLUTIA'S RESPONSE TO THE EQUITY COMMITTEE'S "SUM OF INDICATIONS"  
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VALUATION METHODOLOGY  
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Contrary to the Equity Committees' characterization above, selected preliminary non-binding indications of interest received from potential strategic and financial buyers do not sum (even if one wanted to theoretically

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sum them) to an enterprise value of \$3.2 billion - never mind a figure in excess of \$3.2 billion. In addition, the preliminary, non-binding indications of interest that were received assume a consensual settlement with Monsanto concerning certain environmental, mass tort, OPEB and pension liabilities consistent with the Global Settlement -- a settlement that is not available under a multiple sale scenario. Further more, the Equity Committee neglects to acknowledge the magnified execution risk related to multiple potential sales and the potential ramifications of only a partial sale scenario.

XI.  
RISK FACTORS  
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HOLDERS OF CLAIMS SHOULD READ AND CONSIDER CAREFULLY THE RISK FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT AND THE DOCUMENTS DELIVERED TOGETHER

141

HEREWITH, REFERRED TO OR INCORPORATED BY REFERENCE HEREIN, PRIOR TO VOTING TO ACCEPT OR REJECT THE AMENDED PLAN. ALTHOUGH THESE RISK FACTORS ARE MANY, THESE FACTORS SHOULD NOT BE REGARDED AS CONSTITUTING THE ONLY RISKS PRESENT IN CONNECTION WITH THE DEBTORS' BUSINESSES OR THE AMENDED PLAN AND ITS

A. CERTAIN BANKRUPTCY CONSIDERATIONS  
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## PROLONGED CONTINUATION OF THE CHAPTER 11 CASES MAY HARM SOLUTIA'S BUSINESSES

The prolonged continuation of the Chapter 11 Cases could adversely affect Solutia's businesses and operations. So long as the Chapter 11 Cases continue, senior management of Solutia will be required to spend a significant amount of time and effort dealing with Solutia's reorganization instead of focusing exclusively on business operations. Prolonged continuation of the Chapter 11 Cases will also make it more difficult to attract and retain management and other key personnel necessary to the success and growth of Solutia's businesses. In addition, the longer the Chapter 11 Cases continue, the more likely it is that Solutia's customers, suppliers, distributors, and agents will lose confidence in Solutia's ability to successfully reorganize their businesses and seek to establish alternative commercial relationships. Furthermore, so long as the Chapter 11 Cases continue, Solutia will be required to incur substantial costs for professional fees and other expenses associated with the proceedings. The prolonged continuation of the Chapter 11 Cases may also require Solutia to seek additional financing, either as part of the DIP Credit Facility or otherwise, in order to service their debt and other obligations. It may not be possible for Solutia to obtain additional financing during the pendency of the Chapter 11 Cases on commercially favorable terms or at all. If Solutia were to require additional financing during the Chapter 11 Cases and were unable to obtain the financing on favorable terms or at all, it is unlikely Solutia could successfully reorganize.

## SOLUTIA MAY NOT BE ABLE TO OBTAIN APPROVAL OF THE MONSANTO SETTLEMENT AND THE RETIREE SETTLEMENT

The Amended Plan is premised upon and incorporates the Monsanto Settlement and the Retiree Settlement, which, among other things, contemplate an appropriate reallocation of the Legacy Liabilities. The terms of the Monsanto Settlement and Retiree Settlement are described in Section VIII.B. To obtain approval of the Monsanto Settlement and Retiree Settlement under Bankruptcy Rule 9019, Solutia will need to demonstrate that these Settlements are in the best interests of its Estates. See Fed. R. Bankr. P. 9019; Protective Comm. for Indep. S'holders of TMT Trailer Ferry Inc., v. Anderson, 390 U.S. 414, 424 (1968); Vaughn v. Drexel Burnham Lambert Group, Inc. (In re Drexel Burnham Lambert Group, Inc.), 134 B.R. 499, 505 (Bankr. S.D.N.Y. 1991).

Solutia is seeking acceptances of the terms of the Amended Plan from Persons entitled to vote to accept or reject the Amended Plan in advance of approval of the Monsanto Settlement and the Retiree Settlement pursuant to Bankruptcy Rule 9019. The Settlement Approval Hearing is scheduled to begin on September 5, 2007.

142

Solutia anticipates that the Equity Committee and Ad Hoc Notes Committee will oppose the Monsanto Settlement. Solutia does not anticipate any objection to the Retiree Settlement.

There is a risk that the Monsanto Settlement and/or the Retiree Settlement is not approved or is modified. In such an event, the Solicitation of votes may be ineffective and Solutia may be required to either resolicit votes or formulate a new plan of reorganization.

Solutia believes that the Settlement Approval Hearing generally could have three possible outcomes: (a) the Monsanto Settlement and Retiree Settlement will be approved; (b) the Monsanto Settlement and Retirement Settlement will be denied; (c) the Monsanto Settlement and Retiree Settlement will be modified as a result of further negotiations between the parties supporting and opposing Monsanto Settlement.

- o If the Monsanto Settlement and Retiree Settlement are approved, Solutia will seek to confirm the Amended Plan based on votes received through the solicitation process.
- o If the Monsanto Settlement and Retiree Settlement are denied, Solutia will need to reformulate and renegotiate the terms of a new plan. This process could be protracted, due to the possibility of extended complex litigation and negotiation, and would likely delay Solutions emergence from the Chapter 11 Cases for the foreseeable future.
- o If the Monsanto Settlement and Retiree Settlement are modified, and such modification materially and adversely affect parties who previously voted in favor of the Amended

Plan, Solutia may need to resolicit votes from such parties.

However, if the modifications to the Amended Plan are not material or adverse, no resolicitation will be necessary. "Material" in the resolicitation context refers to a modification which makes a party who previously voted to accept the plan "apt to reconsider his vote." See *In re American Solar King Corp.*, 90 B.R. at 824; see also *In re Eastern Sys.*, 118 B.R. 223.

Solutia's ability to move forward with confirmation of the Amended Plan once the voting solicitation period has ended will be directly affected by the outcome of the Settlement Approval Hearing.

THE MONSANTO SETTLEMENT AND THE RETIREE SETTLEMENT ARE CRITICAL TO THE AMENDED PLAN

Moreover, without the reallocation of the Legacy Liabilities, as provided for under the Monsanto Settlement and the Retiree Settlement, it is unclear whether Solutia will be able to reorganize its businesses and what, if any, distributions holders of claims against or Common Stock and Options and Warrants to Purchase Common Stock in Solutia ultimately would receive with respect to their claims or equity interests. Without the Monsanto Settlement and the Retiree Settlement, there also can be no assurance that Solutia will be able to successfully develop, prosecute, confirm, and consummate an alternative plan of reorganization with respect to the Chapter 11 Cases that is acceptable to the Bankruptcy Court and Solutia's creditors, equity holders and other parties in interest. There can be no assurance that such an alternative plan of reorganization would preserve the reallocation of the Legacy Liabilities that is achieved in the

143

Amended Plan, which eliminates legacy tort liability exposure, reduces environmental obligations, and significantly reduces Solutia's exposure with regard to retiree obligations.

SOLUTIA MAY NOT BE ABLE TO OBTAIN CONFIRMATION OF THE AMENDED PLAN

To successfully emerge from Chapter 11 bankruptcy protection as a viable entity, Solutia, like any debtor, must obtain approval of a plan of reorganization from its creditors, confirmation of the plan through the Bankruptcy Court and successfully implement this confirmed plan. The foregoing process requires Solutia to (a) meet certain statutory requirements with respect to the adequacy of disclosure with respect to any proposed plan, (b) solicit and obtain creditor acceptances of the proposed plan and (c) fulfill other statutory conditions with respect to plan confirmation.

With regard to any proposed plan of reorganization Solutia may not receive the requisite acceptances to confirm a plan. If the requisite acceptances of the Plan are received, Solutia intends to seek confirmation of the Amended Plan by the Bankruptcy Court. If the requisite acceptances are not received, Solutia may nevertheless seek confirmation of a modified Plan notwithstanding the dissent of certain Classes of Claims. The Bankruptcy Court may confirm a modified Plan pursuant to the "cramdown" provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an impaired class of claims if it determines that the plan satisfies section 1129(b) of the Bankruptcy Code. See Section XII.C hereof. In order to confirm a plan against a dissenting class, the Bankruptcy Court also must find that at least one impaired class has accepted the plan, with such acceptance being determined without including the acceptance of any "insider" in such class.

Even if the requisite acceptances of a proposed plan are received, the Bankruptcy Court may not confirm the plan as proposed. A dissenting holder of a claim against Solutia could challenge the balloting procedures and results as not being in compliance with the Bankruptcy Code. Finally, even if the Bankruptcy Court determined that the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm a proposed plan if it found that any of the statutory requirements for confirmation had not been met. Specifically, section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, a finding by the Bankruptcy Court that (a) the debtor's plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting classes, (b) confirmation of the debtor's plan is not likely to be followed by a liquidation or a need for further financial reorganization and (c) the value of distributions to non-accepting holders of claims within a particular class under the debtor's plan will not be less than the value of distributions such holders would receive if the debtor was liquidated under Chapter 7 of the Bankruptcy Code. The Bankruptcy Court may determine that a proposed plan does not satisfy one or more of these requirements, in which case the proposed plan would not be confirmed by the Bankruptcy Court.

If the Amended Plan, is not confirmed by the Bankruptcy Court, it is unclear whether Solutia would be able to reorganize its businesses and what, if any, distributions holders of claims against or Common Stock and Options and Warrants to Purchase Common Stock in Solutia ultimately would receive with respect to their claims or equity interests. There also can be no assurance that Solutia will be able to successfully develop, prosecute, confirm, and

144

consummate an alternative plan of reorganization with respect to the Chapter 11 cases that is acceptable to the Bankruptcy Court and Solutia's creditors, equity holders and other parties in interest. There can be no assurance that such an alternative plan of reorganization would preserve the reallocation of the Legacy Liabilities that is achieved in the Amended Plan, which eliminates legacy tort liability exposure, reduces environmental obligations, and significantly reduces Solutia's exposure with regard to retiree obligations. Additionally, it is possible that third parties may seek and obtain approval to terminate or shorten the exclusivity period during which only Solutia may propose and confirm a plan of reorganization. Finally, Solutia's emergence from bankruptcy is not assured. While Solutia expects to emerge from bankruptcy in the future, there can be no assurance that Solutia will successfully reorganize, or when this reorganization will occur.

THE CONDITIONS PRECEDENT TO THE CONFIRMATION AND CONSUMMATION OF THE AMENDED PLAN MAY NOT OCCUR

As more fully set forth in Exhibit A, the occurrence of Confirmation of the Amended Plan and the Effective Date of the Amended Plan each is subject to a number of conditions precedent. If the conditions precedent to Confirmation are not met or waived, the Amended Plan will not be confirmed; and if the conditions precedent to the Effective Date are not met or waived, the Effective Date will not take place.

Specifically, and as more fully described in Section VII.H.2, Solutia expects to enter into the Exit Financing Facility of approximately \$2.0 billion (including undrawn availability on the revolving loan) which is expected to include some combination of institutional term loans, a revolving loan, a letter of credit facility, high yield bonds or second lien loans, depending on many factors including the strength of the capital markets. Solutia's entering into the Exit Financing Facility is a condition precedent to the Effective Date.

THE VALUATION OF REORGANIZED SOLUTIA MAY NOT BE ADOPTED BY THE BANKRUPTCY COURT

Solutia believes that based on, among other things, the valuation included in this Disclosure Statement, the approximate midpoint equity value of Reorganized Solutia is \$1.2 billion. Creditors who are not being paid in full on their Allowed Claims, as well as Equity Interest Holders, among others, may oppose confirmation of the Amended Plan by alleging that the midpoint equity value of Reorganized Solutia is higher than \$1.2 billion and that the Amended Plan thereby improperly limits or extinguishes their rights to recoveries under the Amended Plan. At the Confirmation Hearing, the Bankruptcy Court will hear evidence regarding the views of Solutia and opposing parties, if any, with respect to the valuation of Reorganized Solutia. Based on that evidence, the Bankruptcy Court will determine the appropriate valuation for Reorganized Solutia for purposes of the Amended Plan. Although Solutia believes that \$1.2 billion is the appropriate midpoint equity valuation for Reorganized Solutia, the Bankruptcy Court may not adopt this valuation.

The Equity Committee has stated that the equity value of Reorganized Solutia is higher than the equity value the Debtors are proposing. The Equity Committee has stated that it will challenge the Debtors' estimated enterprise value at the Confirmation Hearing.

145

THE RECOVERY FOR HOLDERS OF THE GENERAL UNSECURED CLAIMS AGAINST SOLUTIA MAY BE DILUTED AND THE ULTIMATE AMOUNT OF ALLOWED CLAIMS AGAINST SOLUTIA MAY NOT BE FINALIZED UNTIL AFTER THE EFFECTIVE DATE

As set forth in Exhibit A to this Disclosure Statement, approximately 14,800 proofs of Claim were filed against Solutia. Additionally, approximately 2,500 Claims were scheduled by Solutia. The asserted amounts of such Claims is approximately \$28 billion. Solutia has analyzed each scheduled and filed proof of Claim, and has used its best judgment to estimate the value of such Claims. To prepare Claim estimates for this Disclosure Statement, Solutia has considered the strengths and weaknesses of its positions and the respective positions of Holders of Claims under applicable law. Further, where Claim



amount estimates have been stipulated to by Solutia and a claimant for purposes of reserving distributions under the Amended Plan or otherwise, the ultimate allowed amount of such Claim shall not exceed, but may be less than, such estimated amount.

Despite Solutia's efforts, its Claim estimates could prove incorrect. In addition, the outcome of certain pending litigation proceedings, as further described in Article VI of this Disclosure Statement, may decrease the ultimate recovery for certain Holders of Claims. Further, if the Bankruptcy Court were to determine that certain Claims may not be reclassified as Equity Interests or that certain Claims that Solutia believes to be General Unsecured Claims are determined by the Bankruptcy Court to constitute Priority Claims or Claims entitled to payment in full based on the Bankruptcy Court's finding of an administrative priority with respect to such Claims or that a particular Claim is not dischargeable, the recovery for Holders of General Unsecured Claims could be less than estimated.

#### PARTIES IN INTEREST MAY OBJECT TO SOLUTIA'S CLASSIFICATION OF CLAIMS

Section 1122 of the Bankruptcy Code provides that a plan of reorganization may place a claim or an equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests in such class.

Solutia believes that the classification of Claims and Equity Interests under the Amended Plan complies with the requirements set forth in the Bankruptcy Code. However, the Bankruptcy Court may reach a different conclusion.

#### SOLUTIA MAY OBJECT TO THE AMOUNT OR CLASSIFICATION OF A CLAIM

Solutia reserves the right to object to the amount or classification of any Claim. The estimates set forth in this Disclosure Statement cannot be relied on by any Holder of Claim whose Claim is subject to an objection. Any such Holder of a Claim may not receive its specified share of the estimated Distributions described in this Disclosure Statement. Holders of Equity Interests will receive no Distributions pursuant to the Amended Plan.

146

#### B. FACTORS AFFECTING THE VALUE OF THE SECURITIES TO BE ISSUED UNDER THE ----- AMENDED PLAN -----

##### REORGANIZED SOLUTIA MAY NOT BE ABLE TO ACHIEVE ITS PROJECTED FINANCIAL RESULTS

The financial projections set forth on Exhibit D to this Disclosure Statement represent Solutia management's best estimate of Reorganized Solutia's future financial performance based on currently known facts and assumptions about Reorganized Solutia's future operations as well as the United States and world economy in general and the industry segments in which Solutia operates in particular. Reorganized Solutia's actual financial results may differ significantly from the projections. Specifically, Reorganized Solutia may not be able to achieve the projected revenues or cash flows upon which the projections are based. Solutia may also encounter difficulties in integrating acquired businesses and assets within its operations (including Flexsys). If Reorganized Solutia does not achieve its projected financial results or the anticipated benefits of certain acquisitions, the trading prices of the New Common Stock may be negatively affected and Reorganized Solutia may lack sufficient liquidity to continue operating as planned after the Effective Date.

##### A LIQUID TRADING MARKET FOR THE NEW COMMON STOCK MAY NOT DEVELOP

Reorganized Solutia intends to apply to list the New Common Stock on the New York Stock Exchange. However, Reorganized Solutia may not be able to satisfy the requirements for listing the New Common Stock on the exchange. Even if Reorganized Solutia is able to list the New Common Stock on the New York Stock Exchange, a liquid trading market for the New Common Stock may not develop. The liquidity of the trading market for the New Common Stock will depend, among other things, upon the number of holders of New Common Stock, Reorganized Solutia's financial performance and the number of research analysts covering Reorganized Solutia, none of which can be determined or predicted with certainty.

##### THE TRADING PRICE FOR THE NEW COMMON STOCK MAY BE DEPRESSED AFTER THE EFFECTIVE DATE

Assuming confirmation of the Amended Plan by the Bankruptcy Court, the New Common Stock will be issued to Holders of the Notes, Allowed General

Unsecured Claims and Monsanto. Following the Effective Date, many of these Holders may seek to dispose of all or a portion of their New Common Stock, which could cause the trading prices for the New Common Stock to be depressed.

#### THE ESTIMATED VALUATION OF REORGANIZED SOLUTIA MAY NOT BE REFLECTED IN THE TRADING PRICES OF THE NEW COMMON STOCK FOLLOWING THE EFFECTIVE DATE

The estimated valuation of Reorganized Solutia set forth in Exhibit A to this Disclosure Statement is based on certain generally accepted valuation analyses and is not intended to represent the expected trading prices of the New Common Stock following the Effective Date. This valuation is based on numerous assumptions, many of which are beyond Solutia's control, including, among other things, the successful reorganization of Solutia, an assumed Effective Date of on or about June 30, 2007, Reorganized Solutia's ability to achieve the financial results included in the projections, its ability to maintain adequate liquidity to fund operations, and that the capital markets remain consistent with current conditions.

147

#### CERTAIN HOLDERS OF CLAIMS MAY ACQUIRE A SUBSTANTIAL AMOUNT OF NEW COMMON STOCK UPON CONSUMMATION OF THE AMENDED PLAN

During the Chapter 11 Cases, there is no limitation on the trading of Claims. Accordingly, upon consummation of the Amended Plan, certain Holders of Claims are likely to receive Distributions of the New Common Stock representing a substantial amount of the outstanding shares of the New Common Stock. If holders of a significant number of shares of the New Common Stock were to act as a group, they could be in a position to control the outcome of actions requiring stockholder approval, including, among other things, election of directors. This concentration of ownership could also facilitate or hinder a negotiated change of control of Reorganized Solutia and, consequently, impact the value of the New Common Stock. Furthermore, the possibility that one or more holders of a significant number of shares of New Common Stock may sell all or a large portion of its shares of New Common Stock in a short period of time may adversely affect the trading prices of the New Common Stock.

#### THE NEW COMMON STOCK MAY BE ISSUED IN ODD LOTS

Certain Holders of Allowed Claims in Classes 12 and 13 may receive, where necessary, odd lot distributions (less than 100 shares) of the New Common Stock. Such Holders may find it more difficult to dispose of odd lots in the marketplace and may face increased brokerage charges in connection with any such disposition.

#### CERTAIN TAX CONSEQUENCES OF SOLUTIA'S PLAN RAISE UNSETTLED AND COMPLEX LEGAL ISSUES AND INVOLVE VARIOUS FACTUAL DETERMINATIONS

Some of the material consequences of the Amended Plan regarding United States federal income taxes are summarized in Article XIV of this Disclosure Statement. Many of these tax issues raise unsettled and complex legal issues, and also involve various factual determinations, such as valuations, that raise additional uncertainties. No ruling from the United States Internal Revenue Service ("IRS") has been or will be sought by Solutia or Reorganized Solutia regarding the tax consequences described in this Disclosure Statement. The IRS may challenge the various positions Solutia or Reorganized Solutia has taken, or intends to take, with respect to its tax treatment, and a court may sustain such a challenge or objection by the IRS. For a more detailed discussion of risks relating to the specific positions Solutia or Reorganized Solutia intends to take with respect to various tax issues, please review Article XIV of this Disclosure Statement.

#### THE CHANGE OF CONTROL PRODUCED BY THE RESTRUCTURING OF SOLUTIA MAY RESULT IN A LIMITATION ON OR LOSS OF THE NET OPERATING LOSSES

As further discussed in Section VII.H.1 of this Disclosure Statement, the issuance under the Amended Plan of the New Common Stock, along with the cancellation of existing Equity Interests through the Amended Plan, is expected to cause an ownership change to occur with respect to the Reorganized Debtors as of the Effective Date. As a result, Section 382 of the Internal Revenue Code ("IRC") may apply to limit Reorganized Solutia's use of its consolidated net operating losses after the Effective Date. Additionally, Reorganized Solutia's ability to use any remaining capital loss carryforwards and tax credits may be limited. The annual limitation imposed by the particular provision of Section 382 of the IRC that Reorganized Solutia expects

148

to apply to its ownership change generally equals the product of (a) the fair market value of the net equity value of Reorganized Solutia's stock at the time of the ownership change, taking into account the increase in value of the corporation as a result of the surrender or cancellation of creditor's claims in the transaction (rather than the value without taking into account such increases, as is the case under the general rule for non-bankruptcy ownership changes) multiplied by (b) the long-term tax-exempt rate in effect for the month in which the ownership change occurs. The long-term tax-exempt rate is published monthly by the IRS and is intended to reflect current interest rates on long-term tax-exempt debt obligations. Accordingly, under this rule the Section 382 limitation would generally reflect the increase in the value of Reorganized Solutia's stock resulting from the conversion of debt to equity in the proceeding. Section 383 of the IRC applies a similar limitation to a capital loss carryforward and tax credits. Although it is impossible to predict with absolute certainty the net equity value of Reorganized Solutia immediately after the exchanges contemplated by the Amended Plan, Reorganized Solutia's use of its net operating losses is expected to be substantially limited after those exchanges.

REORGANIZED SOLUTIA'S CHARTER AND BYLAWS COULD DETER TAKEOVER ATTEMPTS THAT SOME SHAREHOLDERS MAY CONSIDER DESIRABLE, WHICH COULD ADVERSELY AFFECT THE PRICE OF THE NEW COMMON STOCK

Various provisions of Reorganized Solutia's New Certificate of Incorporation and New Bylaws, and Delaware law, as well as a proposed antitakeover rights plan, could make acquiring control of Reorganized Solutia without the requisite support of its board of directors difficult for a third party, even if the change of control would be beneficial to a recipient of the New Common Stock. The existence of these provisions and/or the proposed antitakeover rights plan could deprive certain recipients of the New Common Stock of an opportunity to sell their shares of New Common Stock at a premium over the prevailing market price. The potential inability of holders of New Common Stock to obtain a control premium could, in certain instances, depress the trading prices of New Common Stock.

REORGANIZED SOLUTIA WILL HAVE SIGNIFICANT INDEBTEDNESS UPON ITS EMERGENCE FROM BANKRUPTCY

Upon emergence from bankruptcy, Reorganized Solutia will have a significant amount of indebtedness. Specifically, Reorganized Solutia expects to have an exit facility of up to \$2.0 billion (including undrawn availability on the revolving loan), including some combination of institutional term loans, a revolving loan, a letter of credit facility, high yield bonds or second lien loans. The significant indebtedness that Reorganized Solutia will have upon its emergence from bankruptcy could have important consequences, including the following:

- o Reorganized Solutia will have to dedicate a significant portion of its cash flow to making interest and principal payments on its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions or other general corporate purposes.
- o The post-emergence levels of indebtedness may make Reorganized Solutia less attractive to potential acquirors or acquisition targets.

149

- o The post-emergence levels of indebtedness may limit Reorganized Solutia's flexibility to adjust to changing business and market conditions, and make Reorganized Solutia more vulnerable to a downturn in general economic conditions as compared to competitors that may be less leveraged.
- o As described in more detail below, the documents providing for Reorganized Solutia's post-emergence indebtedness will contain restrictive covenants that may limit Reorganized Solutia's financing and operational flexibility.
- o The post-emergence levels of indebtedness include outstanding indebtedness that is unimpaired under the Amended Plan, as well as new indebtedness incurred pursuant to the Exit Financing Facility may make it more difficult for Reorganized Solutia to satisfy its obligations with respect to its other outstanding indebtedness that is unimpaired under the Amended Plan.

Furthermore, Reorganized Solutia's ability to satisfy its debt

service obligations will depend, among other things, upon its future operating performance and ability to refinance indebtedness when necessary. These factors depend partly on economic, financial, competitive and other factors beyond Reorganized Solutia's control. Reorganized Solutia may not be able to generate sufficient cash from operations to meet its debt service obligations as well as fund necessary capital expenditures, pension funding obligations and investments in research and development. In addition, if Reorganized Solutia needs to refinance its debt, obtain additional financing or sell assets or equity, it may not be able to do so on commercially reasonable terms, if at all.

#### REORGANIZED SOLUTIA'S OPERATIONS MAY BE RESTRICTED BY THE TERMS OF ITS EXIT FINANCING FACILITY

Solutia's Exit Financing Facility, as further described in Section VII.H.2 of this Disclosure Statement, may include a number of significant restrictive covenants. These covenants could impair Reorganized Solutia's financing and operational flexibility and make it difficult for Reorganized Solutia to react to market conditions and satisfy its ongoing capital needs and unanticipated cash requirements. Specifically, such covenants may restrict Reorganized Solutia's ability and, if applicable, the ability of its subsidiaries to, among other things:

- o incur additional debt;
- o make certain investments;
- o enter into certain types of transactions with affiliates;
- o limit dividends or other payments by Reorganized Solutia's restricted subsidiaries to Reorganized Solutia;
- o use assets as security in other transactions;

150

- o pay dividends on the New Common Stock or repurchase Reorganized Solutia's equity interests;
- o sell certain assets or merge with or into other companies;
- o guarantee the debts of others;
- o enter into new lines of business;
- o make capital expenditures;
- o prepay, redeem or exchange Reorganized Solutia's debt; and
- o form any joint ventures or subsidiary investments.

In addition, the Exit Financing Facility may require Reorganized Solutia to periodically meet various financial ratios and tests, including maximum leverage, minimum net worth, and interest coverage levels. These financial covenants and tests could limit Reorganized Solutia's ability to react to market conditions or satisfy extraordinary capital needs and could otherwise restrict Reorganized Solutia's financing and operations.

Reorganized Solutia's ability to comply with the covenants and other terms of the Exit Financing Facility will depend on Reorganized Solutia's future operating performance. If Reorganized Solutia fails to comply with such covenants and terms, Reorganized Solutia would be required to obtain waivers from its lenders to maintain compliance under the Exit Financing Facility. If Reorganized Solutia is unable to obtain any necessary waivers and the debt under the Exit Financing Facility is accelerated, it would have a material adverse effect on Reorganized Solutia's financial condition and future operating performance.

#### C. RISKS RELATED TO SOLUTIA'S BUSINESS AND INDUSTRY

##### THE PRICES OF RAW MATERIALS AND ENERGY REQUIRED FOR SOLUTIA TO PRODUCE ITS PRODUCTS ARE VOLATILE AND CANNOT ALWAYS BE PASSED ON TO CUSTOMERS

Solutia purchases large amounts of commodity raw materials, including natural gas, propylene, cyclohexane and benzene. Temporary shortages of these raw materials and energy may occasionally occur. In addition, Solutia typically purchases major requirements for key raw materials under medium-term contracts. Pricing under these contracts may fluctuate as a result of unscheduled plant interruptions, United States and worldwide market conditions and government regulation. Given Solutia's competitive markets, it is often

not possible to pass all of these increased costs on to Solutia's customers. In addition, natural gas prices and other raw material and energy costs are currently more than double the average ten-year levels. Elevated raw material and energy costs could significantly reduce Reorganized Solutia's operating margins in the future.

151

SOLUTIA OPERATES IN A HIGHLY COMPETITIVE INDUSTRY THAT INCLUDES COMPETITORS WITH GREATER RESOURCES THAN SOLUTIA'S

The markets in which Reorganized Solutia will compete are highly competitive. Competition in these markets is based on a number of factors, such as price, product quality and service. Some of Reorganized Solutia's competitors may have greater financial, technological and other resources than Reorganized Solutia and may be better able to withstand changes in market conditions. In addition, some of Reorganized Solutia's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than Reorganized Solutia. Consolidation of Reorganized Solutia's competitors or customers may also adversely affect Reorganized Solutia's businesses. Furthermore, global competition and customer demands for efficiency will continue to make price increases difficult.

SOLUTIA OPERATES IN CYCLICAL BUSINESS SEGMENTS AND ITS FINANCIAL RESULTS ARE LIKELY TO FLUCTUATE ACCORDINGLY

Solutia operates in cyclical business segments. Specifically, a substantial portion of Solutia's sales are to customers involved, directly or indirectly, in the housing and automotive industries, both of which are, by their nature, cyclical industries. A downturn in either or both of these industries would result in lower demand for Reorganized Solutia's products among customers involved in those industries and a reduced ability to pass on cost increases to those customers.

TURNOVER IN THE SENIOR MANAGEMENT TEAM AND LOSSES OF OTHER KEY PERSONNEL COULD HAVE A SIGNIFICANT ADVERSE EFFECT ON SOLUTIA'S RESULTS OF OPERATIONS AND ABILITY TO EMERGE FROM CHAPTER 11

The services of Solutia's senior management team, as well as other key personnel, have been integral in Solutia's improving results during the Chapter 11 Case and will be critical to the implementation of Reorganized Solutia's business strategies going forward and the success of Reorganized Solutia. If Solutia's emergence from the Chapter 11 Cases is delayed, Solutia's financial results diminish, the terms of incentive compensation programs are not adequate or any adverse events occur in the Chapter 11 Cases, Solutia may have difficulty retaining current senior management and other key personnel and be unable to hire qualified personnel to fill any resulting vacancies, which could have a significant adverse effect on Solutia's results of operations and ability to emerge from Chapter 11.

LEGAL PROCEEDINGS, INCLUDING PROCEEDINGS RELATED TO ENVIRONMENTAL OBLIGATIONS, COULD IMPOSE SUBSTANTIAL COSTS ON REORGANIZED SOLUTIA

As a manufacturer of chemical-based materials, Solutia and its subsidiaries have been subject to various lawsuits involving environmental, hazardous waste, personal injury and product liability claims. As described in greater detail in Article VI of this Disclosure Statement, Solutia is named in a number of legal proceedings primarily relating to former operations, including claims for personal injury and property damage arising out of releases of or alleged exposure to materials that are classified as hazardous substances under federal environmental law or alleged to be hazardous by plaintiffs. Adverse judgments in these legal proceedings, or the

152

filing of additional environmental or other damage claims against Solutia, may have a negative impact on Reorganized Solutia's future results of operations. Additionally, administrative and legal costs associated with defending or settling large claims, or large numbers of claims, could have a negative impact on Reorganized Solutia's future results of operations. It is possible that the Bankruptcy Court could disagree with Solutia's treatment of those Claims. It is also possible that third parties, including the U.S. federal government, state regulatory agencies, or others, may challenge the dischargeability of these claims. If these litigation matters or Claims are not discharged as expected by Solutia, or if the actual costs are materially greater than estimates associated with those Claims, it would have a material adverse effect on Reorganized Solutia's financial condition and future operating performance.

Under the Amended Plan, environmental remediation obligations and NRD Claims associated with Covered Sites, other than Legacy Sites (as defined in Relationship Agreement) will not be discharged. Solutia's management has estimated the cost associated with the remediation of those sites. Actual cost of remediation associated with Covered Sites may be affected by changes in the regulatory environment, discovery of additional areas requiring remediation, technological developments or limitations associated with remediation, or other events beyond Reorganized Solutia's control. As a result, actual remediation costs associated with the Covered Sites may be materially greater than current estimates provide. If the actual costs are materially greater than estimates associated with these remediation expenses, it would have a material adverse effect on Solutia's financial condition and future operating performance.

Other Litigation  
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Because of the size and nature of Solutia's business, Solutia and its subsidiaries are parties to numerous legal proceedings. Most of these legal proceedings have arisen in the ordinary course of business and involve Claims for money damages. Whether these Claims are or will be litigated in the Bankruptcy Court, or in some other jurisdiction, depends upon the nature of the Claims. Generally, if the debt associated with such Claims was incurred prior to the Effective Date, the Claims will be treated as provided for under the Amended Plan, depending upon the nature of the relief sought, regardless of whether the Claim is resolved before or after Solutia's emergence from bankruptcy. Claims arising from conduct occurring after the Effective Date, unless provided for under the Amended Plan, are generally not dischargeable through bankruptcy, and will be handled by Solutia in the ordinary course of business after emergence. The proposed treatment of Claims arising from litigation matters is described in Exhibit A to this Disclosure Statement. The Bankruptcy Court could disagree with Solutia's treatment of those Claims. Additionally, under the Amended Plan, Claims arising from certain litigation matters are not expected to be discharged. Adverse results in litigation, newly filed Claims, or other adverse developments in existing litigation may have a material adverse effect on Reorganized Solutia's financial condition and future operating performance.

With respect to the Solutia Pension Plan litigation described in Section VI.B.2, it is not known what funding liabilities may be required of Reorganized Solutia under ERISA, 26 U.S.C. Section 412, 29 U.S.C. Section 1082 and any other applicable law if a judgment is entered against the Solutia Pension Plan, given that Solutia is the sponsor of the Solutia Pension Plan.

THE APPLICABILITY OF NUMEROUS ENVIRONMENTAL LAWS TO SOLUTIA'S MANUFACTURING FACILITIES COULD CAUSE SOLUTIA TO INCUR MATERIAL COSTS AND LIABILITIES

Solutia and its subsidiaries are subject to extensive federal, state, local and foreign environmental, safety and health laws and regulations concerning, among other things, emissions to the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. Under certain environmental laws, Solutia can be held strictly liable for hazardous substance contamination of any real property it has ever owned, operated or used as a disposal site or for natural resource damages associated with such contamination. Solutia is also required to maintain various environmental permits and licenses, many of which require periodic modification and renewal. Solutia's operations entail the risk of violations of those laws and regulations, many of which provide for substantial fines and criminal sanctions for violations.

In addition, these requirements and their enforcement may become more stringent in the future. Non-compliance could subject Reorganized Solutia to material liabilities, such as government fines, third-party lawsuits or the suspension of non-compliant operations. Reorganized Solutia may also be required to make significant site or operational modifications at substantial cost. Future developments could also restrict or eliminate Reorganized Solutia's ability to continue to manufacture certain products or could require Reorganized Solutia to make modifications to its products.

At any given time, Solutia is involved in litigation, administrative proceedings and investigations of various types in a number of jurisdictions involving potential environmental liabilities, including clean-up costs associated with hazardous waste disposal sites, natural resource damages, property damages and personal injury. Reorganized Solutia may be required to spend substantial sums to defend or settle these actions, to pay any fines levied against it or satisfy any judgments or other rulings rendered against

it.

Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. One liable party could be held responsible for all costs at a site, regardless of fault, percentage of contribution to the site or the legality of the original disposal. Reorganized Solutia may also face liability for violations under environmental laws occurring prior to the date of its acquisition of properties subject thereto. Reorganized Solutia could incur significant costs, including cleanup costs, natural resources damages, civil or criminal fines and sanctions and third-party claims as a result of past or future violations of, or liabilities under, environmental laws.

#### REORGANIZED SOLUTIA WILL HAVE SUBSTANTIAL ENVIRONMENTAL AND REGULATORY COMPLIANCE COSTS

Due to the nature of its business, Solutia makes substantial expenditures for environmental and regulatory compliance. For example, during 2006, Solutia spent approximately \$9 million on capital projects for various environmental matters, \$60 million for the management of environmental programs, including the operation and maintenance of facilities for environmental control and \$10 million for remediation activities. Monsanto currently funds a number of the environmental remediation sites consistent with the terms of the

154

Amended Plan and the Relationship Agreement. However, if the Amended Plan is not approved, Solutia could become responsible for some of the sites previously funded by Monsanto and these unexpected expenses could affect Solutia's results of operations and financial condition.

The substantial amounts that Reorganized Solutia may be required to spend on environmental capital projects and programs could cause substantial cash outlays by Reorganized Solutia and, accordingly, may limit Reorganized Solutia's financial and operating flexibility. In addition, although Solutia believes that it has correctly budgeted and, to the extent appropriate under applicable accounting principles, reserved for these amounts, factors beyond Reorganized Solutia's control may render these budgeted and reserved amounts inadequate. These factors include changing governmental policies and regulations, the commencement of new governmental proceedings or third party litigation regarding environmental remediation, hazardous waste or personal or property damage resulting from environmentally harmful activity, the discovery of unknown conditions and unforeseen problems encountered in environmental remediation programs.

In addition, as discussed above, under the terms of the Relationship Agreement, Reorganized Solutia will share environmental remediation obligations with Monsanto with respect to the Shared Sites (as defined in the Relationship Agreement). Although Reorganized Solutia will be responsible for performing certain remediation efforts at the Shared Sites, a special environmental committee established pursuant to the Relationship Agreement and to which Monsanto will appoint a majority of members will supervise these efforts and set the budget for their funding.

#### PROBLEMS ENCOUNTERED IN OPERATING ITS PRODUCTION FACILITIES COULD NEGATIVELY IMPACT REORGANIZED SOLUTIA'S BUSINESS

Solutia's production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled down time and environmental hazards. From time to time in the past, Solutia has had incidents that have temporarily shut down or otherwise disrupted its manufacturing, causing production delays and resulting in liability for workplace injuries and fatalities. Solutia is dependent upon the continued safe operation of its production facilities.

In addition, some of Solutia's products involve the manufacture or handling of a variety of reactive, explosive and flammable materials. Use of these products by Reorganized Solutia's customers, employees and contractors could result in liability to Reorganized Solutia if an explosion, fire, spill or other accident were to occur.

#### LABOR DISRUPTIONS WITH THE UNIONIZED PORTION OF SOLUTIA'S WORKFORCE COULD HAVE A NEGATIVE EFFECT

As of December 31, 2006, approximately 14% of Solutia's U.S. employees located in the performance products business segment were unionized. They are represented by various labor unions with local agreements set to expire between November 2007 and March 2010. While Solutia's management

Solutia may not be able to negotiate these or other collective bargaining agreements on the same or more favorable terms as the current agreements, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could impact Solutia's ability to satisfy its customers' requirements and negatively affect its financial condition.

SOLUTIA FACES CURRENCY AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES

Solutia and its subsidiaries generate revenue from export sales, as well as from operations conducted outside the United States. For example, approximately 46 percent of consolidated sales in 2006 were made into markets outside the United States, including Europe, Canada, Latin America and Asia. Approximately 69 percent of the sales of the Performance Products segment were made into markets outside the United States. Operations outside the United States expose Solutia to risks which could adversely affect its results of operations and financial conditions including fluctuations in currency values, trade restrictions, tariff and trade regulations, foreign tax laws, shipping delays, and economic and political instability.

The functional currency of each of Solutia's non-United States operations is generally the local currency. Exchange rates between some of these currencies and U.S. dollars have fluctuated significantly in recent years and may do so in the future. It is possible that fluctuations in foreign exchange rates will have a negative effect on Solutia's results of operations.

MANY OF SOLUTIA'S PRODUCTS AND MANUFACTURING PROCESSES ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND REORGANIZED SOLUTIA'S BUSINESS WILL SUFFER IF REORGANIZED SOLUTIA FAILS TO KEEP PACE

Many of Solutia's products (and their corresponding manufacturing processes) participate in markets that are subject to rapid technological change and new product introductions and enhancements. Reorganized Solutia must continue to enhance its existing products and to develop and manufacture new products with improved capabilities to continue to be a market leader. Reorganized Solutia must also continue to make improvements in its manufacturing processes and productivity to maintain its competitive position. When Reorganized Solutia invests in new technologies, processes or production facilities, it will face risks related to construction delays, cost over-runs and unanticipated technical difficulties related to start-up. Reorganized Solutia's inability to anticipate, respond to, capitalize on or utilize changing technologies could have an adverse effect on its consolidated results of operations, financial condition and cash flows in any given period.

IF SOLUTIA IS UNABLE TO PROTECT ITS INTELLECTUAL PROPERTY RIGHTS, ITS SALES AND FINANCIAL PERFORMANCE COULD BE ADVERSELY AFFECTED

Solutia and its subsidiaries own a large number of patents that relate to a wide variety of products and processes and has a substantial number of patent applications pending. Solutia owns a considerable number of established trademarks in many countries under which it markets its products. These patents and trademarks in the aggregate are of material importance to Solutia's business and operations. Reorganized Solutia's performance may depend in part on its

ability to establish, protect and enforce such intellectual property and to defend against any claims of infringement, which involve complex legal, scientific and factual questions and uncertainties.

In the future, Reorganized Solutia may have to rely on litigation to enforce its intellectual property rights and contractual rights. In addition, Reorganized Solutia may face claims of infringement that could interfere with its ability to use technology or other intellectual property rights that are material to its business operations. If litigation that Solutia or Reorganized Solutia initiates is unsuccessful, Reorganized Solutia may not be able to protect the value of some of its intellectual property. In the event a claim of infringement against Reorganized Solutia is successful, Reorganized Solutia may be required to pay royalties or license fees to continue to use technology or other intellectual property rights that it has been using or it may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable period of time. If Reorganized Solutia is unable to obtain licenses on reasonable terms, Reorganized Solutia may be forced to cease selling or using any of its products that incorporate the challenged



intellectual property, or to redesign or, in the case of trademark claims, rename its products to avoid infringing the intellectual property rights of third parties, which may not be possible and may be time-consuming if possible. Any litigation of this type, whether successful or unsuccessful, could result in substantial costs to Reorganized Solutia and diversions of some of Reorganized Solutia's resources. Reorganized Solutia's intellectual property rights may not have the value that Solutia believes them to have, which could result in a competitive disadvantage or adversely affect Reorganized Solutia's business and financial performance.

#### FLEXSYS' INABILITY TO ENFORCE ITS INTELLECTUAL PROPERTY RIGHTS COULD IMPACT THE COMPANY'S FINANCIAL PERFORMANCE

The inability of Flexsys America to protect and enforce its intellectual property rights to manufacture any or all of 4-ADPA, 6PPD and IPPD in various jurisdictions, or an ultimate determination that such intellectual property rights are invalid in one or more jurisdictions, or the failure to successfully prosecute patents in one or more jurisdictions would have a material adverse effect on Flexsys America's business and financial performance, which, in turn, would have a material adverse effect on Solutia's financial performance.

#### REORGANIZED SOLUTIA'S INSURANCE MAY BE INADEQUATE AND REORGANIZED SOLUTIA MAY NOT BE ABLE TO OBTAIN INSURANCE IN THE FUTURE ON REASONABLE TERMS OR AT ALL

Solutia evaluates risk retention and insurance levels for product liability, workplace health and safety, property damage and other potential areas of risk. Solutia relies on third-party insurance to protect it from some of these risks. Additionally, Solutia historically has relied upon Owner-Controlled Insurance Programs ("OCIP") to satisfy certain regulatory requirements for the maintenance of insurance, including (for example) compliance with state laws mandating coverage for workers' compensation exposure. Under the terms of these arrangements, Solutia is responsible for paying the costs associated with all insurance claims, and engages the services of insurance companies to provide claims-handling services. If Reorganized Solutia becomes incapable of continuing to rely on the OCIP for these exposures, Reorganized Solutia would be forced to consider alternative arrangements. Reorganized Solutia may, however, incur losses beyond the limits, or outside the coverage, of such insurance. In addition, the insurance industry

157

has become more selective in offering insurance, and insurance costs have risen significantly in recent years. Reorganized Solutia may not be able to obtain insurance in the future on reasonable terms or at all.

#### SIGNIFICANT PAYMENTS MAY BE REQUIRED TO MAINTAIN THE FUNDING OF SOLUTIA'S DOMESTIC QUALIFIED PENSION PLAN

Solutia maintains a qualified Pension Plan under which certain of Solutia's employees and retirees are entitled to receive benefits. Although Solutia has frozen future benefit accruals under the U.S. Pension Plan, significant liabilities still remain. To fund the Pension Plan, Solutia has made significant contributions to the Pension Plan in 2006 amounting to approximately \$179 million and will have to fund more going forward. Solutia may be unable to obtain financing to make these Pension Plan contributions. In addition, even if financing for these contributions is obtained, the funding obligations and the carrying costs of debt incurred to fund the obligations could have a significant adverse effect on Solutia's results of operations.

In addition, Solutia is party to certain litigation with respect to its domestic pension plan as more fully described in Article VI of this Disclosure Statement. It is not known what funding liabilities may be required of Solutia under the Employee Retirement Income Security Act (ERISA) 26 U.S.C. Section 412, 29 U.S.C. Section 1082 and any other applicable law if a judgment is entered against the Pension Plan in this litigation, given that Solutia is the sponsor of the Pension Plan. If a final judgment is entered against the Solutia Pension Plan, the liability resulting from such judgment could have a material adverse effect on its financial results and continuing operations.

#### LEGACY LIABILITIES MAY EXCEED REORGANIZED SOLUTIA'S CAPACITY TO PAY SUCH OBLIGATIONS FOLLOWING EMERGENCE

The Ad Hoc Notes Committee believes that there may be feasibility issues with the Amended Plan given (a) the possibility that Legacy Liabilities could exceed Reorganized Solutia's capacity to pay such obligations following the Debtors' emergence from bankruptcy or (b) the effect of Monsanto's possible failure to perform its obligations with respect to Legacy Liabilities following the Debtors' emergence from bankruptcy. As evidenced by the Monsanto Settlement and the Retiree Settlement, the Creditors' Committee, Solutia,

Monsanto, Pharmacia, the Retirees' Committee and the Ad Hoc Trade Committee disagree with the Ad Hoc Note Committee's assessment.

The Ad Hoc Notes Committee believes that if Wilmington Trust prevails in the appeal of the Final Judgment (assuming that the Final Judgment is not affirmed or the appeal is not otherwise dismissed), the Amended Plan may not be feasible. Solutia believes that if Wilmington Trust prevails, depending on the ultimate determination on the value of the underlying collateral securing the Noteholders' claims, a plan of reorganization may still be confirmed.

158

XII.  
CONFIRMATION OF THE PLAN  
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A. THE CONFIRMATION HEARING  
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Section 1128(a) of the Bankruptcy Code requires the bankruptcy court, after notice, to hold a hearing on confirmation of the plan of reorganization. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the plan of reorganization.

The Bankruptcy Court has scheduled the Confirmation Hearing for [DATE], 2007 at [TIME] Prevailing Eastern Time before the Honorable Prudence Carter Beatty, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York, located at Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004. The Confirmation Hearing may be adjourned from time to time without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any adjournment thereof.

B. DEADLINE TO OBJECT TO CONFIRMATION  
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Objections to the Bankruptcy Court's confirmation of the Amended Plan must be filed and served at or before 4:00 p.m. Prevailing Eastern Time on [DATE], 2007 in accordance with the Confirmation Hearing Notice that accompanies this Disclosure Statement. UNLESS OBJECTIONS TO CONFIRMATION ARE TIMELY SERVED AND FILED, THEY MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

C. REQUIREMENTS FOR CONFIRMATION OF THE PLAN  
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Among the requirements for the confirmation of the Amended Plan are that the Amended Plan (1) is accepted by all impaired Classes of Claims and Equity Interests, or if rejected by an impaired Class, that the Amended Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class, (2) is feasible, and (3) is in the "best interests" of Holders of Claims and Equity Interests that are impaired under the Amended Plan.

1. REQUIREMENTS OF SECTION 1129(a) OF THE BANKRUPTCY CODE  
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The following requirements must be satisfied pursuant to section 1129(a) of the Bankruptcy Code before the Bankruptcy Court may confirm a plan of reorganization:

- o The plan complies with the applicable provisions of the Bankruptcy Code.
- o The proponents of the plan comply with the applicable provisions of the Bankruptcy Code.
- o The plan has been proposed in good faith and not by any means forbidden by law.
- o Any payment made or to be made by the proponent, by the debtor or by a person issuing securities or acquiring property under a plan, for services or for costs and

159

expenses in or in connection with the case, in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.

- o The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor or a successor to the debtor under the plan, and the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policies.
- o The proponent of the plan has disclosed the identity of any insider (as defined in section 101 of the Bankruptcy Code) that will be employed or retained by the reorganized debtor and the nature of any compensation for such insider.
- o With respect to each holder within an impaired class of claims or equity interests --
  - o each such holder (a) has accepted the plan; or (b) will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of the Bankruptcy Code on such date; or
  - o if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class due to its election to retain a lien, each holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the Estate's interest in the property that secures such claims.
- o With respect to each class of claims or equity interests, such class (i) has accepted the plan; or (ii) is not impaired under the plan (subject to the "cramdown" provisions discussed below).
- o Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:
  - o with respect to a claim of a kind specified in sections 507(a)(1) or 507(a)(2) of the Bankruptcy Code, on the effective date of the plan, the holder of the claim will receive on account of such claim cash equal to the allowed amount of such claim;
  - o with respect to a class of claim of the kind specified in sections 507(a)(3), 507(a)(4), 507(a)(5), 507(a)(6) or 507(3)(7) of the Bankruptcy Code, each holder of a claim of such class will receive (A) if such class has accepted the plan, deferred cash payments of a value, on the effective date of the plan, equal to the allowed amount of such claim; or (B) if such class has not
    - accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim; and
  - o with respect to a priority tax claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, the holder of such claim will receive on account of such claim deferred cash payments, over a period not exceeding six years after the date of assessment of such claim, of a value, as of the effective date of the plan, equal to the allowed amount of such claim.
- o If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, determined without including any acceptance of the plan by any "insider," as defined in section 101 of the Bankruptcy Code.

- o Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.
- o All fees payable under 28 U.S.C. Section 1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payment of all such fees on the effective date of the plan.
- o The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(i)(B) or (g) of section 1114 of the Bankruptcy Code, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

The Debtors believe that the Amended Plan meets all the applicable requirements of section 1129(a) of the Bankruptcy Code other than those pertaining to disclosures to be made between the date hereof and the Confirmation Date and to voting, which has not yet taken place.

2. BEST INTERESTS OF CREDITORS  
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Notwithstanding acceptance of the plan of reorganization by each impaired class, to confirm the plan of reorganization, the Bankruptcy Court must determine that it is in the best interests of each holder of a claim or interest in any such impaired class that has not voted to accept the plan of reorganization. Accordingly, if an impaired class does not unanimously accept the plan of reorganization, the "best interests" test requires that the Bankruptcy Court find that the plan of reorganization provides to each member of such impaired class a recovery on account of the member's claim or equity interest that has a value, as of the effective date of the plan of reorganization, at least equal to the value of the distribution that each such member would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code on such date.

To estimate what members of each impaired class of claims would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code, the Bankruptcy Court must first determine the aggregate dollar amount that would be available if each of the chapter 11 cases

were converted to a chapter 7 case under the Bankruptcy Code and each of the respective debtor's assets were liquidated by a chapter 7 trustee (the "Liquidation Value"). The Liquidation Value of a debtor would consist of the net proceeds from the disposition of the assets of the debtor, augmented by any cash held by the debtor.

The Liquidation Value available to holders of general unsecured claims or equity interests would be reduced by, among other things: (a) the claims of secured creditors to the extent of the value of their collateral; (b) the costs, fees and expenses of the liquidation, as well as other administrative expenses of the debtors' chapter 7 cases; (c) unpaid administrative expense claims of the chapter 11 cases; and (d) priority claims and priority tax claims. The debtors' costs of liquidation in chapter 7 cases would include the compensation of a chapter 7 trustee, as well as of counsel and other professionals retained by such trustee, asset disposition expenses, applicable taxes, litigation costs, claims arising from the operation of the debtors during the chapter 7 cases, and all unpaid administrative expense claims incurred by the debtors during the chapter 11 cases that are allowed in the chapter 7 cases. The liquidation itself would trigger certain priority claims, such as claims for severance pay, and would likely accelerate the payment of other priority claims and priority tax claims that would otherwise be payable in the ordinary course of business. These priority claims and priority tax claims would be paid in full out of the net liquidation proceeds, after payment of secured claims, before the balance would be made available to pay other claims or to make any distribution in respect of equity interests.

Based on the liquidation analyses set forth in Exhibit F of this Disclosure Statement, the Debtors believe that Holders of Claims will receive equal or greater value as of the Effective Date under the Amended Plan than such Holders would receive in a chapter 7 liquidation. Moreover, in an actual liquidation of the Debtors, distributions to Holders of Claims would be made substantially later than the Effective Date designated in the Amended Plan. This delay would materially reduce the amount determined on a present value basis available for distribution to Holders of General Unsecured Claims. The

hypothetical chapter 7 liquidations of the Debtors, for purposes of determination of the Debtors' Liquidation Value, are assumed to commence on June 30, 2007. (71)

In summary, the Debtors and their management believe that chapter 7 liquidations of the Debtors would result in substantial diminution in the value to be realized by Holders of General Unsecured Claims entitled to distribution, as compared to the distributions contemplated under the Amended Plan, because of, among other factors:

- o the increased cost and expenses of liquidation under chapter 7 arising from fees payable to the chapter 7 trustee and the attorneys and other professional advisors to such trustee;
- o additional expenses and Claims, some of which would be entitled to priority and which would be generated during the liquidation and from the rejection of Unexpired

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(71) A liquidation analysis was included as an exhibit to the Original Disclosure Statement filed on February 14, 2006. A revised exhibit, updated to reflect changes to the liquidation analysis since February 14, 2006, will be filed with the Bankruptcy Court and provided to parties in interest prior to the Disclosure Statement Hearing.

162

Leases and Executory Contracts in connection with the cessation of the Debtors' operations;

- o the erosion of the value of the Debtors' assets in the context of an expedited liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail;
- o the adverse effects on the salability of portions of the business resulting from the possible departure of key employees and the attendant loss of customers and vendors;
- o the cost and expense attributable to the time value of money resulting from a potentially more protracted chapter 7 proceeding than the estimated length of the Chapter 11 Cases; and
- o the application of the rule of absolute priority under the Bankruptcy Code to distributions made in a chapter 7 liquidation.

Consequently, the Debtors and their management believe that confirmation of the Amended Plan will provide a substantially greater return to Holders of Claims than would chapter 7 liquidations.

3. ACCEPTANCE  
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Section 1126(c) of the Bankruptcy Code provides that a class of claims has accepted a plan of reorganization if such plan has been accepted by creditors that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class.

4. FEASIBILITY  
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Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of the plan of reorganization is not likely to be followed by the liquidation, or the need for further financial reorganization of the debtors, or any successor to the debtors (unless such liquidation or reorganization is proposed in the plan of reorganization).

To determine whether the Amended Plan meets this feasibility requirement, the Debtors have analyzed their ability to meet their respective obligations under the Amended Plan. As part of this analysis, the Debtors have prepared the Projections, as such term is defined in Article X below. Based upon the Projections, the Debtors believe that Reorganized Solutia will be a viable operation following the Chapter 11 Cases, and that the Amended Plan will meet the feasibility requirements of the Bankruptcy Code.

5. REQUIREMENTS OF SECTION 1129(b) OF THE BANKRUPTCY CODE  
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The Bankruptcy Code permits confirmation of a plan of reorganization

even if it is not accepted by each impaired class so long as (a) the plan of reorganization otherwise satisfies the requirements for confirmation, (b) at least one impaired class of claims has accepted the plan of reorganization without taking into consideration the votes of any insiders in such class, and (c) the plan of reorganization is "fair and equitable" and does not "discriminate unfairly" as to

163

any impaired class that has not accepted such plan. These so-called "cramdown" provisions are set forth in section 1129(b) of the Bankruptcy Code.

(a) "Fair and Equitable"

The Bankruptcy Code establishes different "cramdown" tests for determining whether a plan is "fair and equitable" to dissenting impaired classes of secured creditors, unsecured creditors and equity interest holders as follows:

(b) Secured Creditors

A plan of reorganization is fair and equitable as to an impaired class of secured claims that rejects the plan if the plan provides: (i) that each of the holders of the secured claims included in the rejecting class (A) retains the liens securing its claim to the extent of the allowed amount of such claim, to the extent of the allowed amount of such claims, whether the property subject to those liens is retained by the debtor or transferred to another entity, and (B) receives on account of its secured claim deferred cash payments having a present value, as of the effective date of the plan of reorganization, at least equal to the value of such holder's interest in the Estate's interest in such property; (ii) that each of the holders of the secured claims included in the rejecting class realizes the "indubitable equivalent" of its allowed secured claim; or (iii) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of such liens, with such liens to attach to the proceeds of the sale and the treatment of such liens on proceeds in accordance with clause (i) or (ii) of this paragraph.

(c) Unsecured Creditors

A plan of reorganization is fair and equitable as to an impaired class of unsecured claims that rejects the plan if the plan provides that: (i) each holder of a claim included in the rejecting class receives or retains under the plan property of a value, as of the effective date of the plan of reorganization, equal to the amount of its allowed claim; or (ii) the holders of claims and equity interests that are junior to the claims of the rejecting class will not receive or retain any property under the plan of reorganization on account of such junior claims or interests.

(d) Holders of Equity Interests

A plan of reorganization is fair and equitable as to an impaired class of equity interests that rejects the plan if the plan provides that: (i) each holder of an equity interest included in the rejecting class receives or retains under the plan property of a value, as of the effective date of the plan of reorganization, equal to the greatest of the allowed amount of (A) any fixed liquidation preference to which such holder is entitled, (B) the fixed redemption price to which such holder is entitled, or (C) the value of the equity interest; or (ii) the holder of any equity interest that is junior to the equity interests of the rejecting class will not receive or retain any property under the plan of reorganization on account of such junior interest.

The Debtors believe the Amended Plan is fair and equitable as to Holders of Claims or Interests in Classes that vote to reject the Amended Plan, or that are deemed to reject the Amended Plan because the Amended Plan provides that their Allowed Claims or Interests will be

164

either unimpaired, or they will receive their "absolute priority" entitlements under the Bankruptcy Code. The Debtors believe the Amended Plan is fair and equitable as to Holders of Unsecured Claims and Equity Interests because Holders of Claims and Equity Interests junior to Unsecured Claims will not receive or retain any property under the Amended Plan on account of such Claims or Equity Interests, and there are no Classes junior to the Holders of Equity Interests.

(e) "Unfair Discrimination"

A plan of reorganization does not "discriminate unfairly" if a dissenting class is treated substantially equally to other classes similarly situated and no such class receives more than it is legally entitled to receive for its claims or equity interests.

The Debtors do not believe that the Amended Plan discriminates unfairly against any impaired Class of Claims or Equity Interests. The Debtors believe that the Amended Plan and the treatment of all Classes of Claims and Equity Interests under the Amended Plan satisfy the foregoing requirements for nonconsensual confirmation of the Amended Plan.

D. VALUATION OF REORGANIZED SOLUTIA  
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In conjunction with formulating the Amended Plan, the Debtors determined that it was necessary to estimate the post-confirmation going concern value of Reorganized Solutia. Accordingly, such valuation is set forth in Exhibit E attached hereto.

E. IDENTITY OF INSIDERS  
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Within ten days of the Voting Deadline, or as soon thereafter as is practicable, Solutia will file with the Bankruptcy Court a list of proposed directors of Reorganized Solutia, which list shall set forth the identity of any Insiders proposed to serve as officers or directors of Reorganized Solutia.

F. EFFECT OF CONFIRMATION OF THE PLAN  
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1. TERM OF BANKRUPTCY INJUNCTION OR STAY  
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All injunctions or stays provided for in the Chapter 11 Cases pursuant to sections 105 and/or 362 of the Bankruptcy Code or otherwise and in effect on the Confirmation Date, shall remain in full force and effect until the Effective Date. Subject to the occurrence of the Effective Date, the entry of the Confirmation Order shall permanently enjoin all Persons, including Pharmacia and Monsanto, that have held, currently hold or may hold a Claim, including a Legacy Claim, against or an Equity Interest in the Debtors from taking any of the following actions based on such Claim or Equity Interest, whether directly, indirectly, derivatively, contractually, statutorily or otherwise, other than Pharmacia's and/or Monsanto's right to enforce the terms of the Amended Plan, the Relationship Agreement or the Plan Documents: (a) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind against any or all of the Debtors or the Reorganized Debtors, or their respective property or assets; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award,

decree or order against any or all of the Debtors, the Reorganized Debtors or their respective property or assets; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any Lien against any or all of the Debtors, the Reorganized Debtors or their respective property or assets; (d) exercising any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Reorganized Debtors or their respective property; or (e) proceeding in any manner in any place whatsoever that does not conform to or comply with or is inconsistent with the provisions of the Amended Plan; provided, however, that the terms of this injunction shall not prevent the

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Reorganized Debtors, Monsanto, Pharmacia or, unless the Creditors' Committee has been dissolved, the Creditors' Committee, from enforcing the terms of the Global Settlement, this Plan and the Plan Documents or any rights arising after the Confirmation Date.

2. PRESERVATION OF AVOIDANCE ACTIONS  
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On and after the Effective Date, any and all Avoidance Actions (other than the Avoidance Action against Monsanto and Pharmacia, which shall be resolved pursuant to the Global Settlement) shall be preserved and retained by the Reorganized Debtors, which shall have the exclusive right to enforce, settle and prosecute any such Avoidance Actions. Reorganized Solutia may pursue, abandon, settle or release any or all retained Avoidance Actions, as it deems appropriate, subject to the reasonable consent of Monsanto and the Creditors' Committee and Bankruptcy Court approval. Any recovery received on

account of an Avoidance Action may be retained by the Reorganized Debtors. Reorganized Solutia may offset any claim supporting an Avoidance Action against any payment due to any Holder of a Claim under the Amended Plan. In addition, if a Distribution is made in error, the Reorganized Debtors can bring an action pursuant to section 502(d) of the Bankruptcy Code to recoup such Distribution.

3. DISCHARGE OF CLAIMS AND TERMINATION OF EQUITY INTERESTS  
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Except as provided in the Amended Plan, the Plan Documents or the Confirmation Order, pursuant to section 1141(d) of the Bankruptcy Code, (1) the rights afforded under the Amended Plan and the treatment of all Claims, including the Legacy Site Claims, and Equity Interests shall be in exchange for and in complete satisfaction, discharge and release of such Claims and Equity Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against any Debtor or any of the Debtors' assets or properties, (2) on the Effective Date, all such Claims and Equity Interests in, any Debtor shall be satisfied, discharged and released in full and (3) all persons and entities shall be precluded from asserting against the Reorganized Debtors and their respective successors or their assets or properties any other or further such Claims or Equity Interests based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date; provided, however, that the

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Reorganized Debtors shall not receive a discharge from Tort Claims, NRD Claims or any Environmental Liability or Environmental Liability Costs related to the Retained Sites or the Shared Sites; provided, even further still, however,

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that the terms of this release shall not apply to claims for breaches of fiduciary duty, as such term is defined under ERISA, with respect to the SIP Plan against current and former directors, officers and employees of the Debtors.

4. EXCULPATION AND LIMITATION OF LIABILITY  
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Except as provided in the Plan or the Confirmation Order, none of the Debtors, Monsanto, Pharmacia, the Creditors' Committee nor the current or former individual members thereof, except for the Prepetition Indenture Trustee, the Retirees' Committee nor the current individual members thereof, the Ad Hoc Trade Committee nor the current individual members thereof, nor any of their respective present members, representatives, officers, directors, shareholders, employees, advisors, attorneys, Affiliates or agents acting in such capacity, except for advisors to the Prepetition Indenture Trustee, shall have or incur any liability to, or be subject to any right of action by, any Holder of a Claim, including, but not limited to, a Legacy Claim, or an Equity Interest, or any other party in interest, or any of their respective agents, direct or indirect shareholders, employees, representatives, financial advisors, attorneys or Affiliates, or any of their respective successors or assigns, for any act or omission in connection with, relating to, or arising out of, the Chapter 11 Cases, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct, criminal conduct, misuse of confidential information that causes damages, fraud, ultra vires acts or gross negligence, and in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to their duties and responsibilities under the Plan; provided, however, that nothing in this

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paragraph shall affect the rights, defenses, obligations or claims arising between Monsanto and Pharmacia. Notwithstanding any other provision herein, any and all claims for breaches of fiduciary duty, as such term is defined under ERISA, with respect to the SIP Plan shall be limited to available proceeds of insurance policies covering such claims, if any.

5. ASSUMPTION OF THE ACE INSURANCE PROGRAM AND THE TREATMENT OF  
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THE ACE COMPANIES' CLAIMS  
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Pursuant to the ACE Insurance Program, the ACE Companies have provided and continue to provide, inter alia, insurance coverage to one or more of the Debtors, their respective affiliates and/or predecessors including, but not limited to, Monsanto, for specified periods, for general liability, workers' compensation, automobile liability and pollution liability, and the Debtors are required to, inter alia, pay and reimburse the ACE Companies for deductible and other obligations, all subject to the terms and conditions of and as more particularly described in the ACE Insurance Program. The Debtors' obligations under the ACE Insurance Program are secured



by, inter alia, letters of credit, paid loss deposit funds and retention reimbursement funds.

The ACE Insurance Program is necessary and essential to the Debtors' and Reorganized Debtors' businesses, and assumption is in the best interests of the Debtors and Reorganized Debtors. The Debtors and the ACE Companies have negotiated the ACE Settlement Agreement which will be filed with the Bankruptcy Court and which will be subject to approval of the Bankruptcy Court pursuant to Bankruptcy Rule 9019.

The ACE Settlement Agreement shall contain each of the following material terms:

Notwithstanding anything to the contrary in the Plan or the Confirmation Order:

167

On the Effective Date, the Debtors and the Reorganized Debtors shall assume the ACE Insurance Program. The ACE Insurance Program will survive and remain unaffected by the Amended Plan or Confirmation Order.

Upon entry of an Order of the Bankruptcy Court approving the ACE Settlement Agreement, the ACE Companies shall have relief from the automatic stay to apply the funds which the ACE Companies hold in the amount of \$813,800 to the balance of \$1,238,119.31 which is due and owing by the Debtors under the OCIP Agreement.

Within 15 days of the Effective Date, the Reorganized Debtors shall: (i) pay to the ACE Companies a cure claim with respect to the assumption of the OCIP Agreement in the amount of \$424,319.31 (the "OCIP Cure Claim"), (ii) pay to ESIS a cure claim with respect to the assumption of the ESIS Agreements in the amount of \$8.25, as of June 30, 2007 (the "ESIS Cure Claim"), (iii) cure all other defaults (together with the OCIP Cure Claim and the ESIS Cure Claim, the "ACE Cure Claim") under the ACE Insurance Program, (iv) compensate the ACE Companies for any actual pecuniary loss resulting from such defaults, and (v) provide adequate assurance of future performance under the ACE Insurance Program.

If (i) the Effective Date occurs prior to April 1, 2008, (ii) the ACE Cure Claim has been paid in full, and (iii) a Final Order approving the ACE Settlement Agreement has been entered (the "conditions"), then ACE will permit a reduction of \$3,500,000 in the outstanding amount of letters of credit securing the ACE Insurance Program. If the conditions have not been satisfied in full (time being of the essence), then ACE will adjust the amount of collateral in the ordinary course under the ACE Insurance Program without any commitment by ACE to reduce such amount.

The Reorganized Debtors shall be liable for all of the Debtors' obligations under the ACE Insurance Program including, without limitation, the duty to continue to provide collateral and security as required by the ACE Insurance Program.

The ACE Insurance Program shall not be amended, modified, waived or impaired in any respect by the Relationship Agreement or otherwise without the prior written agreement of the ACE Companies.

The claims of the ACE Companies arising under the ACE Insurance Program shall not be discharged, shall be Allowed Administrative Expense Claims, and shall be payable by the Debtors (or after the Effective Date, the Reorganized Debtors) in the ordinary course of their businesses pursuant to the terms and conditions of the ACE Insurance Program (except that the ACE Cure Claim shall be paid in full on or before the Effective Date). The ACE Companies shall not be required to file or serve a request for payment of any Administrative Expense Claim and shall not be subject to the Administrative Expense Claim Bar Date.

The Plan or the confirmation of the Plan shall not: (i) preclude or limit the rights of the ACE Companies to contest and/or litigate with any person or entity, including the Debtors and/or the Reorganized Debtors, the existence, primacy and/or scope of available coverage under any alleged applicable policy; (ii) permit the holder of an Insured Claim to recover the same amounts from the insurers and any other person or entity, including the Debtors or the Reorganized

168

Debtors; (iii) alter the ACE Companies' rights and obligations under the ACE Insurance Program or modify the coverage provided thereunder; (iv) alter the

rights and obligations of the Debtors (or on or after the Effective Date, the Reorganized Debtors) under the ACE Insurance Program, including any duty of the Debtors (or on or after the Effective Date, the Reorganized Debtors) to defend, at their own expense, against claims asserted under the Policies; or (v) discharge, release or relieve the Debtors (or on or after the Effective Date, the Reorganized Debtors) from any debt or other liability under the ACE Insurance Program.

The ACE Companies shall withdraw any and all proofs of claim which they filed against the Debtors following the occurrence of: (i) entry of a Final Order approving the ACE Settlement Agreement; (ii) entry of a Final Order approving the Plan containing terms regarding ACE Settlement Agreement acceptable to the ACE Companies; (iii) the Effective Date; and (iv) payment in full by the Debtors of the ACE Cure Claim.

To the extent of any inconsistency between the ACE Settlement Agreement and the Plan, the Disclosure Statement, the Confirmation Order or any other document, agreement or order, the terms of the ACE Settlement Agreement will control.

The ACE Companies shall reserve their right to object to the Plan or otherwise participate in the Debtors' bankruptcy case.

XIII. SECTION 1145 EXEMPTION FOR OFFER AND SALE OF THE NEW COMMON

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STOCK UNDER THE PLAN  
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In reliance upon section 1145 of the Bankruptcy Code, the offer and issuance of New Common Stock, the Warrants and the Rights will be exempt from the registration requirements of the Securities Act and equivalent provisions in state securities laws except as set forth below.

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under Section 5 of the Securities Act and state laws if three principal requirements are satisfied: (i) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, of an affiliate participating in a joint plan with the debtor, or of a successor to the debtor under the plan; (ii) the recipients of the securities must hold claims against or equity interests in the debtor; and (iii) the securities must be issued in exchange (or principally in exchange) for the recipient's claims against or equity interests in the debtor. The Debtors believe that the offer and sale of the New Common Stock, the Warrants and the Rights (other than to Monsanto) under the Plan satisfy the requirements of section 1145(a)(1) of the Bankruptcy Code and are, therefore, exempt from registration under the Securities Act and state securities laws.

Section 1145(a)(2) of the Bankruptcy Code also exempts from such registration requirements offers of securities through warrants and similar rights distributed pursuant to the exemption set forth in section 1145(a)(1). Since the Debtors believe that the Warrants and the Rights will be issued in accordance with section 1145(a)(1), the Debtors believe that New Common Stock issuable upon the exercise of the Warrants and Rights to persons who are not underwriters within section 1145 of the Bankruptcy Code also will be exempt from registration

under the Securities Act and state securities laws pursuant to section 1145(a)(2) of the Bankruptcy Code.

To the extent that the New Common Stock is issued under the Plan (including pursuant to the exercise of the Warrants and Rights issued under the Plan) and is covered by section 1145(a)(1) or section 1145(a)(2) of the Bankruptcy Code, it may be resold by the holders thereof without registration unless, as more fully described below, the holder is an "underwriter" with respect to such securities. Generally, section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as any person who: (i) purchases a claim against, an interest in, or a claim for an administrative expense against the debtor, if such purchase is with a view to distributing any security received in exchange for such a claim or interest; (ii) offers to sell securities offered under a plan for the holders of such securities; (iii) offers to buy such securities from the holders of such securities, if the offer to buy is: (A) with a view to distributing such securities; and (B) under an agreement made in connection with the plan, the consummation of the plan, or with the offer or sale of securities under the plan; or (iv) is an "issuer" with respect to the securities, as the term "issuer" is defined in Section 2(a)(11) of the Securities Act.

Under Section 2(a)(11) of the Securities Act, an "issuer" includes

any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control of the issuer. "Control" (as defined in Rule 405 under the Securities Act) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

Accordingly, an officer or director or a controlling stockholder of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a "control person" of such debtor or successor. To the extent that Persons who receive New Common Stock pursuant to the Plan are deemed to be "underwriters" as defined in section 1145(b) of the Bankruptcy Code, resales by such Persons would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Such Persons would, however, be permitted to sell such New Common Stock or other securities without registration if they are able to comply with the provisions of Rule 144 under the Securities Act. These rules permit the public sale of securities received by such Person if current information regarding the issuer is publicly available and if volume limitations and certain other conditions are met. Any person who is an "underwriter" but not an "issuer" with respect to an issue of securities is, however, entitled to engage in exempt "ordinary trading transactions" within the meaning of section 1145(b) of the Bankruptcy Code.

Whether or not any particular person would be deemed to be an "underwriter" with respect to the New Common Stock to be issued pursuant to the Plan would depend upon various facts and circumstances applicable to that person. Accordingly, the Debtors express no view as to whether any particular person receiving New Common Stock under the Plan would be an "underwriter" with respect to such New Common Stock.

To the extent that persons deemed to be "underwriters" receive New Common Stock, pursuant to the Plan (the "Restricted Holders"), resales by Restricted Holders would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act

170

or other applicable law. Restricted Holders may, however, be able, at a future time and under certain conditions described below, to sell securities without registration pursuant to the resale provisions of Rule 144 under the Securities Act.

Under certain circumstances, holders of New Common Stock deemed to be "underwriters" may be entitled to resell their securities pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act, to the extent available, and in compliance with applicable state and foreign securities laws. Generally, Rule 144 of the Securities Act provides that persons who are affiliates of an issuer who resell securities will not be deemed to be underwriters if certain conditions are met. These conditions include the requirement that current public information with respect to the issuer be available, a limitation as to the amount of securities that may be sold in any three-month period, the requirement that the securities be sold in a "brokers transaction" or in a transaction directly with a "market maker" and that notice of the resale be filed with the SEC. The Debtors cannot assure, however, that adequate current public information will exist with respect to any issuer of New Common Stock and, therefore, that the safe harbor provisions of Rule 144 of the Securities Act will be available.

Pursuant to the Plan, certificates evidencing shares of New Common Stock, received by Restricted Holders or by a holder that the Debtors determine may be an underwriter within the meaning of section 1145 of the Bankruptcy Code may bear a legend substantially in the form below:

THE SECURITIES EVIDENCED BY THIS  
CERTIFICATE HAVE NOT BEEN REGISTERED UNDER  
THE SECURITIES ACT OF 1933, AS AMENDED, OR  
UNDER THE SECURITIES LAWS OF ANY STATE OR  
OTHER JURISDICTION AND MAY NOT BE SOLD,  
OFFERED FOR SALE OR OTHERWISE TRANSFERRED  
UNLESS REGISTERED OR QUALIFIED UNDER SAID  
ACT AND APPLICABLE STATE SECURITIES LAWS  
OR UNLESS THE COMPANY AND THE COMPANY'S  
TRANSFER AGENT RECEIVE AN OPINION OF  
COUNSEL REASONABLY SATISFACTORY TO IT THAT  
SUCH REGISTRATION OR QUALIFICATION IS NOT  
REQUIRED.

Any person or entity entitled to receive shares of New Common Stock who Reorganized Solutia determines to be a statutory underwriter that would otherwise receive legended securities as provided above, may instead receive

certificates evidencing New Common Stock without such legend if, prior to the distribution of such securities, such person or entity delivers to Reorganized Solutia, (i) an opinion of counsel reasonably satisfactory to Reorganized Solutia to the effect that the shares of New Common Stock to be received by such person or entity are not subject to the restrictions applicable to "underwriters" under section 1145 of the Bankruptcy Code and may be sold without registration in a single transaction under the Securities Act and (ii) a certification that such person or entity is not an "underwriter" within the meaning of section 1145 of the Bankruptcy Code.

171

Any holder of a certificate evidencing shares of New Common Stock bearing such legend may present such certificate to the transfer agent for the shares of New Common Stock in exchange for one or more new certificates not bearing such legend or for transfer to a new holder without such legend at such time as (i) such securities are sold pursuant to an effective registration statement under the Securities Act, or (ii) such holder delivers to the issuer of such securities an opinion of counsel reasonably satisfactory to Reorganized Solutia to the effect that such securities are no longer subject to the restrictions applicable to "underwriters" under section 1145 of the Bankruptcy Code or (iii) such holder delivers to Reorganized Solutia an opinion of counsel reasonably satisfactory to Reorganized Solutia to the effect that (x) such securities are no longer subject to the restrictions under the Securities Act or (y) such transfer is exempt from registration under the Securities Act, in which event the certificate issued to the transferee shall not bear such legend.

Upon confirmation of the Plan, Reorganized Solutia will enter into a registration rights agreement with certain Persons who may, as a result of their ownership of New Common Stock, be Restricted Holders, including Monsanto. Pursuant to the terms of these registration rights agreements Monsanto and others will be given the right to request, among other things, Reorganized Solutia to file a registration statement with the SEC to allow these Restricted Holders to sell their New Common Stock without any volume limitations.

GIVEN THE COMPLEX AND SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR HOLDER MAY BE AN UNDERWRITER, THE DEBTORS MAKE NO REPRESENTATION CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN THE NEW COMMON STOCK, THE WARRANTS OR THE RIGHTS. THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF THE NEW COMMON STOCK, THE WARRANTS OR THE RIGHTS CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE THE WARRANTS OR THE RIGHTS NEW COMMON STOCK IN COMPLIANCE WITH THE SECURITIES ACT, THE EXCHANGE ACT OR SIMILAR FEDERAL, STATE, LOCAL OR FOREIGN LAWS.

XIV. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE AMENDED PLAN  
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The following discussion is a summary of certain U.S. federal income tax consequences of the consummation of the Plan to Holders of Claims, Equity Interests and the Debtors. This summary is based on the IRC, the U.S. Treasury Regulations promulgated thereunder, judicial authorities, published administrative positions of the IRS and other applicable authorities, all as in effect on the date of this Disclosure Statement and all of which are subject to change or differing interpretations, possibly with retroactive effect. No rulings or determinations of the IRS or any other taxing authorities have been sought or obtained with respect to the tax consequences discussed herein, and the discussion below is not binding upon the IRS or the courts. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This discussion does not apply to Holders of Claims and Equity Interests that are not "U.S. persons" (as such phrase is defined in the IRC) and does not purport to address all aspects

172

of U.S. federal income taxation that may be relevant to the Debtors or to such Holders in light of their individual circumstances. This discussion does not address tax issues with respect to such Holders subject to special treatment under the U.S. federal income tax laws (including, for example, banks, governmental authorities or agencies, pass-through entities, dealers and traders in securities, insurance companies, financial institutions, tax-exempt organizations, small business investment companies and regulated investment companies). No aspect of state, local, estate, gift, or non-U.S. taxation is addressed.

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF AN ALLOWED CLAIM. ALL HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL AND NON-UNITED STATES TAX CONSEQUENCES OF THE PLAN.

IRS CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, ANY TAX ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER THE IRC. TAX ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THE DISCLOSURE STATEMENT. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

1. CONSEQUENCES TO HOLDERS OF CLAIMS AND EQUITY INTERESTS  
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(a) Consequences to Holders of Secured Claims

The following discussion assumes that each Holder of an Allowed Secured Claim holds such claim as a "capital asset" within the meaning of Section 1221 of the IRC. Pursuant to the Plan, each Allowed Secured Claim, at the election of the applicable Debtor, may be (i) Reinstated, (ii) paid in full in Cash (including post-petition interest), (iii) satisfied by the applicable Debtor's surrender of the collateral securing such Allowed Secured Claim, (iv) offset against, and to the extent of, the applicable Debtor's claims against the Holder or (v) otherwise rendered unimpaired. If an Allowed Secured Claim is Reinstated, the Holder of such Claim should not recognize gain or loss except to the extent collateral securing such Claim is changed, and the change in collateral constitutes a "significant modification" of the Allowed Secured Claim within the meaning of Treasury Regulations promulgated under Section 1001 of the IRC. If an Allowed Secured Claim is paid in full in Cash, the Holder should recognize capital gain or loss (which capital gain or loss would be long-term capital gain or loss to the extent that the Holder has held the debt instrument underlying its claim for more than one year) in an amount equal to the amount of Cash received over the Holder's adjusted basis in the debt instruments underlying its Allowed Secured Claim. To the extent that a portion of the Cash received

173

represents accrued but unpaid interest that the Holder has not already taken into income, the Holder may recognize ordinary interest income. See "Accrued Interest" below.

If a Holder of an Allowed Secured Claim exchanges its Claim for the collateral securing such Claim, or for Cash in an amount equal to the proceeds actually realized from the sale of such collateral, the exchange should be treated as a taxable exchange under Section 1001 of the IRC. The Holder should recognize capital gain or loss (which capital gain or loss would be long-term capital gain or loss if the Holder has held the debt instrument underlying its Claim for more than one year) equal to the difference between (i) the fair market value of the collateral received (or, as the case may be, the amount of Cash received from the sale of such collateral), and (ii) the Holder's adjusted tax basis in the debt instrument constituting its Claim. To the extent that a portion of the collateral received (or, as the case may be, the amount of Cash received from the sale of such collateral) in the exchange is allocable to accrued interest that has not already been taken into income by the Holder, the Holder may recognize ordinary interest income. See "Accrued Interest," below. If, on the Effective Date, the Holder receives the collateral (rather than Cash) in exchange for its Claim, the Holder's tax basis in the collateral should be equal to the fair market value of the collateral on the Effective Date, and the Holder's holding period in the collateral should begin on the day following the Effective Date.

(b) Consequences to Holders of Senior Secured Note Claims

The following discussion assumes that each Holder of an Allowed Senior Secured Note Claim holds such claim as a "capital asset" within the meaning of Section 1221 of the IRC. Pursuant to the Plan, each Allowed Senior Secured Note Claim will be paid in Cash in the amount of the Allowed Senior Secured Note Claims. The satisfaction of an Allowed Senior Secured Note Claim for Cash should be treated as a taxable exchange under Section 1001 of the IRC. The Holder should recognize capital gain or loss (which capital gain or loss would be long-term capital gain or loss if the Holder has held the debt instrument underlying its Claim for more than one year) equal to the difference between (x) the amount of Cash received and (y) the Holder's adjusted tax basis in the debt instrument underlying its Claim. To the extent

that the Cash received in the exchange is allocable to accrued interest that has not already been taken into income by the Holder, the Holder may recognize ordinary interest income. See "Accrued Interest" below.

(c) Consequences to Holders of Noteholder Claims and General Unsecured Claims

Pursuant to the Plan, each Holder of an Allowed Noteholder Claim shall receive, on account of such Allowed Claim (a) its Pro Rata share of the shares of New Common Stock in the Stock Pool, and (b) the right to participate in the Rights Offering, subject to certain conditions specified in the Rights Offering Procedures. Pursuant to the Plan, each Holder of an Allowed General Unsecured Claim shall receive, on account of such Allowed Claim (A) its Pro Rata share of the shares of New Common Stock in the Stock Pool, and (B) the right to participate in the Rights Offering, subject to certain conditions specified in the Rights Offering Procedures. The following discussion assumes that (i) each Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim holds its Claim as a "capital asset" within the meaning of Section 1221 of the IRC and (ii) the obligation underlying each Allowed Noteholder Claim and

174

Allowed General Unsecured Claim is properly treated as debt (rather than equity) of the applicable Debtor.

Whether a Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim recognizes gain or loss as a result of the exchange of its Claim for New Common Stock depends on whether (a) the exchange qualifies as a tax-free recapitalization, which in turn depends on whether the debt underlying the Allowed Noteholder Claim or the Allowed General Unsecured Claim surrendered is treated as a "security" for the reorganization provisions of the IRC, (b) the Holder has previously included in income any accrued but unpaid interest with respect to the Allowed Noteholder Claim or the Allowed General Unsecured Claim, (c) the Holder has claimed a bad debt deduction or worthless security deduction with respect to such Allowed Noteholder Claim or such General Unsecured Claim and (d) the Holder uses the accrual or cash method of accounting for tax purposes.

(i) Treatment of a Debt Instrument as a "Security"

Whether a debt instrument constitutes a "security" for U.S. federal income tax purposes is determined based on all the relevant facts and circumstances, but most authorities have held that the length of the term of a debt instrument is an important factor in determining whether such instrument is a security for federal income tax purposes. These authorities have indicated that a term of less than five years is evidence that the instrument is not a security, whereas a term of ten years or more is evidence that it is a security. There are numerous other factors that could be taken into account in determining whether a debt instrument is a security, including the security for payment, the creditworthiness of the obligor, the subordination or lack thereof to other creditors, the right to vote or otherwise participate in the management of the obligor, convertibility of the instrument into an equity interest of the obligor, whether payments of interest are fixed, variable or contingent, and whether such payments are made on a current basis or accrued. Each Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim should consult with its own tax advisor to determine whether or not the debt underlying its Allowed Noteholder Claim or its Allowed General Unsecured Claim is a "security" for U.S. federal income tax purposes.

(ii) The Rights

The tax treatment of an Eligible Holder that receives Rights will depend on whether such Holder exercises the Rights. Although not free from doubt, the issuance of, and the exercise of or failure to exercise, the Rights should be treated as an integrated transaction for tax purposes but not as a transaction that is integrated with any of the exchanges described below. Accordingly, an Eligible Holder that exercises a Right should be treated as directly exchanging the subscription price for New Common Stock allocable to such Right in an exchange in which the Eligible Holder recognizes no gain or loss. The Eligible Holder should have a tax basis in the New Common Stock received upon exercise of the Rights equal to the subscription price paid therefor.

175

(iii) Treatment of a Holder of an Allowed Noteholder Claim or a General Unsecured Claim if the Exchange of Its Claim Is Treated as a Reorganization

If a debt instrument constituting a surrendered Allowed Noteholder Claim or an Allowed General Unsecured Claim is treated as a "security" for U.S. federal income tax purposes, the exchange of a Holder's Allowed Noteholder Claim or Allowed General Unsecured Claim for the shares of New Common Stock should be treated as a recapitalization, and therefore a reorganization, under the IRC. A Holder of a surrendered Allowed Noteholder Claim or an Allowed General Unsecured Claim may recognize gain, but not loss, on the exchange. Specifically, the Holder may recognize (a) capital gain, subject to the "market discount" rules discussed below, to the extent of the lesser of (i) the amount of gain realized from the exchange or (ii) the amount

of "other property" (i.e., property that is not a "security" for U.S. federal income tax purposes and "securities" to the extent that the principal amount of securities received exceeds the principal amount of securities surrendered) received, if any, and (b) ordinary interest income to the extent that the shares of New Common Stock are treated as received in satisfaction of accrued but untaxed interest on the debt instrument underlying the Allowed Noteholder Claim or the Allowed General Unsecured Claim (see "Accrued Interest" discussion below). In such case, a Holder's tax basis in its shares of New Common Stock should be equal to the tax basis of the obligation constituting the Allowed Noteholder Claim or the Allowed General Unsecured Claim surrendered therefor (increased by the amount of any gain recognized and decreased by the fair market value of "other property" received, if any), and a Holder's holding period for its shares of New Common Stock should include the holding period for the obligation constituting the surrendered Allowed Noteholder Claim or the Allowed General Unsecured Claim; provided that the tax

basis of any share of New Common Stock treated as received in satisfaction of accrued but untaxed interest should equal the amount of such accrued but untaxed interest, and the holding period for such share of New Common Stock should not include the holding period of the debt instrument constituting the surrendered Allowed Noteholder Claim or the Allowed General Unsecured Claim.

- (iv) Treatment of a Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim if the Exchange of its Claim Is Not Treated as a Reorganization

If a debt instrument constituting a surrendered Allowed Noteholder Claim or an Allowed General Unsecured Claim is not treated as a security, a

Holder of such a Claim should be treated as exchanging its Allowed Noteholder Claim or an Allowed General Unsecured Claim for shares of New Common Stock in a fully taxable exchange. A Holder of an Allowed Noteholder Claim or an Allowed General Unsecured Claim who is subject to this treatment should recognize gain or loss equal to the difference between (i) the fair market value of the shares of New Common Stock it receives that is not allocable to accrued interest, and (ii) the Holder's adjusted tax basis in the obligation constituting the surrendered Allowed Noteholder Claim or the Allowed General Unsecured Claim. Such gain or loss should be capital in nature (subject to the "market discount" rules described below) and should be long-term capital gain or loss if the debts constituting the surrendered Allowed Noteholder Claim or the Allowed General Unsecured Claim were held for more than one year. To the extent that a Holder also receives Cash in respect of dividends paid while such stock was held in reserve, the treatment of that Cash is unclear. To the extent that a

176

portion of the shares of New Common Stock received in the exchange is allocable to accrued but untaxed interest, the Holder may recognize ordinary interest income. See "Accrued Interest" below. A Holder's tax basis in the shares of New Common Stock received on the Effective Date should equal the fair market value of the shares of New Common Stock as of the Effective Date. A Holder's holding period for its shares of New Common Stock received on the Effective Date should begin on the day following the Effective Date. Each Holder should consult its own tax advisor on the basis, holding period and other tax implications of receiving New Common Stock after the Effective Date.

- (v) Accrued Interest

To the extent that any amount received by a Holder of a surrendered Allowed Claim under the Plan is attributable to accrued but unpaid interest and such amount has not previously been included in the Holder's gross income, such amount should be taxable to the Holder as ordinary interest income. Conversely, a Holder of a surrendered Allowed Claim may be able to recognize a deductible loss (or, possibly, a write-off against a reserve for worthless debts) to the extent that any accrued interest on the debt instruments constituting such Claim was previously included in the Holder's gross income but was not paid in full by the Debtors. Such loss may be ordinary, but the

tax law is unclear on this point.

The extent to which the consideration received by a Holder of a surrendered Allowed Claim will be attributable to accrued interest on the debts constituting the surrendered Allowed Claim is unclear. Certain Treasury Regulations generally treat a payment under a debt instrument first as a payment of accrued and untaxed interest and then as a payment of principal. Application of this rule to a final payment on a debt instrument being discharged at a discount in bankruptcy is unclear. Pursuant to the Plan, all distributions in respect of any Claim will be allocated first to the principal amount of such Claim, to the extent otherwise permitted and as determined for federal income tax purposes, and thereafter to the remaining portion of such Claim, if any. The provisions of the Plan are not binding on the IRS or a court with respect to the appropriate tax treatment for creditors.

(vi) Market Discount

Under the "market discount" provisions of Sections 1276 through 1278 of the IRC, some or all of any gain realized by a Holder exchanging the debt instruments constituting its Allowed Claim may be treated as ordinary income (instead of capital gain), to the extent of the amount of "market discount" on the debt constituting the surrendered Allowed Claim.

In general, a debt instrument is considered to have been acquired with "market discount" if its holder's adjusted tax basis in the debt instrument is less than (i) the sum of all remaining payments to be made on the debt instrument, excluding "qualified stated interest" or, (ii) in the case of a debt instrument issued with OID, its adjusted issue price, by at least a de minimis amount (equal to 0.25% of the sum of all remaining payments to be made on the debt instrument, excluding qualified stated interest, multiplied by the number of remaining whole years to maturity).

177

Any gain recognized by a Holder on the taxable disposition (determined as described above) of debts that it acquired with market discount should be treated as ordinary income to the extent of the market discount that accrued thereon while such debts were considered to be held by the Holder (unless the Holder elected to include market discount in income as it accrued). To the extent that the surrendered debts that had been acquired with market discount are exchanged in a tax-free or other reorganization transaction for other property (as may occur here), any market discount that accrued on such debts but was not recognized by the Holder may be required to be carried over to the property received therefor and any gain recognized on the subsequent sale, exchange, redemption or other disposition of such property may be treated as ordinary income to the extent of the accrued but unrecognized market discount with respect to the exchanged debt instrument.

(d) Consequences to Holders of CPFilms Claims

The following discussion assumes that each Holder of an Allowed CPFilms Claim holds such claim as a "capital asset" within the meaning of Section 1221 of the IRC. Pursuant to the Plan, each Allowed CPFilms Claim will be paid in Cash in the amount of the Allowed CPFilms Claim. The receipt of Cash by the Holder of an Allowed CPFilms Claim should be treated as a taxable exchange under Section 1001 of the IRC. The Holder should recognize capital gain or loss (which capital gain or loss would be long-term capital gain or loss if the Holder has held the debt underlying its Claim for more than one year) equal to the difference between (x) the amount of Cash received and (y) the Holder's adjusted tax basis in the debt instrument underlying its Claim. To the extent that the Cash received in the exchange is allocable to accrued interest that has not already been taken into income by the Holder, the Holder may recognize ordinary interest income. See "Accrued Interest" below.

(e) Consequences to Holders of Tort Claims

In accordance with the Global Settlement, Monsanto is assuming financial responsibility, as between itself and Solutia, for the payment of Tort Claims. Holders of Tort Claims should consult their own tax advisors as to the tax consequences to them of any payment received from Monsanto on account of a Tort Claim.

178

(f) Consequences to Holders of Security Claims

On the Effective Date, all Security Claims will be canceled, and Holders of such Claims will receive no Distributions under the Plan. Section



166(a) of the IRC generally permits a "worthless debt deduction" for any debt, either in whole or in part, to the extent charged off within the taxable year. Thus, Holders of Security Claims may be entitled to worthless debt deductions with respect to such Claims. A worthless debt deduction will only be available to a Holder of a Security Claim if such Claim constitutes a "bona fide debt" within the meaning of Treasury Regulations promulgated under Section 166 of the IRC. These Treasury Regulations define a "bona fide debt" as "a debt which arises from a debtor-creditor relationship based upon a valid and enforceable obligation to pay a fixed or determinable sum of money." In addition, the rules governing the timing and amount of worthless debt deductions place considerable emphasis on the facts and circumstances of the Holder, the obligor and the instrument with respect to which the deduction is claimed. Holders of Security Claims are, therefore, urged to consult their tax advisors with respect to their ability to take such a deduction.

(g) Consequences to Holders of Equity Interests

On the Effective Date, each Holder of common stock in Solutia Inc. may receive their Pro Rata share of Warrants to the extent that Classes 11, 12, 13, 14, 15 and 20 vote to accept the Amended Plan, and all existing Equity Interest in Solutia will be cancelled pursuant to the Plan. The exchange of common stock in Solutia Inc. for Warrants should be treated as part of the same reorganization under Section 351 or Section 368(a) of the IRC as is described above under the heading "Treatment of a Holder of an Allowed Noteholder Claim or a General Unsecured Claim:". In general, if an exchange qualifies as a reorganization a recipient of securities will recognize gain, but not loss in an amount equal to the excess of the principal amount of securities received of the principal amount of securities surrendered. For purposes of the reorganization provisions of the IRC, common stock in Solutia Inc. should be treated as "Securities" with a principal amount of zero. Therefore, a Holder of an Equity Interest in Solutia should not recognize gain on its receipt of the Warrants because the principal amount of securities received does not exceed the principal amount of securities surrendered. A Holder of common stock in Solutia Inc. also cannot recognize any loss of the exchange.

(h) Consequences to Holders of Retiree Claims

In accordance with the terms of the Retiree Settlement Agreement, Solutia shall contribute 2.62 million shares of the New Common Stock to a trust established for the benefit of the Retirees. Holders of Retiree Claims should consult their own tax advisors as to the tax consequences to them of the contribution by Solutia to this trust and any distributions from this trust to them.

B. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO THE  
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DEBTOR  
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1. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE AMENDED  
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PLAN TO SOLUTIA  
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(a) Cancellation of Indebtedness and Reduction of Tax Attributes

As a result of the Plan, including the Monsanto Contribution, the Debtors' aggregate outstanding indebtedness will be substantially reduced. In general, absent an exception, a debtor will recognize cancellation of debt income ("CODI") upon discharge of its outstanding indebtedness for an amount less than its adjusted issue price. The amount of CODI, in general, is the excess of (a) the adjusted issue price of the indebtedness discharged, over (b) the sum of the issue price of any new indebtedness of the taxpayer issued, the amount of cash paid and the fair market value of any other consideration, including stock of the Debtor(s), given in exchange for such indebtedness at the time of the exchange.

A debtor is not, however, required to include any amount of CODI in gross income if such debtor is under the jurisdiction of a court in a chapter 11 bankruptcy proceeding and the discharge of debt occurs pursuant to that proceeding. Instead, as a price for the exclusion of CODI under the foregoing rule, Section 108 of the IRC requires the debtor to reduce (as of the first day of the taxable year following the year of the debt discharge) its tax attributes by the amount of CODI which it excluded from gross income. As a general rule, tax attributes will be reduced in the following order: (a) net operating losses ("NOLs"), (b) most tax credits, (c) capital loss carryovers, (d) tax basis in assets (but not below the amount of liabilities to which the debtor remains subject), and (e) foreign tax credits. A debtor with CODI may

elect first to reduce the basis of its depreciable assets under Section 108(b)(5) of the IRC.

The amount of CODI (and, accordingly, the amount of tax attributes required to be reduced), will depend, inter alia, on the fair market value of New Common Stock to be issued. This value cannot be known with certainty until after the Effective Date. Thus, although it is expected that a reduction of tax attributes will be required, the exact amount of such reduction cannot be predicted with certainty.

Any required reduction in tax attributes of a member of a consolidated group applies first to any tax attributes attributable to the debtor realizing the CODI at issue. To the extent the debtor reduces its tax basis in the stock of another member of the consolidated group (which basis may not be reduced below zero), such other member is required to reduce its tax attributes by an equivalent amount.

(b) Limitation of Net Operating Loss Carryovers and Other Tax Attributes

Section 382 of the IRC generally imposes an annual limitation on a corporation's use of its net operating losses ("NOLs") (and may limit a

corporation's use of certain built-in losses if such built-in losses are recognized within a five-year period following an ownership change) if a corporation undergoes an "ownership change." This discussion describes the limitation determined under Section 382 of the IRC in the case of an "ownership change" as the "Section 382 Limitation." The annual Section 382 Limitation on the use of pre-change losses (the NOLs and built-in losses recognized within the five year post-ownership change period) in any "post

180

change year" is generally equal to the product of the fair market value of the loss corporation's outstanding stock immediately before the ownership change multiplied by the long term tax-exempt rate in effect for the month in which the ownership change occurs. The long-term tax-exempt rate is published monthly by the IRS and is intended to reflect current interest rates on long-term tax-exempt debt obligations. Section 383 of the IRC applies a similar limitation to capital loss carryforward and tax credits. As discussed below, however, special rules may apply in the case of a corporation which experiences an ownership change as the result of a bankruptcy proceeding.

In general, an ownership change occurs when the percentage of the corporation's stock owned by certain "5 percent shareholders" increases by more than 50 percentage points in the aggregate over the lowest percentage owned by those shareholders at any time during the applicable "testing period" (generally, the shorter of (a) the 36-month period preceding the testing date or (b) the period of time since the most recent ownership change of the corporation). A "5 percent shareholder" for this purpose includes, generally, an individual or entity that directly or indirectly owns 5% or more of a corporation's stock during the relevant period and one or more groups of shareholders that own less than 5% of the value of the corporation's stock. Under applicable Treasury Regulations, an ownership change with respect to an affiliated group of corporations filing a consolidated return that have consolidated NOLs is generally measured by changes in stock ownership of the parent corporation of the group.

The issuance under the Plan of the New Common Stock, along with the cancellation of existing Equity Interests through the Plan, is expected to cause an ownership change to occur with respect to the Debtors' consolidated group on the Effective Date. As a result, Section 382 of the IRC will apply to limit the Debtors' use of their consolidated NOLs after the Effective Date. This limitation is independent of, and in addition to, the reduction of tax attributes described in the preceding Section resulting from the exclusion of CODI. Similarly, the ability of the Debtors' consolidated group to use any remaining capital loss carryforwards and tax credits will also be limited.

Section 382(1)(5) of the IRC provides a special rule applicable in the case of a bankruptcy reorganization (the "Section 382(1)(5) Rule"). If a corporation qualifies for the Section 382(1)(5) Rule, the annual Section 382 Limitation will not apply to the corporation's NOL on account of an ownership change occurring as a result of the bankruptcy reorganization. The Section 382(1)(5) Rule does, however, require that the corporation's NOL and credit carryovers be computed without taking into account the aggregate amount of all interest deductions during the three prior taxable years and the portion of the current taxable year ending on the date of the ownership change in respect of debt exchanged for the corporation's stock (such interest hereinafter called "Disqualified Interest"). The corporation will qualify under the Section 382(1)(5) Rule if the corporation's pre-bankruptcy shareholders and holders of certain debt (the "Qualifying Debt") own at least 50% of the stock

of the corporation after the bankruptcy reorganization, and the corporation does not elect not to apply the Section 382(l)(5) Rule. Qualifying Debt is a claim which (i) was held by the same creditor for at least 18 months prior to the bankruptcy filing or (ii) arose in the ordinary course of a corporation's trade or business and has been owned, at all times, by the same creditor. Indebtedness will be treated as arising in the ordinary course of a corporation's trade or business if such indebtedness is incurred by the corporation in connection with the normal, usual or customary conduct of the corporation's

181

business. For the purpose of determining whether a claim constitutes Qualifying Debt, special rules may in some cases apply to treat a subsequent transferee as the transferor creditor.

If the exchanges contemplated by the Plan qualify for tax treatment under the Section 382(l)(5) Rule and the Debtors do not elect out of the Section 382(l)(5) Rule, the Debtors' NOL carryover will be available for future use without any Section 382 Limitation (after reduction of the Debtors' NOLs by Disqualified Interest). However, under the Section 382(l)(5) Rule, if there is a second ownership change during the two-year period immediately following consummation of the Plan, the Section 382 Limitation after the second ownership change shall be zero. The determination of the application of the Section 382(l)(5) Rule is highly fact specific and dependent on circumstances that are difficult to assess accurately; however, the Debtors do not believe they will qualify for the Section 382(l)(5) Rule. In addition, due in part to the risk that a second ownership change might occur during the two year period following the Effective Date, even if they do qualify, the Debtors intend to elect out of the Section 382(l)(5) Rule as described below.

If the exchanges do not qualify for tax treatment under the Section 382(l)(5) Rule or the Debtors elect not to apply the Section 382(l)(5) Rule, the Debtors' use of NOLs to offset taxable income earned after an ownership change will be subject to the annual Section 382 Limitation. Since the Debtors are in bankruptcy, however, Section 382(l)(6) of the IRC will apply. Section 382(l)(6) of the IRC provides that, in the case of an ownership change resulting from a bankruptcy proceeding of a debtor, the value of the debtor's stock for the purpose of computing the Section 382 Limitation will generally be calculated by reference to the net equity value of debtor's stock taking into account the increase of the value of the corporation as a result of the surrender or cancellation of creditors' claims in the transaction (rather than the value without taking into account such increases, as is the case under the general rule for non-bankruptcy ownership changes). Accordingly, under this rule the Section 382 Limitation would generally reflect the increase in the value of a debtor's stock resulting from the conversion of debt to equity in the proceeding. The Debtors intend to elect to apply the rules of Section 382(l)(6) of the Code. Although it is impossible to predict what the net equity value of the Debtors will be immediately after the exchanges contemplated by the Plan, the Debtors' use of NOLs is expected to be substantially limited after those exchanges.

(c) Alternative Minimum Tax

In general, an alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income ("AMTI") at a 20% rate to the extent such tax exceeds the corporation's regular federal income tax for the year. AMTI is generally equal to regular taxable income with certain adjustments. For purposes of computing AMTI, certain tax deductions and other beneficial allowances are modified or eliminated. For example, except for alternative tax NOLs generated in or deducted as carryforwards in taxable years ending in 2001 and 2002 which can offset 100% of a corporation's AMTI, only 90% of a corporation's AMTI may be offset by available alternative tax NOL carryforwards. Additionally, under Section 56(g)(4)(G) of the IRC, an ownership change (as discussed above) that occurs with respect to a corporation having a net unrealized built-in loss in its assets will cause, for AMT purposes, the adjusted basis of each asset of the corporation immediately after the ownership change to be equal to its proportionate share (determined on the basis of respective fair market values) of the fair market

182

value of the assets of the corporation, as determined under Section 382(h) of the IRC, immediately before the ownership change. The Debtors do not believe they will have a net unrealized built-in loss in their assets immediately after the ownership change.

(d) Funding Co

Funding Co, a wholly owned "flow-through" affiliate of Solutia, will be treated as an entity disregarded from its owner for U.S. federal income tax purposes. Therefore, Solutia's contribution of a portion of the proceeds of the Rights Offering to Funding Co will be disregarded for U.S. federal income tax purposes. When Funding Co releases funds to Solutia to allow Solutia to make payments in accordance with the terms of the Relationship Agreement, Solutia should account for such amounts as if paid directly by Solutia. To the extent that Funding Co earns income on funds contributed to it, Solutia will take those amounts into gross income as if Solutia had earned the income.

2. BACKUP WITHHOLDING AND REPORTING

The Debtors will withhold all amounts required by law to be withheld from payments of interest and dividends. The Debtors will comply with all applicable reporting requirements of the IRC. In general, information reporting requirements may apply to distributions or payments made to a Holder of a Claim. Additionally, backup withholding of taxes, currently at a rate of 28%, will apply to such payments if such Holder fails to provide an accurate taxpayer identification number or otherwise fails to comply with the applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules will be allowed as a credit against such Holder's U.S. federal income tax liability and may entitle such Holder to a refund, provided that the required information is provided to the IRS.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER IN LIGHT OF SUCH HOLDER'S CIRCUMSTANCES AND INCOME TAX SITUATION. ALL HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS, AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

183

XV.  
RECOMMENDATION  
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In the opinion of Solutia, the Amended Plan is preferable to the alternatives described in this Disclosure Statement because it provides for a larger distribution to Solutia's creditors than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. In addition, any alternative other than confirmation of the Amended Plan could result in extensive delays and increased administrative expenses resulting in smaller distributions to Holders of Allowed Claims than proposed under the Amended Plan. Accordingly, Solutia recommends that Holders of Claims entitled to vote on the Amended Plan support confirmation of the Amended Plan and vote to accept the Amended Plan.

Dated: [\_\_\_\_] [\_\_\_\_], 2007

Respectfully submitted,

SOLUTIA INC.  
(for itself and on behalf of each of the Debtors)

By:

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184