Rhodia

*Chemistry is our world, Responsibility is our way*

# REFERENCE DOCUMENT 2009

# Contents



This is a free translation in English of Rhodia's Document de Référence (the "Reference Document"), filed by Rhodia with the French *Autorité des Marchés Financiers* on March 22, 2010, and is provided solely for the convenience of English speaking readers.
In the present Reference Document, "Company" refers to Rhodia S.A., "Group" or "Rhodia" refers to Rhodia S.A. and all of its subsidiaries, and "Enterprise" refers to the sector of activities of each of the operating entities and the Group companies composing such entities.

A French business corporation (Société Anonyme) with a capital of €1,213,044,816
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# Reference Document **2009**

This Reference Document was filed with the *Autorité des Marchés Financiers* on March 22, 2010 pursuant to article 212-13 of its general regulations.

This Reference Document may be used in connection with a note d'opération approved by the *Autorité des Marchés Financiers*.

This document was established by the Issuer and involves the responsibility of its signatories.

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

# Profile

Rhodia is an international chemical company resolutely committed to **sustainable development**. As a leader in its businesses, the Group aims to improve its customers' performance through the pursuit of operational excellence and its ability to innovate. Structured around **six Enterprises**, Rhodia is the partner of major players in the automotive, electronics, flavors and fragrances, health, personal and home care markets, consumer goods and industrial markets.

The Group generated sales of **€4.03 billion** in 2009 and employs around **13,600 people worldwide**. Rhodia is listed on Euronext Paris.

## "Chemistry is our world, Responsibility is our way"

Rhodia's motto reaffirms the identity values of the Group and expresses the strength of its commitment to being a responsible figure in the chemical industry.

A proud contributor of progressive solutions in other industrial sectors, Rhodia's activities are developed with respect for its stakeholders. This guiding commitment drives the Group to constantly strive to improve its Sustainable Development practices.

This guiding commitment drives the Group to constantly strive to improve its Sustainable Development practices and is expressed everyday in the quality of the dialogue between Rhodia and its stakeholders, the priority given to the safety of individuals and processes and the constant concern for preserving the environment and human health.

# A balanced portfolio: Six Enterprises that are leaders in their markets

## Polyamide

**N° 2 worldwide**

Polyamide 6.6

Engineering plastics based on Polyamide 6.6

## Novecare

**N° 1 worldwide**

Surfactants and specialty polymers

Chemistry of phosphorous

Guars and derivatives

**N° 2 worldwide**

Agrochemical surfactants

## Silcea

**N° 1 worldwide**

High-performance silica

Formulations based on rare earths

Diphenols for vanillin

## Energy Services

**Major world player**

in the field of $CO_2$ emission credits (CERs[1])

## Acetow

**N° 3 worldwide**

Cellulose acetate cable

## Eco Services

**N° 1 in the US**

Over one million tons of regenerated sulfuric acid per year

Market positions of the individual Enterprises are based on estimates made by the management.

*(1) Certified Emission Reductions (CER) and Emission Reduction Units (ERU).*

# Serving highly diversified markets

A key supplier to **highly diversified industries**, Rhodia supplies its markets with innovative solutions and technologies designed to satisfy the demands of end users in the most favorable economic and environmental manner.

## Automotive

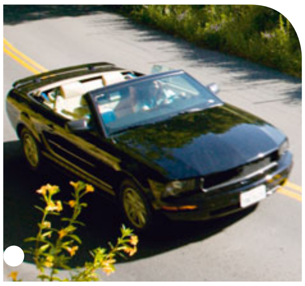
For the automotive industry, Rhodia designs innovative solutions based on polyamide, rare earths, or silica responding to the challenges of creating lighter weight vehicles, reducing harmful emissions and pollutants, and conserving energy.

The new bio-sourced PA 6.10 polyamide Technyl® eXten™, launched in 2009, is derived primarily from renewable materials and has a reduced environmental impact. Belonging to the class of high-performance plastics, it widens the application field of polyamide to highly technical uses: supple tubing used in the market for pneumatic control and booster systems, pipes and connectors for the engine fuel feed market.

## Consumer products and textiles

Rhodia improves the everyday life of consumers by developing fibers, plastics, and solutions for markets as diverse as textile garments, sporting goods, and personal protective gear.

Emana®, a new intelligent fiber based on Polyamide 6.6, gives textiles thermo-regulating properties and improves the micro-circulation of blood.



## Electrical and Electronic Components

Formulations based on rare earths are used in energy-efficient light bulbs, flat screens, digital devices, and medical imaging. In addition, engineering plastics derived from polyamide have numerous domestic and industrial applications.

Flat screens based on LCD or plasma (PDP) technology owe their development and performance to the luminescent properties of luminophores based on rare earths. The Luminostar® line answers the challenge of increasing the effectiveness of luminophores in the most economical manner, combined with enhanced mastery and performance, thereby paving the way for new technological developments.

## Industry and processes

Intermediates derived from the polyamide chain and the agents from processes developed by the Group are used in a variety of areas: treatment of water and metals, painting, industrial cleaning, polymer synthesis, leather manufacturing, coatings, paper, and other diverse applications.

Rhodiasolv® Iris, a solvent that is more environmentally friendly, is used in numerous industrial cleaning and pickling applications. In France, Rhodia was awarded the 2009 Prix Pierre Potier for "innovation in chemistry benefiting Sustainable Development" for this new solvent.

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## Aromas and Fragrances

Many aromas widely used throughout the world are made from diphenols and derivatives, of which Rhodia is the premier producer worldwide. They are used in pharmaceuticals, cosmetics, and the agrofood industry.

The vanilla olfactory notes Rhovanil® extra-pure and Rhodiarome® enhance the aromatic density and flavor of sugar-free and low fat food products.

## Health, beauty, and detergents

Rhodia offers manufacturers high-performance solutions that are equally adapted to the demands of consumers and to the specific needs of the cosmetic, pharmaceutical, and household maintenance sectors.

Jaguar® natural guar plant-based polymers are used in shampoos and shower gels. They are valued for their ability to repair damaged hair and their comfortable feel, as well as for their avoidance of scalp or skin irritation.

## Agrochemistry and animal nutrition

For manufacturers of plant sanitation products, Rhodia develops additive formulations for crop treatments. Silica, which is amorphous and chemically inert, is used in the manufacture of animal feed as a dust-free and highly fluid support in pre-mixes.

At the heart of the AgRho® line, Rhodia has developed a new bioactivator for herbicides. Its ecological and toxicological properties make it an ideal substitute for traditional solutions that have been found to be aggressive toward aquatic life. Its technical and economic characteristics are well suited to agricultural demands.

## Energy and greenhouse gases

The Group's expertise in the struggle to combat climate change and in the responsible management of energy is critical, ranging across such diverse areas as the reduction of greenhouse gases, the optimization of energy efficiency, and various services to industry, especially waste treatment and the supply of high-performance products for the extraction of gas and gasoline.

Rhodia has lent its expertise to the first "domestic" greenhouse gas reduction project in France, receiving the first Emissions Reduction Units (ERU). This particular project involves its Salindres industrial site and aims, upon completion, to achieve an average reduction of 200,000 tons of $CO_2$ equivalent per year between 2009 and 2012.

# A solid presence in markets with strong potential for growth

With its industrial network, R&D poles, and responsive, flexible commercial and logistics organization, Rhodia is structured to offer its customers **everywhere in the world** a service in close proximity that is adapted to their specific markets. Well established for many years in **Europe** and **North America**, the Group also made early inroads in **Asia** and **Latin America**, two regions with a strong potential for growth. Shared common values and the adoption of the *Rhodia Way®* framework at all facilities strengthen the adherence of workers to the Group's culture.


**North America**

20% of Rhodia's net sales*

- 19 production sites
- 12% of the Group's employees

**Latin America**

17% of Rhodia's net sales*

- 7 production sites
- 21% of the Group's employees

**Europe**

35% of Rhodia's net sales*

- 20 production sites
- 46% of the Group's employees

**Asia Pacific**

28% of Rhodia's net sales*

- 18 production sites
- 21% of the Group's employees

* *Net contribution to Rhodia's net sales products/markets by Geographic Zone of destination*

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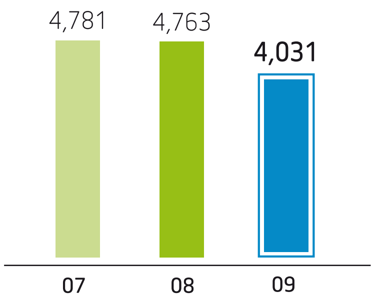
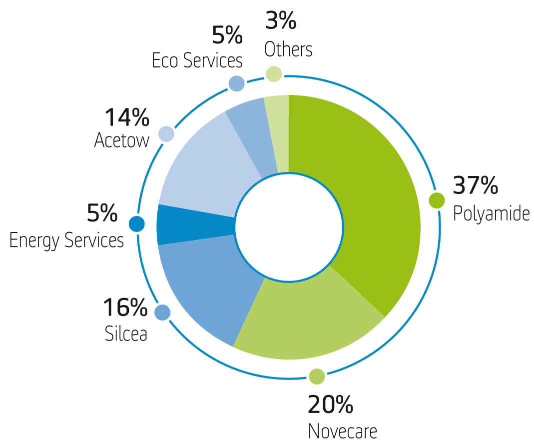
# Key Figures

## Net Sales

*(in millions of euros)*

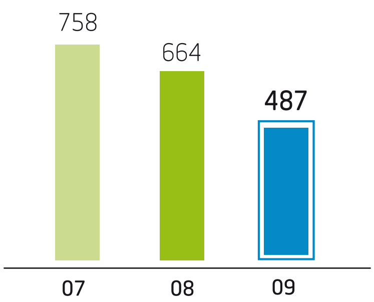



## Distribution of net sales by Enterprise in 2009



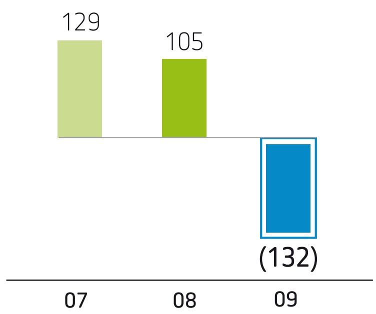

## Recurring EBITDA [2]

*(in millions of euros)*



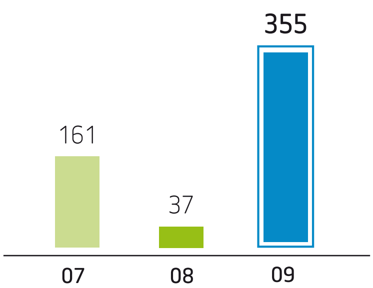

## Net profit/loss equity of Group

*(in millions of euros)*



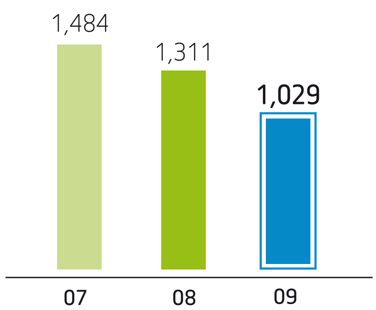

## Free Cash Flow [3]

*(in millions of euros)*




## Net consolidated debt [4]

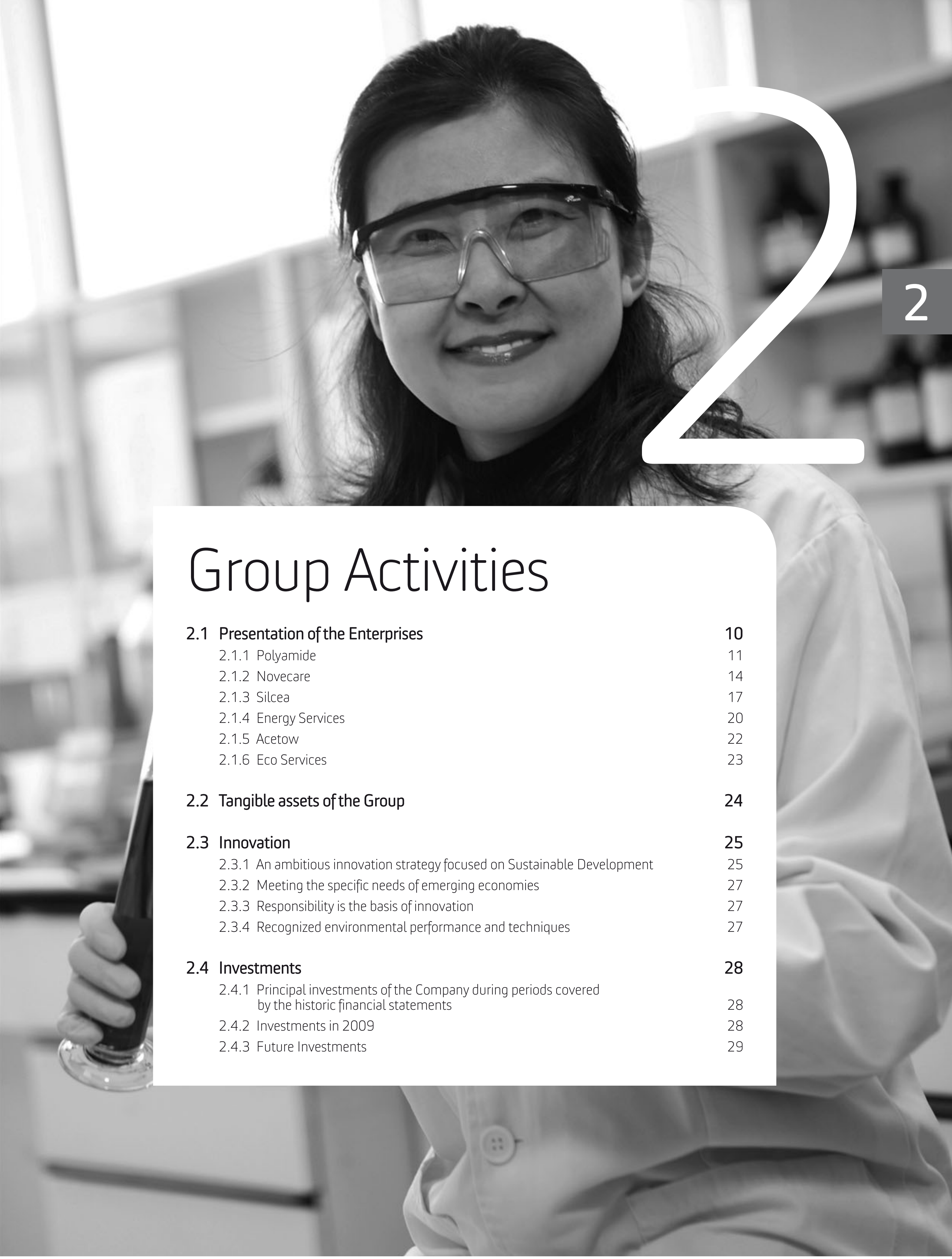
*(in millions of euros)*




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

(3) *Free cash flow is calculated as the difference between, on the one hand, cash from operating activities before margin calls excluding non-recurring refinancing expenses and, on the other hand, the acquisition of property, plant and equipment and other non-current assets.*

(4) *Net consolidated debt is defined as the sum of current and non-current borrowings minus cash and cash equivalents and other current financial assets.*



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2

# Group Activities

Rhodia's operational activities are organized into six Enterprises: Polyamide, Novecare, Silcea, Energy Services, Acetow and Eco Services.

The Enterprises have a global mission. They are responsible for their results and enjoy considerable autonomy in managing their operational activities and full responsibility in the areas of strategy, marketing and sales, industrial, innovation and the production chain. They propose their strategy to the General Management. To this end, they have dedicated resources available and are accountable for their operational results.

Support Functions (Strategy, Finance, Legal, Purchasing and Supply, Information Systems, Human Resources, Communication, Research and Development, Industrial) organized into joint departments define the process and provide their support to the Enterprises.

Geographic Zones, each supervised by a Zone Director, are responsible for facilitating the implementation of the Group's policies and practices, ensuring compliance with local laws and regulations and providing direct or indirect representation of Rhodia within the administrative bodies of the local entities and joint ventures.

The Management Committee oversees the Enterprises, the Functions and Zones, and defines and implements the strategy and policies of the Group.

Detailed information by operating segment and Geographic Zone is presented in Notes 3.1 (Information by operating segment) and 3.2 (Information by Geographic Zone) of the notes to the consolidated financial statements contained in Chapter 6.4.2 of this Reference Document.

The risk factors that could have an adverse effect on the Group's business, its financial condition, its results or its ability to achieve its objectives are presented in Chapter 5 of this Reference Document.

# 2.1 Presentation of the Enterprises

This chapter presents a description of the activities, technologies, strategies, growth drivers and market conditions for each of Rhodia's Enterprises. Rhodia has a strategy of profitable growth through a diversified portfolio of business activities, organized into six Enterprises that enjoy a global presence and leading positions in their markets. A driver of growth and differentiation, Rhodia's capacity for innovation is associated with sustainable development issues.

The positions and market shares of the various Enterprises that are reported below are based on estimates made by management.

# 2.1.1 POLYAMIDE

**Number 2 worldwide in polyamide 6.6 and engineering plastics, Polyamide develops in markets such as automotive, sportswear, leisure, construction and electrical and electronic components. This Enterprise is one of the few market operators to control the entire polyamide chain, from upstream (production of intermediates and polymers) to downstream (development of high value-added engineering plastics).**

2

2009

- **Sales:** €1,476 million, representing 37% of the Group's net sales
- **Recurring EBITDA:** €31 million
- **11 industrial sites** and **7 technical development center partners** worldwide
- **Key fact:** deployment of key initiatives to improve competitiveness and adjustment to market demand

## Business activity, technologies and main markets

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

One of the rare players to have a production line that incorporates the diverse manufacturing processes for various types and grades of polyamides, the Enterprise believes it has a major competitive advantage. Upstream of this chain, it produces two major classes of polymers, PA 6 and PA 6.6 polymers. These are obtained from specific manufacturing processes, which differ depending on the raw materials used, and each generates a series of intermediate products such as phenol, adipic acid, DNA, HMD, olona and nylon salts, primarily. Downstream, the Enterprise develops ranges of high performance products with high added-value from PA 6.6 polymers, such as engineering plastics, industrial fibers and yarns as well as textiles.

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

- intermediates are manufactured from petrochemical derivatives (mainly natural gas, butadiene and cyclohexane). They are essential elements for obtaining the PA 6.6 polymers required for manufacturing technical plastics, industrial fibers and textile yarns. With the Stabamid® brand, the Enterprise offers a full line of PA 6.6 polymers, which provides new features (UV protection or antistatic functions). Intermediate products from hexamethylene diamine (HMD) also have applications in paints;
- solvents and derivatives, manufactured in Brazil, have a very strong competitive position and make the Enterprise a recognized leader in Latin America for phenol, bisphenol A, adipic acid and oxygenated solvents:
  - phenol is the principal raw material needed to produce synthetic resin used for plywood production (construction), foundries (automotive industry) and abrasives,
  - oxygenated solvents (acetone, acetic acid and its derivatives) are for their part used in the automotive industry (paints, metal cleaning) and industrial products (flexible packaging, coatings, adhesives, agro-chemistry, textiles and leather) or consumer goods (personal and home care) in natural synergy with the traditional markets for the polyamide business. They possess a high solvent power, low toxicity and have a minor impact on the ozone layer. They are biodegradable and, as such, are the primary alternative to chlorinated solvents.

  In 2009, the Enterprise launched Augeo™ in Brazil, a new range of environmentally-friendly solvents made from glycerin, a renewable raw material derived from the production of biodiesel, replacing solvent products traditionally made from glycol ethers that are more harsh for humans and nature;
- engineering plastics are used for their mechanical and thermal properties and are employed in high-tech sectors such as the automotive, electrical and electronic components, industrial or consumer goods, sports or recreation sectors. A highly innovative business sector, Rhodia's engineering plastics provide high value-added features (high mechanical, chemical and thermal performance, and excellent surface appearance) adapted to meet the specific requirements of applications, often as alternatives to steel or aluminum, which leads to significant weight savings and gives designers greater freedom. The keys to the success of Rhodia's engineering plastics activity lies in the worldwide application of its offer, its capacity for innovation and the competitiveness of its goods and services. The Enterprise has launched more than twenty new Product Lines in five years. Its flagship brand, Technyl®, is regularly improved by innovations.

In 2009, the Enterprise launched, in addition to its traditional polyamide line, a new polyamide, the **bio-sourced 6.10 PA,** Technyl® eXten™, which is derived mainly from renewable materials and has a reduced environmental impact. This new polyamide, which is classified in the category of high-performance plastics, expands the use of polyamide for high-tech applications: flexible tubes for the market for pneumatic control and assistance systems, and pipes and connectors for the market for the supply systems of gasoline engines;

- **technical yarns and fibers** are mainly manufactured in Valence (France) and in Brazil. The flagship line of polyamide fibers, Passoréa®, intended for the automobile market, is exceptionally durable against wear and light-fastness resistance;
- **industrial yarn**, produced exclusively in Brazil, is used in lingerie, sportswear and clothing.

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| Intermediates and polymers | Industrial paints, textiles, tires, airbags, automotive, electronics | Stabamid® | Invista, BASF, Ascend, DuPont, Asahi, Radici |
| Oxygenated solvents | Industrial paints, leather, automotive, packaging, inks, industrial products, consumer goods | Augeo®, Rhodialsolv®, RhodiaEco® | BP, Celanese, Exxon, Dow, Oxiteno, Shell |
| Engineering plastics | Automotive, electrical, electronics, industrial goods, consumer goods | 4earth™<br>Technyl®, (Technyl® Force, Technyl® Alloy, Technyl® Xcell, Technyl® SI, Technyl® XT, Technyl® HP, TEchnyl®R), Technyl® eXten™,<br>Technyl Star®, Technyl Star® AFX, Oromid | DuPont, BASF, Lanxess, DSM, Ascend |
| Engineering yarns and fibers | Automotive, tires, filtration, printing, ropes, carpets, furniture, textiles | Sylkharesse®, Noval®, Passoréa® | Invista, Acordis, Asahi, Dusa, Honeywell, Ascend, Toray |
| Textile yarns | Lingerie, clothing and sportswear | Nitya®, Amni®, Emana® | Invista, Radici Nilit, TWD, Hyosung |

## Key factors of success and strategy

The Enterprise seeks profitable growth through:

- the development of its intermediates and polyamide 6.6 polymers business activities, where it was the second largest producer worldwide among the four major players in 2009 (Invista, Rhodia, Ascend and Asahi);
- the development of its offerings of high value-added engineering plastics, a highly concentrated industry primarily resulting from the technological complexity and the high capital intensity of the DNA activity, and where the Enterprise occupied the third position in the market worldwide in 2009, after DuPont and BASF;
- the implementation of a global program to reduce costs in order to increase its competitiveness.

Polyamide is positioning itself in the sustainable development of plastics, including providing solutions to the problem of reduction in mobility and promoting the development of recycling activities and systems. As such, the Enterprise has created the **4earth™** concept. This concept, born of a partnership with Millet, the specialist in outdoor sports and, in particular, the manufacturer of climbing ropes, consists of recycling the polyamide from used ropes and converting it into safety buckles for backpacks. The concept has now been extended to other areas besides sports, such as recycling of polyamide from vehicles at the end of their lifespan.

## Market conditions and key events in 2009

The year 2009 marked a major turning point in the overall balance of the global polyamide 6.6 market. Affected since late 2007 by the slowdown in North America of consumption in the market for fibers for carpet and floor covering, the world market for polyamide 6.6 was hit by the sharp deterioration in the global macroeconomic environment in late 2008. This resulted in a significant drop in demand, mainly affecting the first half of 2009. In a global market with overcapacity, the various stakeholders have taken swift action to restore the balance between supply and demand.

In the first quarter, Polyamide’s business activities were strongly affected by the sharp fall in demand and the massive destocking practiced in all sectors and geographic areas where the Enterprise operates, particularly automotive. In addition, the Enterprise was also affected earlier this year by the absorption of its stocks of raw materials purchased at high cost in previous periods. As of the second half, it benefited from the gradual recovery of its business volumes, driven by buoyant emerging economies, and in the automotive sector in particular, by temporary support measures implemented in many countries. In addition, production adjustments quickly made by the polyamide players, combined with the upturn in the second half, allowed the Enterprise to benefit once again from a favorable supply-demand ratio and to restore very satisfactory sales price growth.

Since the beginning of the crisis, the Enterprise has begun refocusing its industrial activities to improve its overall competitiveness. A plan of action to optimize its production and Research & Development structures in Europe and worldwide has led to the early 2009 closure of the Ceriano (Italy) site, a production line in Mississauga (Canada) and measures to optimize the production sites in Asia and Brazil. This global program aims to reduce costs by about €60 million annually by 2011.

Despite the slowdown, Asia and Latin America, where the Enterprise has a solid industrial base, continue to benefit from substantial average annual growth and represent future growth for Polyamide.

# 2.1.2 NOVECARE

**Novecare provides high performance chemicals to a broad range of industries in key segments of the beauty and detergent, agrochemical, oil and gas, coatings and industrial applications sectors.**

2009

- **Sales:** €827 million, or 20% of the Group's net sales
- **Recurring EBITDA:** €93 million
- **24 industrial sites** worldwide
- **Key fact:** McIntyre, a targeted acquisition that strengthens the Enterprise's global positions in the surfactants and polymers sectors

## Business activity, technologies and main markets

The Enterprise supplies these major markets with solutions and formulations based on four core technologies:

- formulations and surfactants: Rhodia offers a wide range of surfactants (cationic, anionic, nonionic and amphoteric) with multiple functions tailored to specific applications (foam control, surface modification, cleaning, emulsion, rheology, protection of the environment and health). Rhodia is developing innovative surfactants-based formulations and systems (liquid surfactants with new structures, environmentally-friendly polymeric surfactants) that meet customers' needs: products that perform and are cost effective and environmentally friendly;
- polymers: Rhodia offers a wide range of specialty polymers used primarily as manufacturing adjuvants or to improve performance and are intended for the industrial coatings and applications market (surface treatment, polymerization, etc.). Rhodia also supplies natural, plant-based, water-dispersible polymers. Their properties are used to change texture or rheology, emulsify oils, stabilize complex preparations and extend the effectiveness of the active agents or even change surfaces. Their applications cover a number of markets such as beauty and detergents, agrochemicals and oil drilling;
- phosphorus derivatives: they have many applications, from water treatment to agrochemicals and include oil drilling, fire protection (flame retardant solutions for textiles), fine chemicals, industrial applications and metal processing;
- solvents that are more environmentally-friendly: In 2009, Rhodia was the second-largest supplier of dibasic ester-based solvents and develops formulations from these solvents that are friendly to the environment and health (biodegradable, non-toxic, low Volatile Organic Compounds – VOC content, etc.). They have various applications such as cleaning of foundry resins, paint removal, cleaning of graffiti and ink;

Novecare is constantly strengthening its position by marketing new products and new formulations in response to the specific needs of its major markets.

- The beauty and detergent market: Novecare has strengthened its position in this resilient market thanks to the acquisition in 2009 of McIntyre, a manufacturer of specialty surfactants. This transaction enabled Rhodia to obtain new customers and new technologies and expand its product offerings on the strong market in mature countries and in the high-growth markets in emerging countries. Novecare addresses three strategic market segments in which Rhodia is the leader: specialty cleaners (hair and body), hair care (shampoo and conditioner) and performance additives for household products and textile care. Rhodia has solid skills to deal with issues in the beauty and detergent market: to develop environmentally-friendly and non-irritating products, adapt formulations to the many needs of regional customers and design profitable and affordable preparations.
- The agrochemicals market: Novecare's objective is to continuously develop new "bio-activators" for glyphosphate-based preparations and new formulation technologies. With its innovative and ecological solvents, Rhodia is also well positioned to capitalize on the growing demand for low-toxicity solvents. With its expertise in formulation and its network of regional technical services laboratories, Novecare can help customers meet the future challenges of agriculture: increasing yields to meet the growing demand for food, animal feed and bio-fuels and developing sustainable agricultural practices (reduction of water consumption and greater respect for the environment) by developing technologies for formulations that are more concentrated and therefore more profitable.

- **The oil and gas market:** Novecare offers expertise tailored to the needs of all stakeholders in this sector. Global energy demand is expected to increase 50% by 2015. Novecare is able to propose solutions to increase production and protect equipment. The product line includes solutions for production systems, stimulation and fracturing, drilling and cementing, as well as assistance from a dedicated technical service department.
- **The coatings market:** Novecare is developing and expanding its line of additives suitable for water-based paints.
- **The industrial applications market:** Novecare is a leader in niche markets through its expertise in formulation and its approach to sustainable development solutions used as processing aids or active principles (simplicity of handling and use, reduction of water and energy consumption, etc.).

| Products | Markets | Trademarks | Competitors |
|---|---|---|---|
| Surfactants and formulations | Cosmetics, detergents, agrochemical formulations, lubricants, emulsions, polymerization, oil | Miranol®, Dermalcare®, Miracare & Miracare SLB®, Mirasheen®, Soprophor®, Lubrhophos®, Supersol®, Abex®, Rhodafac®, Geropon®, Antarox®, Supragil®, Alkamuls®, Igepal®, Rhodacal®, Supersol®, Rhodapex®, Rhodoval™, Mackanate®, Mackamide®, Mackaderm™, Mackam® Mackadet™, Mackol®, Mackterra™, Mackazoline® | Akzo Nobel, BASF, Clariant, Cognis, Croda, Dow, Evonik, Huntsman, Sasol, Shell, Stepan |
| Natural polymers | Cosmetics, detergents, agrochemical formulations, industrial formulations, oil | Jaguar®, Rheozan®, Rhodopol®, Rhodicare® | Hercules, Aqualon Economy Polymers |
| Polymers and specialty monomers | Cosmetics, detergents, agrochemical formulations, industrial formulations, polymerization, emulsions, coatings | Geropon®, Mirapol®, Polycare®, Carbomer™, Glokill™, Albritect®, Repel-O-Tex®, Sipomer®, Rhodoline®, Mackconditioner™, Mackine®, Mackalene™, MackproPlus™, Mackernium® | BASF, Arkema, ISP, Dow-Rhom & Haas, Evonik, Clariant |
| Phosphorus derivatives | Fine chemicals, agrochemicals, water treatment, fire protection, oil | Proban®, Amgard®, Tolcide®, Briquest®, Bricorr®, Albrite®, Aquarite® | Bayer, Solutia, Cytec, Thermphos, Clariant, Ciba Hercules |
| Solvents that are more environmentally-friendly | Foundry resins, industrial cleaning, degreasing, paint and graffiti stripping, cleaning ink, agrochemical preparations | Rhodiasolv RPDE®, Rhodiasolv® IRIS, Rhodiasolv® STRIP, Rhodiasolv® UV PRESS | Invista, Cytec |

## Key factors of success and strategy

The Enterprise's objective is to generate sustained profitable growth by providing chemical solutions that improve daily life, conserve resources and protect the environment. The Novecare strategy is to position itself as a leading expert in the field of surfaces by providing high value-added solutions through its master technologies and its knowledge of their applications in certain markets.

The main drivers of the Enterprise's growth are as follows:

- an increase in market share for its master technologies – surfactants and polymers – and in high growth potential and/or strong markets (agrochemicals, beauty and detergents, oil and gas, coatings and certain targeted industrial applications sectors);
- particular attention paid to emerging markets with high growth in the Asia-Pacific, Latin America and Eastern Europe regions;
- the development of solutions that anticipate and provide answers to issues of sustainable development (cost-effective solutions that respect the environment);
- strong capacity for innovation to create value through technologies and new formulations tailored to each customer's needs according to his or her Geographic Zone and to achieve major technological breakthroughs;
- targeted acquisitions to pursue external growth to participate in the market consolidation in Europe and North America, to support the growth of emerging markets, to strengthen Novecare's expertise in the market and to access new branches and new technologies;
- a very strong customer focus, which requires the commitment and participation of the various stakeholders within the organization.

Innovation is a critical driver of the Novecare growth strategy. To create value, the Enterprise has chosen to implement ambitious innovation projects in partnership with strategic customers.

Innovation activities are designed to capture the value created by market trends:

- develop more profitable formulations to provide better quality products at the same price. The business activity is not only focused on areas of specialty agricultural chemicals, but also on the markets for detergents and cosmetics, where demand for affordable products and distributor labels is growing in emerging markets as well as in more mature markets;
- develop sustainable solutions that comply with the strictest environmental regulations as well as the growing demand for safer and more environmentally-friendly (organic) products. These innovations include water-borne coatings with no VOCs, solvents that respect the environment and health, and plant-based products for cosmetics formulations;
- develop offerings based on service to capture value in different segments of the industry. Chemically-assisted Enhanced Oil Recovery (EOR) to maximize oil production from reserves developed by Novecare in partnership with the French Institute of Petroleum is an example of targeting demand that is wider than that for chemical products;
- develop new materials to control, modify and improve the properties of soft surfaces and textures, through improved treatment of surfaces in the sector for coatings and industrial applications, for textures specific to cosmetics and to control the rheology in solutions in the oil sector.

In 2009, the Enterprise achieved 19% of its sales from products that are less than five years old and launched 50 new products this year.

## Market conditions and key events in 2009

In 2009, the Enterprise managed to offset part of the significant loss of volume by focusing on improving margins through its policy of price management in a context of declining raw material costs. In addition, cost-saving measures and restructuring plans have been undertaken in all regions in order to improve profitability in an environment of low economic activity. The Enterprise also benefited from signs of economic recovery in Asia to offset the fall in activity in North America and Europe.

Throughout 2009, Novecare showed its tenacity in the resilient beauty and detergents market and has even made a profit thanks to the rebound in emerging markets in the second half of the year (mostly in Asia). The rapid and successful integration of McIntyre allowed Novecare to develop synergies that surpassed expectations, while the activities previously managed by McIntyre showed a high resistance.

The Enterprise continues to gain market share in the field of agrochemicals, which in 2009 experienced a downturn due in part to high levels of initial stocks from the previous season, falling prices in the agricultural area and adverse weather conditions.

The markets for coatings and industrial applications have been severely affected by the global economic crisis, particularly because of the drop in the automotive and construction sectors. These markets began to show signs of improvement in the second half of 2009 as production activity resumed in North America and Europe. The oil and gas industry has in turn been strongly affected by the slowdown in demand due to lower natural gas prices and a decline in overall investment.

Novecare has made several investments in order to strengthen its presence in markets and Geographic Zones with high growth:

- acquisitions: In 2009, the Group acquired and successfully integrated McIntyre Group Ltd., a company producing specialty surfactants. This targeted acquisition strengthened the Novecare product line in the personal care branch and has improved its offerings in the fields of skin care and industrial and household detergents. In addition, this transaction opens up prospects in certain high-growth regions such as Asia-Pacific or Latin America. Novecare has also begun to transfer the McIntyre technology to Latin America (Brazil) to meet local demand;
- in India, the Enterprise has invested in building a new surfactants production unit to meet the growing demand for products in the beauty and detergents and coatings sectors;
- in the Asian market for detergents, cosmetics and industrial applications, the Enterprise has benefited from the expertise of the new International Center for Research & Development based in Shanghai (China) and opened in late 2008, which allowed it to develop formulations that are competitive, high-performant and respectful of health and the environment;
- new products for Asia: Novecare has launched, first in China, new additives for bitumen for road construction. This new product will be introduced in other regions in 2010. Regarding the market for personal care, Novecare sells new formulations tailored to the needs and habits of Asian customers;
- in China, Novecare is preparing to relocate the surfactants factory in Wuxi by the end of 2010 to the Group's new production platform based in Zhenjiang. During this transition period, the Enterprise will continue to supply its customers and expand its business activities. This new site will strengthen the competitiveness of Novecare technologies in the field of surfactants and provide the Enterprise with a production capacity allowing it to meet the anticipated growth in demand, including the detergents and beauty, agrochemicals, coatings and industrial applications markets.

# 2.1.3 SILCEA

**Leading the global market for high-performance silica and rare earth-based compositions, Silcea serves the automotive, lighting and electronics industries in their search for solutions to reduce emissions and consume less energy. Also the world's leading producer of diphenols, the Enterprise is the partner of reference for manufacturers of aromas and flavors. Through its worldwide locations, Silcea is the sole market operator to accompany the development of its customers in Europe, Asia, South America and North America.**



2009

- **Sales:** €635 million, or 16% of the Group's net sales
- **Recurring EBITDA:** €84 million
- **13 industrial sites** in the world
- **Key fact:** extending the range of products to meet the challenges of sustainable development with the launch Eolys® Powerflex™ and Zeosil® Premium

## Business activity, technologies and main markets

The high-performance **silicas** from Silcea are amorphous precipitation silicas with multiple features. They are produced from sodium silicate, resulting from the very high fusion temperature of sand and sodium carbonate. Obtained by reaction with sulfuric acid, the silica is then filtered, washed and then dried. As the inventor high-performance silica in the 1990s and the world leader in this technology with a market share exceeding 50% in 2009, the Enterprise is focusing primarily on the market for tires with low energy consumption, used today by most tire manufacturers worldwide. It also serves the markets for animal nutrition, toothpaste and silicones.

**Rare Earths** are 17 natural non-ferrous elements present in the earth's crust as ore that are particularly sought after for their unique catalytic, magnetic and luminescent properties. Silcea separates these elements through purification steps to produce high value-added formulations tailored to the needs of the various markets it serves. Silcea is the market leader in automobile catalysis sector (reducing pollution from vehicles powered by mixed oxide and alumina-based gasoline or diesel) and plays a major role in the lighting and high-precision polishing markets (luminescence for energy saving bulbs and flat screens, polishing for precision optics and electronic components, etc.) and in the markets for polymerization of butadiene and the manufacture of magnets as well.

Silcea is the world's largest producer of **diphenols**, a product branch which mainly includes vanillin and ethylvanillin, but also hydroquinone and catechol. Hydroquinone is found in the market for polymerization inhibitors and antioxidants. Catechol is an intermediate mainly used in the manufacture of vanillin and ethylvanillin, as well as in agro-chemistry applications. Silcea is the global leader in vanillin, with a market share approaching 50% in 2009, the essential ingredient in the food industry, and flavors and perfumes markets. Its leadership in this business activity is based on a broad range resulting from reliable and innovative processes to meet food safety requirements and to comply with increasing environmental requirements. Silcea is the only player in the sector to have three diphenol production sites closer to its customers' needs: Saint-Fons (France), Baton Rouge (United States) and Zhenjiang (China).

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

## Key factors of success and strategy

Relying on its advanced technology, the Enterprise's strategy is to pursue profitable and sustainable growth by:

- differentiating itself with a comprehensive and innovative product offering that is positioned in growth markets driven by demand for new products and environmental regulations;
- creating unique partnerships with certain major account clients;
- diversifying its supply sources, particularly in the area of rare earths;
- strengthening its global presence by developing its positions in geographic areas with high growth.

## Market conditions and key events in 2009

The global economic crisis has severely affected the automotive industry, the market for electronics and other industries served by the Enterprise. The practice of destocking combined with the low level of final demand resulted in a significant slowdown in business activity during the first half of the year by the Enterprise's three segments (silica, rare earths and diphenols).

Penalized in the first quarter by the high cost of raw materials in stock, the Enterprise's discipline on selling prices in a context of declining raw material and energy prices has enabled it to limit the effects of the economic downturn.

In the second half of the year, the Enterprise benefited from a gradual improvement in demand in all the markets that it serves.

### The Silica business

In the market for tires with low energy consumption, despite a temporary decline earlier this year, demand for high-performance silica maintained its momentum in the medium term and the Zeosil® product line continued to increase its share market. The latest innovation, Zeosil ® Premium, has been well received by the Enterprise's tire customers and the first products based on this technology have been put on the market. The increasing penetration of high-performance technologies has accelerated in Asia and North America driven by the growing importance of environmental issues. To meet this demand, Rhodia has finally continued building a new plant for high-performance silica in Qingdao (China), which was temporarily suspended during the first half of the year. New regulations requiring tire makers to reach rolling resistance thresholds and put an energy label on their products is contributing to making this technology a global benchmark.

## The Rare Earths business

### *On the market for automotive catalysis*

Over the year, the global auto business has remained down compared to 2008, with strong geographic differences. The slowing of the market stabilized in the second quarter of 2009, and the effects of various government support measures for the auto sector were fully felt from the third quarter on. Sustained by changes in laws and increased environmental awareness, this market benefited from progressive implementation of standards in the emerging countries that converge with those prevailing in Europe and the United States. The additive Eolys®, which is the technological reference in particle filters for diesel engines, continued to be deployed in Europe, with more than 4.2 million vehicles equipped to date. Launched this year at the Auto Show in Frankfurt, Eolys® Powerflex™ is a new generation particularly suited to the use of biofuels.

In addition, materials for Optalys® catalytic converters and the Stabilys™ range of alumina supplement the existing offer for treatment of polluting emissions from gasoline engines. They allowed the formulation of durable catalysts that are very efficient in precious metals, and experienced very strong growth in the second half. This strong demand has justified an investment in new production capacity.

### *On the lighting and high-precision polishing markets*

On the lighting market, growing requirements for energy savings generated increased demand for rare earths-based luminescent materials (Luminostar® line) to produce energy-efficient light bulbs. This market is driven by the introduction of regulations that ban incandescent light bulbs, which are energy-intensive, in an increasing number of countries (USA, Europe, Japan, China). The demand for luminescent materials for backlighting LCD screens continued to grow.

On the precision polishing market, the Cerox® Opaline® lines have suffered from the global economic slowdown and related inventory adjustments. However, the beginning of a recovery was recorded at the end of the fourth quarter.

The demand for performance materials (Superamic® line) for portable electronic devices was also affected by inventory adjustments earlier this year. In the second half, uncertainties related to possible measures to strengthen control of exports from China have sharply boosted demand destined for other Asian countries.

## The Diphenols business activity

### *On the market for flavors and fragrances*

The economic crisis resulted in Silcea customers destocking during the first part of the year, especially in the fragrance industry. By the third quarter of 2009, demand had rebounded strongly and drops in volume had significantly subsided. The market for flavors for consumer foods, in particular, has returned to normal levels, while the fragrance market remains affected. Overall demand for vanillin has retained its growth in the medium-term. Responding to increasing market requirements in terms of traceability and food safety, the recognized excellence of Rhodia's product offering has helped increase marginal income, despite unfavorable market conditions.

### *On the market for performance products for industry*

The market for polymerization inhibitors for the petrochemical industry has suffered significantly from the economic crisis and ended the year in decline, despite a recovery since the third quarter of 2009. This rebound has been accompanied by a rebalancing of the market between the various regions of the world. Asia has become the main market. This increase in the Asian market benefits Rhodia, which invested in a new plant in China in 2007.

Meanwhile, demand for agrochemical intermediates suffered in 2009 from its exposure to the sugarcane market (ethanol) that has been in trouble during the year.

After the recovery observed since mid-2009 in the automotive industry, changes in legislation to reduce emissions should continue to benefit the Enterprise's rare earths business. The applications of this business in the area of high precision polishing and lighting is also enjoying favorable growth prospects, particularly in the segment for flat-screen TVs and low energy consumption light bulbs. In addition, with its high-performance silica technology, the Enterprise has strengthened its position in the replacement tires segment, which was less exposed to falling demand than the new vehicles tires segment. Closely related to consumer goods, the diphenols business (food flavorings, olfactory notes for detergents) remains exposed to a lesser extent to market cycles overall.

Lastly, on the Asian market, where Silcea has a solid industrial and commercial base, the Enterprise continues to enjoy favorable growth prospects, thus seeing its share of revenues increase.

# 2.1.4 ENERGY SERVICES

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

2009

- **Sales:** €189 million, representing 5% of the Group's net sales
- **Recurring EBITDA:** €165 million
- **1 industrial site** in France
- **Key fact:** first investment in the promising biogas market by the acquisition of the Econcern group's share in six biogas pilot projects in China and Vietnam

## Business activity, technologies and main markets

### In the energy field

Energy Services integrates the key skills and assets in energy within a profit center designed to optimize Rhodia's overall energy bill.

Energy management includes activities in the purchasing, production and sale of energy. In the area of procurement, mainly gas and electricity, the Enterprise managed €630 million of energy purchases in 2009, 68% for Rhodia's own needs and 32% on behalf of others, mainly the Group's joint venture partners.

Rhodia holds a strong buying position in France, where it is the second largest industrial buyer of gas and one of the top ten buyers of electricity. Energy Services has grown through an innovative approach to both the gas and electricity sectors. The first industrial company to have a distribution license, Energy Services thus negotiates directly without the intervention of distributors for the Group's gas purchases from exchange points. In the field of electricity, Rhodia is a member of Exeltium, a consortium of electro-intensive industries for the purchase of electricity in France. Under a Memorandum of Understanding signed with Electricité de France (EDF), members of Exeltium receive long-term electricity purchase contracts at prices based particularly on the costs of nuclear investment by EDF. EDF supply may happen in 2010, once the financing consortium is finalized. In addition, Energy Services sells electricity produced by the Group through its co-generation of 320 MW in 2009, or on behalf of others for about 50 MW in 2009. Beyond France, this energy management business has largely developed in Europe and has important centers, especially in Brazil.

The history of the energy management business is characterized by high capital intensity related to the cost of assets on the one hand, and the need for good financial rating in order to be active in the financial markets (sales of electricity, coverage cost, price, etc.), on the other hand.

Refer to Chapter 5.2.5.3 (Credit Ratings) of this Reference Document.

### In the field of management of greenhouse gases

Between 2003 and 2005, Energy Services developed projects to reduce greenhouse gas emissions on the Rhodia sites at Paulinia (Brazil) and Onsan (South Korea), which enabled it to obtain one of the largest portfolios of carbon credits under the Clean Development Mechanism of the Kyoto Protocol [5]. These two projects have been approved by the UN Framework Convention on Climate Change (UNFCCC) Secretariat and may be renewed for consecutive periods of seven years based on market mechanisms in force to anniversaries.

The marketing of these credits has solidified, particularly through the creation of Orbeo with Société Générale, a leading joint venture in the field of origination (identification and development of projects to reduce greenhouse gas emissions), trading and sale of carbon credits. This structure, according to the Group, is the only global entity dedicated to carbon that is capable of combining the technical capabilities of an industrial group with the financial and risk management capabilities of a bank.

Operational since 2006, the facilities to reduce greenhouse gas emissions at the Paulinia (Brazil) and Onsan (South Korea) sites have proved reliable and efficient. Since 2007, they have enabled the Group to sell about 13.5 million tons of Certified Emission Reduction (CER) [6] units per year.

*(5) Source: Reuters.*
*(6) Certified Emission Reductions (CER) and Emission Reduction Units (ERU)*

Since its inception in 2006, Orbeo has implemented an integrated offering since origination, including financing, operational management and marketing of carbon credits from projects that reduce emissions of greenhouse gas emissions. This development was done in synergy with the strengths of its parent company: the flow of CERs generated by Rhodia, which accounted for 12.3% of CERs issued worldwide in 2009, and its industrial know-how, on the one hand, and risk management by Société Générale, its powerful commercial network and its financial capabilities, on the other hand.

Orbeo has established itself as a key player in the carbon market, with an estimated market share of 8% of this booming sector. World trade in $CO_2$ equivalents has been evaluated at 8.4 GT of $CO_2$ credits in 2009 [(7)]. The value of this market was estimated at €105 billion in 2009 versus €90 billion in 2008 [(8)].

## Key factors of success and strategy

The development of Energy Services is based on the requirement to reduce greenhouse gas emissions worldwide, notably, the European Union energy-climate package for a 20% reduction in greenhouse gas emissions by 2020 and the support of the Obama administration for an 80% reduction greenhouse gas emissions in the United States by 2050, compared to 2005. This requirement induces a very strong growth in the market for $CO_2$ and clean energy (cleantech).

## Market conditions and key events in 2009

Energy Services has put its expertise to work on the first "domestic" project in France to reduce greenhouse gas emissions. The Salindres industrial site has indeed reduced its greenhouse gas emissions to the levels recognized by the UN Framework Convention on Climate Change (UNFCCC).

In return, in 2009, Rhodia received the first Emissions Reduction Units (or ERUs). This project, started in August 2008, aims for an average annual reduction of about 200,000 equivalent tons of $CO_2$ over the period 2009-2012.

With regards to the CERs, since the economic crisis has affected the Group's volume of adipic acid produced, the volume of CERs therefore declined in 2009. Moreover, because of the longer process for awarding CERs by the UNFCCC, the sale of the last batch of carbon credits expected in 2009 has been postponed until the first quarter of 2010.

In addition, Energy Services has announced its first investment in biogas technology by acquiring the Econcern group's share in six biogas production pilot projects located in China and Vietnam. Capitalizing on the growth potential and opportunities offered by the biogas market, Rhodia will use these projects to strengthen its expertise and industrial know-how in the renewable energy sector. This transaction confirms the Group's desire to pursue the development of clean technologies and reduce greenhouse gas emissions.

Furthermore, Orbeo announced the signing of an agreement to acquire OneCarbon International BV. A subsidiary of Econcern, OneCarbon is an international company specialized in generating quality carbon credits through its business of origination, development, joint development and financing of projects to reduce greenhouse gas emissions.

The acquisition of OneCarbon accelerated Orbeo's development in origination, beyond Rhodia's projects, by accessing a portfolio of signed or potential contracts as well as a team of carbon experts. This acquisition also strengthened Orbeo's global presence, tripling the size of the teams with a significant presence in China, Turkey, Brazil and Central America. Capitalizing on an experienced and multidisciplinary team, as well as a broad geographic presence, Orbeo is thus continuing its development of products and services that covers the entire carbon value chain.

Among other projects developed, Orbeo signed with the Congolese agricultural company Novacel an agreement to purchase 500,000 greenhouse gas emissions absorption units [(9)], from a reforestation project in the Democratic Republic of Congo. This transaction is expected to capture more than one million tons of $CO_2$ over the period 2008-2017, while restoring soil fertility in the Batéké plateaus.

Furthermore, Orbeo signed a contract with the National Agency for Energy Management of Tunisia for the purchase and sale of CERs generated by the PROSOL solar program, in response to the Clean Development Mechanism of the Kyoto Protocol, which involves the installation of 120,000 solar water heaters in Tunisia over the period 2007-2011 and will reduce average emissions by 35,000 equivalent tons of $CO_2$ per year.

*(7) Source: Commodities research Orbeo/Société Générale.*
*(8) Source: Commodities research Orbeo/Société Générale.*
*(9) One absorption unit equals one ton of $CO_2$ from the earth.*

# 2.1.5 ACETOW

**The world's third largest producer of acetate tow for cigarette filters, Acetow is also one of the principle suppliers of cellulose acetate flakes to the textile industry. Its business activity is built on five production sites across four continents.**

2009

- **Sales:** €549 million, or 14% of the Group's net sales
- **Recurring EBITDA:** €133 million
- **5 industrial sites** in the world
- **Key fact:** stable volumes in a context of economic crisis and very good price levels due to the quality of the Enterprise's products and services.

## Business activity, technologies and main markets

Cellulose acetate flakes are derived from the chemical reaction of acetic anhydride with wood pulp. To obtain acetate tow, cellulose acetate flakes are put into a solution in acetone and extruded into strands that make up the tow. The tow is then supplied to tobacco companies to make cigarette filters.

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

The Enterprise serves approximately 18% of the world market for cigarette filters, a slight increase due to the increasing world population and the increased size of cigarette filters. Its main markets are located in Europe, CIS, Asia and Latin America.

## Key factors of success and strategy

The Enterprise seeks to maintain privileged and sustainable partnerships with major cigarette manufacturers. Its strengths are based on its strong technical expertise, the performance of its industrial and customer support that enable it to offer excellent quality of products and services.

Its ability to innovate is a key factor in its development. Acetow thus created, in close collaboration with key customers, new manufacturing processes that enable it to produce acetate tow that is adjusted to a new generation of cigarettes, called "super slim" cigarettes.

## Market conditions and key events in 2009

Over the entire year, Acetow benefited from a stable level of demand, despite a slight decline in the global market related to the difficult economic environment. The Enterprise thus gained about 1% of market share over the year. In addition, the quality of its products and services enabled it to significantly increase prices.

Lastly, the ambitious plan to improve competitiveness launched by the Enterprise in late 2007 seeking to generate €40 million in savings by 2011 (compared to its cost structure in 2007) has been successfully pursued and has led to significant cost reductions in 2009.

# 2.1.6 ECO SERVICES

**Eco Services offers a sulfuric acid regeneration service to the chemical industry and to the oil refineries in North America.**



2009

- **Sales:** €211 million, or 5% of the Group's net sales
- **Recurring EBITDA:** €70 million
- **7 industrial sites** in the United States
- **Key fact:** further developments at the Enterprise's sites seeking to reduce sulfur dioxide emissions by 90% by 2014

## Business activity, technologies and main markets

Eco Services produces and regenerates sulfuric acid - one of the most commonly used industrial chemicals - for North American customers, which include oil refineries, producers of chemicals and other industrial users.

In its capacity as the leading supplier of refineries along the American Gulf Coast, the West Coast and the Midwest regions, Eco Services plays a key role in the North American energy infrastructure. This infrastructure is based on the Eco Services network of eight production units located on seven different sites in California, Texas, Louisiana and Indiana. The latter site also supplied the needs of Canadian refineries. Two of them provide chemical waste treatment services.

Sulfuric acid serves as a catalyst for producing alkylates, an essential component of high-octane gasoline. During the production of gasoline, sulfuric acid gathers impurities that reduce its catalytic properties. The used or "consumed" acid is then transported to Eco Services' sites where it is purified in high-temperature furnaces before it is returned to the refineries that sustainably recycle it.

The Enterprise also produces sulfuric acid that it manufactures from sulfur in various concentrations depending on customer needs.

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

## Key factors of success and strategy

Eco Services' reliability and technical expertise are essential and have been recognized over many years by its customers, many of whom benefit from multi-year contracts. These form the basis of its competitive advantage versus other suppliers of sulfuric acid.

Eco Services aligns its production and maintenance schedules with the seasonal peak demand from refineries during the summer. Due to the continuous refinery activity characterized by the absence of unneeded stocks of raw materials, products or services, Eco Services produces or regenerates sulfuric acid in strict compliance with its customers' specifications and strives to sustainably supply them in accordance with the scheduled deadlines. Through the training of its personnel, the Enterprise ensures business activities, safety and environmental programs of the highest quality in order to offer its customers an undoubtedly reliable supply.

Eco Services multi-site production network uses the main modes of transportation, whether they are pipelines, roads, waterways or railways. To help ensure sufficient bulk volume, the Enterprise manages its own fleet of tank cars and barges for transportation on canals, waterways and rivers.

## Market conditions and key events in 2009

Worldwide demand for sulfuric acid generally follows the curve of the U.S. GDP and the trends in the North American chemical industry. While significant segments of the U.S. economy experienced a production slowdown during much of the year, demand from Eco Service's customer base, the refineries, has remained relatively stable compared to most manufacturing sectors, although lower than in recent years.

In 2009, major construction work continued on the production units in Baton Rouge, Louisiana, to implement the terms of an agreement signed in 2007 between the U.S. Environmental Protection Agency and Eco Services. This pioneering agreement among American producers of sulfuric acid included the installation of new equipment to control sulfur dioxide emissions on several Eco Services sites. These new improvements should reduce emissions by 90% by 2014.

The agreement also provides that the installation of this new equipment will dovetail with the pace of Eco Service's customer orders and authorizes increases in its sites' production capacity in the years to come.

The price of sulfur dropped considerably in 2009, after exceptional increases in the price of this essential raw material in 2008. Despite the indexing of many Eco Services contracts to the fluctuations in raw material prices, the prices charged to customers are sometimes somewhat below these fluctuations.

General factors related to the U.S. economy also affected demand in 2009. The pressures generated by the economic downturn explain the decline in manufacturing activity in many sectors of the industry and the decline in demand for transportation fuels, including gasoline demand. These demand levels should rebound with the expected recovery of U.S. economy in 2010.

Eco Services caters primarily large refinery complexes on the American Gulf Coast and the West Coast regions, where the refineries are operated by major integrated oil companies. The temporary or permanent reduction of production capacity of some refineries especially affected smaller firms, including many refineries on the East Coast supplied by other suppliers.

# 2.2 Tangible assets of the Group

The Group's total gross property, plant and equipment as of December 31, 2009 were worth €5,130 million, of which €125 million was property, plant and equipment under construction. Their value was comprised mainly of materials and equipment, which was €4,100 million, and buildings, which was €770 million.

The Group's total net property, plant and equipment as of December 31, 2009 was €1,458 million, or roughly 34.2% of the consolidated balance sheet total as of December 31, 2009. Their value consisted of materials and equipment, which was €1,017 million; buildings, which was €214 million; land, which was €102 million; and €125 million worth of PPE under construction.

See Note 12 (Property, plant and equipment) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

The table below shows the number of Rhodia sites by Enterprise and Geographic Zones as of December 31, 2009. The size of the sites may vary considerably in terms of the number of employees and production capacity. Of the 64 sites, 10 are shared by more than one of our Enterprises. Each site mentioned in the table below is listed according to which Enterprise uses it the most. Not included in the table is an unconsolidated site at the Group level that is held as part of a joint venture.

| Enterprises | Europe | North America | Latin America | Asia Pacific | Total |
|---|---|---|---|---|---|
| Polyamide | 5 | | 4 | 2 | **11** |
| Novecare | 6 | 9 | 1 | 8 | **24** |
| Silcea | 4 | 2 | 1 | 6 | **13** |
| Energy Services | 1 | | | | **1** |
| Acetow | 3 | 1 | 1 | | **5** |
| Eco Services | | 7 | | | **7** |
| Others | 1 | | | 2 | **3** |
| | **20** | **19** | **7** | **18** | **64** |

# 2.3 Innovation

| | |
|---|---|
| R&D Personnel | 834 people |
| Location of Research and Technologies Centers | Aubervilliers and Lyon (France), Paulinia (Brazil), Shanghai (China), Bristol (USA) |
| Location of joint research laboratories with the CNRS and Universities | Bordeaux and Lyon (France) Bristol (USA) |
| Expenses [(1)] dedicated to R&D (*cash-flow* total) | €93 million |
| R&D Capitalization | €15.7 million |
| Number of Registered Patents | 110 |

*(1) Gross Research and Development expenses before capitalization of the development costs and before deduction of subsidies (research tax credit).*

Rhodia made over 20% of its net sales from products that are less than five years old. A key driver of the Group's growth, Research and Development (R&D), combines incremental innovation and break-through projects. Incremental innovation consists of creating value by the constant renewal of the range of products and the continued improvement of its processes. It works to develop effective customized solutions for the Group's clients, as well as technical support for commercial actions. This operational innovation contributes to the development of the Enterprises' business activities and the consolidation of their global leadership positions.

The breakthrough projects are intended to position the Group in new markets with high potential in the medium and long terms.

Rhodia R&D is made up of a global network with operations in Europe, the United States and in high-growth countries such as Brazil and China. Its openness to the scientific world ensures it a capacity for cutting-edge innovation. Within the joint research laboratories, Rhodia R&D is working with the CNRS and universities in Bordeaux and Lyon, France, and the University of Pennsylvania in the United States. One time study contracts are in effect with Brazilian and Chinese universities.

These partnerships contribute to the enrichment of Rhodia's recognized areas of expertise, including polymer materials science, physical chemistry of fluids and surfaces, inorganic chemistry, industrial chemistry and process engineering. The Group has, for example, integrated highly advanced skills in modeling and digital simulation. Used to design performance materials or high-output laboratory tools, these technologies can accelerate the final perfection of innovations.

## 2.3.1 AN AMBITIOUS INNOVATION STRATEGY FOCUSED ON SUSTAINABLE DEVELOPMENT

The public's growing awareness of sustainable development issues has caused the Enterprises to confront new expectations. Industry has been led to rethink its ways of operating and is expressing new needs, thus creating many opportunities for innovation and potential future markets for Rhodia.

Rhodia, with its long-standing commitment to sustainable development, seeks to respond to major societal challenges through its strategy of innovation. Rhodia R&D is focused specifically on environmental protection and resource conservation as well as on the needs of new consumers in emerging countries, which constitute a major source of development and growth.

The Group's research projects are structured around three main themes:

### Developing new materials to help customers reduce their products' environmental impact

Since it supplies many value chains, chemistry plays a key role in manufacturers' integration of new expectations. Rhodia, based on its key technologies, assists them by developing innovative solutions to issues such as sustainable mobility and reducing the environmental impact.

In the automotive sector, Rhodia develops solutions that consume less fuel and emit less $CO_2$. Its R&D develops high performance thermoplastics that reduce the weight of vehicles. It also produces silica for tires that reduce energy consumption as well as for high-performing catalytic systems used for automotive pollution control.

In 2009, the new line of Zeosil® Premium high surface area silica with unparalleled properties in terms of reducing rolling resistance was successfully approved by large global tire manufacturers. Rhodia R&D is also working on next-generation materials that will open the heavy truck market to using silica technology for low energy consumption tires.

In the automotive emissions control market, the alumina for automobile catalysis business acquired in 2007 has enriched the Rhodia technologies portfolio. Its integration with the Group's research platforms has helped launch new products. In 2009, the entire line was consolidated into a solutions platform for pollution control for diesel vehicles, strengthening the Group's leadership in providing materials for this market segment. These solutions, which cover all performance materials, range from the elimination of soot (Eolys®) to the reduction of carbon monoxide, hydrocarbons and nitrogen oxides in exhaust. They allow manufacturers, in particular, to comply with the European Euro 6 standard that will become effective in 2014. Among the innovations offered are the Stabilys™ lines of alumina and Optalys® mixed oxides lines that improve Rhodia's offerings of materials for catalytic converters. New zirconium acid-based products (Acilys® line) to remove nitrogen oxides from urea are in the process of being approved by customers.

## Preserving natural resources

Dealing with the increasing demand for raw materials and the scarcity of resources such as oil, minerals or water are a major challenge for a chemist in charge. Rhodia is responding by developing technologies and processes that optimize the use of raw materials while allowing for them to be recycled. The substitution of renewable carbon for fossilized carbon is also a major area of research.

In the Group's innovation portfolio, many research projects involve the use of renewable raw materials. Thus, in 2009, a solvent-based bio-glycerin was successfully marketed in Brazil. Rhodia also launched the bio-sourced 6.10 polyamide. Derived in part from renewable materials, this new polymer has a reduced environmental impact. Classified under the category of high performance plastics, it expands the use of polymer materials for high tech applications such as flexible tubing for pneumatic control systems or even pipes and fittings used in the supply systems for gasoline engines.

Rhodia has also committed itself to the diversification of cellulose acetate applications. This bio-sourced material is now used in the development of pharmaceuticals and biodegradable products, such as flowerpots or credit cards.

In partnership with Millet (Lafuma group), Rhodia has developed a new recyclable polyamide for climbing ropes. At the end of the season, the ropes are collected by Millet and reintroduced into the production cycle. This is a true closed loop life cycle. A new brand 4earth™ was launched based on this opportunity.

This goal of making better use of natural resources is leading Rhodia to develop solutions for the assisted recovery of oil (Enhanced Oil Recovery – EOR) to maximize the performance of wells.

Finally, in the long-term, the potential value of $CO_2$ as a raw material is the subject of an in-depth analysis.

## Producing more efficiently and more responsibly

Producing more responsibly is a major challenge for the R&D teams seeking to ensure the competitiveness of processes while reducing the impact on the environment and people.

Their efforts are being deployed around three axes:

- reducing effluents and wastes from the Group's factories;
- strengthening and improving the energy efficiency of the manufacturing processes, including reducing the consumption of energy and raw materials;
- developing technologies to reduce emissions of greenhouse gases; Rhodia, as a pioneer in this field, is applying this expertise to new projects at several of its sites.

In order to have the most efficient technologies and best expertise, Rhodia has a specific mechanism involving management and industrial R&D, with the participation of the Group's experts. Their mission: to remain in a constant state of monitoring, and to analyze competing processes and remain informed about the state of the scientific art. Armed with this knowledge, Rhodia has identified challenges that have been formalized in research programs now controlled by the Management of process innovation. The results of these programs are integrated into the work process improvement group.

Thus, at the Acetow Enterprise site in Freiburg (Germany), innovation is taking place in support of industrial teams mobilized to reduce the environmental footprint while improving the tool's competitiveness. Over the last thirty years, emissions of Volatile Organic Compounds (VOCs) have been reduced by 80%. Recent technological developments in the industrialization process will allow a further reduction of about 10% compared to the base year 2008. This same site is also involved in reducing energy consumption processes, water consumption, and reducing and recycling waste. Thus, since late 2008, wastes containing acetic acid are being recovered by the production of electricity through a fermentation process that generates biogas.

This commitment is also being implemented in diphenol units. Anxious to reduce the environmental impact of existing processes, the experts in this technology have worked to reduce discharges of saline effluent while improving their energy efficiency. The first results will be measurable in 2011.

Moreover, in the manufacture of silica, the key stages of the industrial processes have been optimized over the last two years. The goal is to save 20% of the water consumed in the phases of the process that consume the most.

Finally, this concern to combine responsible productivity and technological change is guiding the design of the Group's future factories towards greater modularity. Rhodia is one of the industrial partners in the major European F3Factory project, whose goal is to develop tomorrow's processes through intensified and standardized technologies. Relying on tools and flexible methods, these new processes will be designed to optimally adapt production to changing market demands.



## 2.3.2 MEETING THE SPECIFIC NEEDS OF EMERGING ECONOMIES

The Group's worldwide R&D organization, with research centers in China, Brazil and technical support centers located in South Korea and India, is a real asset to meet customers' specific and growing needs in these markets.

Thus, from its technology center in Onsan, South Korea, and its R&D center in Shanghai, China, Rhodia is developing engineering plastics suitable for Asian markets. Its teams are also developing innovative formulations for agrochemicals, detergents and health and beauty that meet the specific performance and cost requirements of its local customers.

In China, Rhodia joined the Research Center for Eco Environmental Science (RCEES) in order to initially develop solutions for reducing sludge from wastewater treatment plants. This partnership also aims to develop environmentally-friendly water retention additives to improve the yields of agricultural lands in the arid north of the country.

In Brazil, Rhodia has developed an original bio-remediation process for soils contaminated with organochlorine that was inspired by composting. This technology allows final rehabilitation by in-situ treatment of pollution, which is to say without excavation.

## 2.3.3 RESPONSIBILITY IS THE BASIS OF INNOVATION

Consistent with its commitment to exercise its profession as a chemist in a responsible manner, Rhodia places the preservation of the environment and human health at the core of its innovation projects and processes.

The impact of an innovation project in these areas is thus analyzed through a Life Cycle Assessment (LCA) product analysis method that complies with ISO 14040-44 standards. Performed very early and throughout the research process, this analysis validates the project's continuation if the results show an improvement compared to what currently exists in health and environmental matters. Its abandonment is determined in the opposite case. The LCA covers the entire lifecycle of a product manufactured in the Group's factories up until its destruction or recycling, and throughout its use by industrial customers and final consumers. It is based on indicators that measure the impact of the raw materials used, the rate of use of non-renewable energy, the quality of discharges into the air and water, the carbon impact, as well as the toxicity to man and the environment. The LCA and its associated measurement indicators allow Rhodia to focus its research and choose the best technical options. This method, developed by a Rhodia R&D team, has been approved by external auditing firms, and is also applied rigorously to evaluate the carbon impact of the Group's industrial sites. It was deployed in various French sites in 2009.

## 2.3.4 RECOGNIZED ENVIRONMENTAL PERFORMANCE AND TECHNIQUES

In France, Rhodia has been awarded the 2009 Pierre Potier prize for "Innovation in Chemistry for Sustainable Development" for Rhodiasolv® IRIS. Created at the initiative of the French Ministry of Economy, Finance and Industry in collaboration with the *Union des Industries Chimiques* (*UIC* - Union of Chemical Industry in France), this science and technology prize is awarded to chemical companies that are involved in innovation that promotes sustainable development. Rhodiasolv® IRIS is a new-generation solvent that offers a greener and safer alternative to traditional solvents. Biodegradable, non-toxic, non-flammable and with low volatility, Rhodiasolv® IRIS is respectful of the environment and users' health as well as effective. This solvent is used in many applications, such as stripping paint, cleaning graffiti or resins and industrial degreasing.

In Brazil, the Group was awarded the Top Rubber 2009 Award by Borracha Atual Magazine for its new reinforcing silica for tires. The Brazilian Chemical Industry Association, ABIQUIM, awarded its Technology Prize to the new fiber Emana®, which supports the development of bioactive clothes.

# 2.4 Investments

## 2.4.1 PRINCIPAL INVESTMENTS OF THE COMPANY DURING PERIODS COVERED BY THE HISTORIC FINANCIAL STATEMENTS

| *(in millions of euros)* | 2007 | 2008 | **2009** |
|---|---|---|---|
| Polyamide | 101 | 104 | 62 |
| Novecare | 32 | 32 | 21 |
| Silcea | 55 | 43 | 38 |
| Energy Services | 6 | 10 | 11 |
| Acetow | 17 | 20 | 19 |
| Eco Services | 20 | 21 | 20 |
| Corporate and other | 93 | 52 | 20 |
| **TOTAL** | **324** | **282** | **191** |

In 2007 as well as in 2008, about half of capital expenditures was used for the development of the Group's activities and the other half was realized in order to maintain the Group's production assets.

See Note 3.1 (Information by operating segment) to the consolidated financial statements in section 6.4.2 of this Reference Document for information by segment regarding investments Rhodia made during the year ended December 31, 2009; to Note 3.1 to the consolidated financial statements, on pages 138 et seq., of the Reference Document filed with the financial markets authority under the number D.09-0150 for information by segment regarding investments Rhodia made during the year ended December 31, 2008; and to Note 3.1 to the consolidated financial statements, on pages 141 et seq., of the Reference Document filed with the financial markets authority under the number D.08-0182 for information by segment regarding investments Rhodia made during the year ended December 31, 2007.

See also chapter 3.2.6 (Investments related to the environment and remediation expenses) of this Reference Document for information regarding investment expenditures related to the environment.

## 2.4.2 INVESTMENTS IN 2009

In light of the cyclical economic downturn that was observed at the end of 2008, the Group's policy applied to its choice of investments in 2009 was very selective.

Capital expenditures (which include the acquisition of property, plant and equipment and the acquisition of other elements of non-current assets) were €191 million as of December 31, 2009 as opposed to €282 million on December 31, 2008, a 32% decrease.

These capital expenditures were primarily acquisitions of property, plant and equipment in the amount of €167 million. Acquisitions of other intangible assets totaled €24 million and involved acquisitions and start-up of software and development costs.

2009 capital expenditures are broken down below:

- about one half are for improvements in productivity, in line with competitiveness improvement programs adopted by the Group, as well as for projects for development of the Group's activities initiated during previous years. The principal investments in this category were:

– improvement of the $N_2O$ abatement facility at the Polyamide site in Chalampé (France),

– beginning of reinstallation of Novecare production facilities at the site in Zhenjiang (China) following eviction from the site in Wuxi,

– completion of the construction of a new Novecare surfactant production facility in Roha (India),

- completion of a project to increase the capacity of the Polyamide phenol production facility in Paulinia (Brazil),
- continuation of the construction of a new high-performance silica production facility in Qingdao (China), which should be continued in 2010;

- the other half were investments made in order to maintain the Group's production assets, in keeping with its Hygiene, Safety, and Environment policy.

In addition, on February 27, 2009, Rhodia finalized its acquisition of the McIntyre company, which represented an investment expenditure of approximately $100 million.



## 2.4.3 FUTURE INVESTMENTS

In 2010, Rhodia expects to continue to manage its capital expenditures very selectively with a target of spending about 30% more than for capital expenditures in 2009.



# 3

# Responsibilities and Sustainable Development

The Rhodia Group considers its long-term approach to sustainable development and awareness of the social and environmental consequences of its activities fundamental. This approach is described below.

*The individual activity of the listed company Rhodia S.A. as a financial holding company (directly or indirectly holding all of the equity interests forming the Rhodia Group) is not likely to result in any notable social or environmental consequences. It does not engage directly in any operational or industrial activities.*

# 3.1 Sustainable Development Policy

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

Undertaken in 2000, as the continuation of the health, safety and environmental policy initiated more than 20 years earlier and endowed with a dedicated department since 2003, the Group's approach to Sustainable Development is now one of the pillars of Rhodia's identity.

This approach is based on the Rhodia Way®, the framework of reference for Rhodia's responsibility, geared toward stakeholders (customers, employees, suppliers, investors, the environment and communities). Its implementation, which began in 2007, marks a major step in the Group's commitment to Sustainable Development.

This tool allows the managers of the different Departments and Enterprises to perform their own evaluation of their entity's performance in terms of social and environmental responsibility, identify limitations and define the improvements to be made in a spirit of continual progress.

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

The third self-evaluation cycle conducted in 2009 involved 100% of the Group's target entities (industrial sites, business units, research centers and the departments of Purchasing, Finance, Legal and Public Affairs), representing 94% of the staff. Each entity determined its responsibility profile and defined a progress plan. The progress made with respect to these plans will be analyzed during the next evaluation scheduled for December 2010.

Furthermore, for 2009, the Group had PricewaterhouseCoopers review its Responsible Care® (RC) reporting, as it did in 2008. Since the Responsible Care® information reporting system is well-developed within the Group and its internal control system is well-structured (DRC 06), the level of verification requested of PricewaterhouseCoopers by the Group is moderate assurance on data (see Chapter 3.5 of this Reference Document).

## 3.1.1 EXTERNAL AGREEMENTS EXPRESSING RHODIA'S COMMITMENT

The commitments made by Rhodia with external partners are intended to strengthen and focus the Group's progress objectives.

These voluntary commitments go beyond simple statements of intent and are accompanied by measurements of the progress made.

The principal agreements:

| | |
|---|---|
| 1997 | Signing of the "chemistry industry's commitment to progress," a sector-specific initiative internationally known under the name Responsible Care® that seeks to promote respect for the environment and personal safety and health. |
| 2002 | The Group's commitment in connection with the Association of Companies for the Reduction of the Greenhouse Effect (*Association des Entreprises pour la Réduction de l'Effet de Serre – AERES*), to reduce its greenhouse gas emissions in France by 30% for the 1990-2010 period. |
| 2003 | Adherence to the UN Global Compact. Through this charter, Rhodia agrees to promote and enforce ten major principles concerning human rights, working conditions, respect for the environment, and the fight against corruption. |
| 2004 | Signing of the Diversity Charter in France. |
| 2005 | Signing of the Global Social and Environmental Responsibility agreement with the ICEM (International Federation of Chemical, Energy, Mine and General Workers Unions). |
| 2006 | Signing of the Responsible Care® Global Charter. A global initiative of the chemical industry (International Council of Chemical Associations), the objective of the Global Commitment Charter for Progress goes beyond the principles of Responsible Care® concerning health, safety and environmental performance. Improved management of product cycles (Product Stewardship), greater transparency vis-à-vis stakeholders, as well as the evaluation and publication of environmental performance are among the key criteria of this charter, which identifies the conditions for responsible chemistry. |
| 2007 | First evaluation mission in China validating the correct application in the field for the ICEM global agreement. |
| 2008 | Renewal of the ICEM agreement for a three-year period after updating the text and including it in the Rhodia Way® approach. Second evaluation mission of the application of the ICEM agreement in Brazil. |
| 2009 | Creation of a Worldwide Safety body within the framework of the ICEM global agreement, third evaluation mission of the application of the ICEM agreement in the United States |



## 3.1.2 A GLOBAL COMMITMENT TO SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

On February 1, 2005, the Rhodia Group signed a global agreement on social and environmental responsibility with the largest international union federation (ICEM). This agreement applies to all Group employees worldwide.

The first of its kind in the chemical industry, this agreement established a framework for ongoing dialogue, compliance with international social standards defined by the International Labor Organization (I.L.LO.), principles of the Global Compact of which Rhodia is a signatory, and a series of commitments specific to Rhodia, covering the following areas:

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

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

- translation of the text into the Group's five main languages;
- making the text available on the Group's Intranet site;
- providing information to the Group's Committee;
- providing information to the European Works Council.

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

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

In early 2008, at the agreement's expiration date, Rhodia and ICEM renewed it for a new three-year term. The updated, stronger text is now an integral part of the Rhodia Way®.

In late 2009, a new delegation representing ICEM and the Rhodia's General Management conducted a third evaluation in the United States, which included a site visit and a meeting with management, employees and their representatives. This field visit gave ICEM representatives the opportunity to conduct a survey of the accident frequency rate, pay levels, training policy, the percentage of women managers, the monitoring of suppliers and subcontractors, and the dialogue between labor and management.

### 3.1.3 RESPONSIBLE CARE®: THE CHEMICAL INDUSTRY'S WORLWIDE COMMITMENT IN LINE WITH THE HEALTH, SAFETY AND ENVIRONMENTAL POLICY

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

Rhodia has developed its system for managing the safety of its employees and its sites, and for reducing its impact on the environment (SIMSER+: System Integrating Management for Safety and Environment, industrial hygiene and transport specific to Rhodia for sites with more than 100 people, and 3RHSE — Rhodia Rules and Recommendations concerning Health, Safety and the Environment — for sites with less than 100 People). This system was certified as conforming to the OHSAS 18001 standard in 2005 by the firm DP2i and, as far as the environment is concerned, it is identical to the ISO 14001 standard. With a reporting rate of 100%, compliance with the Responsible Care® Global Charter has been confirmed for all of Rhodia's entities throughout the world.

With 98% of its sites audited according to its standards (3RHSE and/or SIMSER+) within the past three years [(10)], Rhodia's performance has been excellent.

As for health and safety risks evaluated at sites within the past five years, the rate remained excellent in 2009 as in 2008, with performance of 91%.

The Group's worldwide investments for health, safety and the environment amounted to €51.9 million in 2009, including €21.9 million for safety and health and €30 million for the environment (see Chapter 3.2.6 of this Reference Document for more information).

# 3.2 Rhodia's commitments with respect to the environment

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

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

### 3.2.1 PROMOTING ENVIRONMENTAL MANAGEMENT

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

Analyses are based on a rigorous identification of the hazards and on a precise evaluation of the risks and potential impacts of the Group's activities on the environment. In 2009, 87% of its facilities were the subject of an environmental study that was adapted, performed or reviewed within the past five years, compared to a rate of 80% in 2006, 90% in 2007 and 86% in 2008.

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

As of 2007, reporting of accidents/incidents having an impact on the environment (loss of containment, water, air and ground discharges) has been implemented worldwide and an environmental control indicator (*indicateur de maîtrise environnementale* – IME) illustrating these accidents has been constructed. This indicator and the associated action plans allow sites to improve control of their discharges and emissions.

*(10) Among the sites obligated to perform audits according to the internal procedures applicable to the Group.*

Incidents and accidents assessed as having an environmental impact are analyzed and are subject to corrective actions to prevent their recurrence.

The environmental impact studies performed by the Group showed a lack of significant environmental consequences from its activity in 2009.

## 3.2.2 CONSERVING NATURAL RESOURCES



The data below are based on the Group's current scope of consolidation [11] as of December 31, 2009, and the changes shown are compared to data for previous years, restated to reflect the scope of consolidation as of December 31, 2009.

### Water withdrawals

Withdrawals of surface and ground water, primarily for cooling facilities, decreased in 2009 (-10.3% compared to 2008). This decrease, which was mainly in surface water withdrawals and, to a lesser extent, in ground water withdrawals, was due largely to a decline in activity as a result of the world economic crisis.

Withdrawals of drinking water dropped by 10.7% during 2009 compared to 2008.

An inventory of Rhodia sites in water stress zones, and a mapping of their water withdrawals and consumption was carried out. Rhodia thus counts 19 sites operating in these zones (29% of its industrial sites). This inventory will enable Rhoda to implement actions aimed at limiting such withdrawals.

### Energy consumption

Energy Services is the Group Enterprise in charge of managing energy supply and production, as well as managing greenhouse gas emissions. Energy Services manages energy purchases for the Group and for third parties. Fifty-five per cent of these purchases are for natural gas, and 30% for electricity. In France, the Enterprise is the second largest industrial purchaser of gas and ranks among the ten largest purchasers of electricity.

Energy Services' mission is also to optimize Group energy production assets. Within this framework, the Enterprise implemented energy efficiency measures focusing on improving the operation of co-generation facilities (industrial tools permitting the simultaneous production of thermal energy and electricity thanks to gas turbines).

In addition, Energy Services is a founding member of Exeltium, the French consortium of electricity intensive industries for purchase of electricity in France. The objective of this consortium is to obtain supply, starting from 2009, at prices based on nuclear investment costs through a long-term electricity purchase contract (see Chapter 2.1.4 of this Reference Document).

### Waste

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

Selective sorting continues as a general practice at all Rhodia industrial sites and research centers in order to permit the reuse of a portion of used raw materials and packaging.

In addition, 67% of the waste incinerated in 2009 was done so using thermo-conversion.

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

The changes described in this section are compared to data for previous years, restated to reflect the scope of consolidation as of December 31, 2009 (current scope).

### Air emissions

Air emissions are subject to regulatory changes, which are becoming increasingly stringent and more carefully monitored. These emissions not only affect climate change because they include greenhouse gases, but they also involve the environment and health due to discharges of volatile organic compounds (VOCs), nitrogen oxides (NOx) and sulfur oxides (SOx).

Since 2007, indirect $CO_2$ emissions connected with electricity purchases have been reprocessed by applying the national emissions coefficients [12] instead of the global coefficient adopted by Rhodia. The Group's total greenhouse gases emissions in 2009, after reprocessing, were about 5.3 million tons of $CO_2$ equivalent compared to 6.3 million tons in 2008.

*(11) The current scope of consolidation as of December 31, 2009 corresponds to all the sites belonging wholly or partially (according to Rhodia's internal procedure DRC 06) to the Group as of December 31, 2009.*
*(12) Source: IEA (International Energy Agency)*

In 2009, Rhodia again significantly reduced greenhouse gases emissions. Not counting electricity reprocessing, the Group's total emissions amounted to approximately 5.9 million tons of $CO_2$ equivalent in 2009 compared to 6.9 million tons in 2008. The 2009 level of emissions represented a decrease of 29.5% compared to 2007. Rhodia monetized part of its reductions by selling:

- carbon credits (CER [(13)]) in connection with Clean Development Mechanism (CDM) projects carried out at the Onsan (South Korea) site and at the Paulinia (Brazil) site;
- carbon credits (ERU [(14)]) in connection with Joint Implementation (JI) projects carried out at sites in France during 2009.

With regards to ***VOCs*** (Volatile Organic Compounds), total discharges held steady in 2009 with an overall decline of approximately 19% since 2005 thanks to progress made at several Acetow Enterprise sites with the recovery of the solvent acetone (Serpukhov in Russia, Santo André in Brazil, and Freiburg in Germany) and by destruction/thermal oxidation of VOCs at the Saint Fons and Salindres sites in France.

***Sulfur oxide (SOx) emissions*** decreased by 36.8% in 2009, as investments decided in 2007 bore fruit on a full-year basis (installation of air discharge cleaning columns at the Houston and Baton Rouge sites in the United States).

Lastly, with respect to ***nitrogen oxides (NOx)***, which together with VOCs are precursors of smog (ozone), Rhodia achieved a significant reduction in its emissions in 2009 (-24.5%), due largely to the full-year operation of investments (implementation of new low nitrogen oxide emission burners and catalytic smoke processing) made in late 2008 at the combustion plants at the Chalampé (France) site.

## Water discharges

The laws in certain countries where Rhodia operates require the establishment of files that include "impacts on fauna and flora" based on the materials used or the products manufactured when an operating permit is requested. Thus, in France, potential impacts are examined in view of the national inventory of natural areas of ecological, fauna and flora interest (*inventaire national des zones naturelles d'intérêt écologique, faunistique et floristique* – ZNIEF) and significant bird conservation areas (*Zones Importantes pour la Conservation des Oiseaux* -ZICO).

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

The ecotoxicity of aqueous effluents and biotic indicators concerning the receiving environment concerned have been measured at a number of sites, particularly in France. IBGN [(15)] and IBD [(16)] type biotic indicators were made in 2008 and 2009 for a number of sites in France, primarily on a voluntary basis, to bolster the findings of the regulatory study on the impact of the aqueous effluents of the sites (Collonges, Melle and Salindres). Their results seconded the "no-impact" conclusion regarding their aqueous effluents.

Reductions in ***the chemical oxygen demand (COD)*** of the Group's discharges, already significant in 2008, continued in 2009 (-16.9%). Specifically, this decline is explained by better control of our operations at the Vernon (USA) site, production stoppages of certain compounds contributing to COD discharges (Santo André, Roussillon), as well as less activity at most of our sites.

The significant decrease in 2009 (-30.3%) in ***nitrogen discharges (N)*** is attributable to a great extent to the decrease in activity due to the economic crisis at different sites, particularly the one in La Rochelle (France) but equally to the recovery of materials at the site in Charleston (USA) or also to production stoppages at the site in Santo Andre (Brazil).

The decline of 25.9% in ***phosphorus discharges (P)*** in 2009 is due to reduced activity at the Oldbury (England) site.

The significant reduction in discharges of hazardous substances expressed also as emissions of absorbable halogenated organic compounds (AOX) continued as well in 2009 (-14.6% compared to 2008) primarily due to reduced activity at the Oldbury (England) site. These AOX discharges amounted to approximately 12 tons in 2009.

Lastly, discharges of heavy metals, of around 2.7 tons of copper equivalent, decreased by 20% in 2009.

*(13) Certified Emission Reduction Unit.*
*(14) Emission Reduction Unit or URE (Unité de Réduction des Émissions).*
*(15) Indice Biologique Global Normalisé (Standardized overall biological index): index of the change in water quality or natural environment, which may create small or large changes in the fauna: disappearance of sensitive or high-maintenance species, proliferation of more tolerant ones.*
*(16) Diatomic Biological Index: index of alteration of diatoms, single-cell algae that can live alone or form free or fixed colonies, in plain water or at the bottom of a river or affixed stones, boulders, or plants.*

## 3.2.4 ACTIONS TO REDUCE THE IMPACT OF GROUND POLLUTION

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

As of December 31, 2009, Rhodia's environmental provisions amounted to €239 million, making it possible to cover the adjusted value of all expenses that can be reasonably estimated over the required timeframe, which may go up to 2020 or even 2050 for some sites where the situation justifies it. Expenditures, which amounted to €24 million in 2009, cover the costs of impact studies and control or remediation operations, as well as operating costs for past pollution treatment plants at both closed sites and at sites in operation in Europe, North America and Latin America.

In 2009, the following projects or studies were completed: delivery to the government of a management plan for the Mulhouse (France) site shut down in December 2007; end of the demolition of the former unit in Cubatao (Brazil); reinforcement of the treatment barrier at the Rafard (Brazil) site; demolition of the facilities at the Avonmouth (United Kingdom) site shut down in October 2008.

3

## 3.2.5 ENVIRONMENTAL RESULTS

The environmental results in the table below are calculated based on the historical scope of consolidation [17] and show the Group's annual impacts.

| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| **Water** | | | | | |
| Eutrophication – Total phosphorus and nitrogen *(in tons)* | 5,082 | 5,043 | 3,717 | 3,080 | 1,921 |
| Damage to the of aquatic environment – Chemical oxygen demand (COD) *(in tons of oxygen)* | 15,893 | 13,389 | 10,289 | 8,868 | 7,148 |
| Water withdrawals (*in thousands of $m^3$*) | 464,301 | 469,482 | 425,690 | 395,948 | 321,466 |
| **Air** *(in tons)* | | | | | |
| Greenhouse effect – Total in $CO_2$ equivalent with intra-Group transfers neutralized | 23,940,618 | 22,559,640 | 8,402,665 (1) | 6,564,086 (1) | 5,334,942 (1) |
| Acidification – Total $SO_x$ + $NO_x$ | 31,096 | 29,093 | 25,271 | 23,044 | 15,166 |
| Tropospheric ozone – Volatile Organic Compounds (VOC) | 6,973 | 5,939 | 5,494 | 5,275 | 5,097 |

*(1) In restating the 2009 indirect issuances associated with electricity purchase, by application of national emissions coefficients instead of the global coefficient adopted by Rhodia. Without this restatement, the 2009 emissions would be 5,869,523 tons.*

All indicators representative of air or water emissions or discharges improved in 2009 compared to 2008.

Significant decreases in both air and water emissions continued in 2009. The objectives set in 2005 for 2010 were greatly exceeded. The sites were affected, however, by the economic crisis arising in late 2008 and which affected the year 2009. Investments nevertheless contributed to these improvements.

Emission of VOC, SOx/NOx and $CO_2$ gases declined by 19%, 44% and 76%, respectively, in 2009 compared to 2005 at the current scope of consolidation, whereas the reduction objectives for 2010 were 10, 20 and 33%. The significant decrease in SOx/NOx emissions was due largely to the full-year operation of investments made by Rhodia Eco Services units in the United States, allowing for capturing SOx emissions.

*(17) The historical scope of consolidation of year N corresponds to sites belonging or having belonged wholly or partially (according to the Rhodia internal procedure DRC 06) to the Group during this year N.*

Water discharges, specifically Chemical Oxygen Demand, reflecting water degradation and the presence of nitrogen and phosphorus, causes of eutrophication, decreased by 46% and 62%, respectively, in 2009 compared to 2005, whereas the reduction objectives for 2010 are 20%.

***Greenhouse gases*** emissions decreased significantly (76%) as a result of two investments made in 2006 at the Onsan (South Korea) and Paulinia (Brazil) sites and in late 2008 at the Salindres (France) site.

| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Waste | | | | | |
| Hazardous waste sent to the Technical Landfill Center (Centre d'Enfouissement Technique – CET) *(in tons)* | 26,082 | 31,650 | 7,543 | 20,490 | 8,648 (1) |
| Non-hazardous waste sent to the CET landfill *(in tons)* | 39,743 | 29,270 | 35,554 | 39,323 | 30,769 (2) |
| Incineration rate with thermo-conversion *(as a %)* | 67 | 65 | 70 | 68 | 67 |
| Energy *(in tons of oil equivalent)* | | | | | |
| **TOTAL TONS OF OIL EQUIVALENT (after internal transfers)** | **2,298,482** | **2,154,735** | **1,913,821** | **1,824,282** | **1,548,354** |

*(1) Including 189 tons of waste from demolition or dismantling.*
*(2) Including 5,119 tons of waste from demolition or dismantling.*

The decrease in hazardous wastes sent to landfills is due to the smaller number of demolitions of sites or units in 2009 compared to 2008 (Lille in France had a heavy impact in 2008).

## 3.2.6 ENVIRONMENTAL INVESTMENTS AND REMEDIATION EXPENSES IN 2009

Total environmental investments amounted to €30 million in 2009 (compared to €37.6 million in 2008) and were broken down as follows:

- air: €18.8 million (i.e. 63%);
- water: €6.3 million (i.e. 21%);
- waste: €3.3 million (i.e. 11%);
- workshop demolition, soil, noise pollution and landscaping: €1.5 million (i.e. 5%).

In addition, site remediation expenses amounted to €24 million in 2009.

## 3.2.7 RHODIA'S COMMITMENTS TO RESPONSIBLE PRODUCT MANAGEMENT

### The Product Stewardship Approach

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

Each product is assigned a safety data sheet (FDS in Europe – or MSDS, Material Safety Data Sheet, in North America) providing necessary health, safety, environment and transport information, which must be updated at least every three years according to the Group's rules. It is then sent to customers, as well as to research and production staff, who are informed of the different hazards based on the stage at which they are handling them.

In late 2009, all four zones – Europe, North America, Latin America and Asia – exceeded their three-year objectives for safety data sheet revisions.

In 2008, the operational deployment in Europe of the Compo EHS integrated database for tracking all manufactured compositions (raw materials and products) put on the market was a significant step forward in the Product Stewardship program. This new tracking tool, complying with regulatory requirements, allows Rhodia to offer customers continuous qualitative updating of the information that the Group makes available to them. This deployment continued in 2009 in China and South Korea and supported the deployment in progress of the new ESH SDS module in order to guide the regulatory compliance of SDS intended to meet GHS [18] /CLP [19] and REACH regulations (multiple languages, classification of hazards, semi-automatic printing based on EHS Compo [20] date, and inclusion of exposure scenarios).

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

Rhodia met the requirements of the European REACH regulations for registering different substances that it produces or imports. Moreover, out of a concern for continuing progress, the Group also developed its own additional standards, starting in 2006 (CMR "red line"). These standards have a global scope surpassing that of REACH.

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

Within the framework of its Management Book (internal control tool described in Chapter 5.1.2.1 of this Reference Document), the Group implemented a specific procedure in 2006 concerning CMR substances (all products put on the market, CMR levels 1 and 2 in the European Union and Groups 1 and 2A according to the CIRC classification) worldwide. This "red line" used at all Group sites requires an inventory of Rhodia's CMR products, the systematic search for substitutes, and the management of risks inherent to these products.

### Rhodia CMR substances put on the market

In 2006, the inventory allowed for identifying five Rhodia CMR substances that were put on the market alone or as a component contributing to the classification of a product as CMR. During the same period, pursuant to its Responsible Care® commitment, the Group decided to self-classify three additional substances, bringing the number of CMR substances listed by the Group worldwide as part of its internal policy to eight.

In 2007, in accordance with the red line, 6 substances out of the 8 listed were subject to a substitution and risk control study involving Rhodia clients. The Group also stopped the production and marketing of one substance, reducing to seven the number of Rhodia CMR substances put on the world market alone or as components.

In 2009, the number of Rhodia CMR substances put on the market was still seven. Substitution studies were performed or updated for all of these seven substances.

One of the substitution studies concerning a line of products intended for the industrial market is particularly significant. Thanks to analysis of the manufacturing procedures and analytic monitoring of formaldehyde content, the CMR profile due to the presence of this substance was able to be withdrawn for more than half of the products in the line marketed by Rhodia.

### Rhodia CMR substances used in preparations:

In late December 2009, including all Group sites, close to 650 uses [21] of CMR (European Union categories 1 & 2, IARC (CIRC) 1 & 2A) were declared for less than 140 CMR substances used pure or contained in preparations, for which:

- 98% of the non-substitution leaflets [22] have been drafted;
- 99% of risk evaluations [22] were performed;
- 97% of CMR files [22] were completed for a target of 100% at the end of 2009 (for some newly classified CMRs following the publication of Regulation (EC) No. 790/2009 [23], the files are in the process of being completed).

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

In 2008, Rhodia completed pre-registration (the first stage in the implementation of REACH from June to December 2008) of 736 substances. Out of these 736 substances, three of seven CMR substances listed in the Rhodia "red line" might potentially be subject to authorization under the REACH regulation as CMR 1 and 2.

In 2006, the European Commission estimated that a total of 30,000 substances would have to be registered under REACH by all European industrial producers and importers. Out of these 30,000 substances, it also estimated that 700 to 800 CMR substances would be subject to authorization.

*(18) Globally Harmonized System of Classification and Labeling of Chemicals (UN GHS)*
*(19) Classification, Labeling and Packaging of substances and mixtures (Regulation (EC) No 1272/2008)*
*(20) Rhodia product composition database*
*(21) The risk evaluation leaflets and files are related to an "activity" (procedure or method of operation) implementing a CMR at a site (these notions are defined in the Group's Responsible Care® reporting procedure glossary DRC 06-01).*
*(22) A CMR used several times at the same site is posted only once. The same CMR used for several sites is posted several times.*
*(23) This regulation modifies Annex VI of Regulation (EC) 1272/2008 in order to take into account amendments made to Annex I of Directive 67/548/EEC by Directive 2008/58/EC containing the thirtieth adaptation of the technical progress of Directive 67/548/EEC by the Council and by Directive 2009/2/EC thirty-first adaptation to the technical progress of Directive 67/548/EEC by the Council. These measures are adaptations to technical and scientific progress pursuant to Article 53 of Regulation (EC) No. 1272/2008.*

## Internal organization to comply with the REACH regulation

In early 2008, Rhodia implemented a worldwide "project" organization to create a working network between RHODIA Enterprises ("Product Stewardship", business and industrial team), shared Support Functions (Information System, Legal, Purchasing, R&D, Finance, Industrial-DRC/HSE) and the team of Experts in Toxicology, Eco-toxicology and Regulations of DRC.

This project is monitored by:

- a monthly Steering Committee Meeting bringing together Business Unit/REACH leaders and Support Functions;
- a quarterly meeting of Corporate Managers and Support Functions that determines:
  - the policy, rules (for example, capitalization of expenses) and the long-term vision, and
  - the implementation of REACH within Rhodia, specifically in terms of costs and resources.

In 2008, progress with the REACH project was marked by:

- the continuation of the inventory of substances subject to pre-registration and implementation of tracking tools for substances produced and imported by Rhodia in Europe;
- the continuation of the REACH action plan with Rhodia's raw materials suppliers in order to ensure pre-registration of these substances;
- the installation of IT tools (IUCLID5, REACH IT, etc.) developed by the Helsinki-based European Chemicals Agency (ECHA);
- the evaluation of the "strictly controlled conditions" status of intermediates isolated from the first tonnage band (subject to registration by December 1, 2010). These evaluations show, on the one hand, that the production and use of these intermediates are controlled thanks to an HSE management system and, on the other hand, that health and environmental exposures are controlled by Rhodia; and
- the pre-registration of all the substances manufactured or imported by Rhodia and contained in the products that Rhodia puts on the market in the European Economic Area, i.e. a total of 736 substances that it expects to register.

The year 2009 was again marked by intense activity, including specifically:

- the continuation of the "strictly controlled conditions" status evaluation of intermediates isolated from the first tonnage band (subject to registration by December 1, 2010);
- participation in consortia or SIEFs (jointly with other producers and importers of identical substances) in order to exchange data and prepare for the registration of substances from the first tonnage band (subject to registration by December 1, 2010);
- the identification of Rhodia product uses and customer exposures in order to prepare the risk evaluation stage (exposure scenarios, Chemical Safety Report) and communication in the supply chain [24]; at the same time, Rhodia also identified its raw materials uses in order to inform its suppliers by December 1, 2009 for substances in the first tonnage band to be sure that its uses are taken into account in their registration files;
- the preparation of Classification, Labeling and Packaging Sheets under GHS and the CLP regulation. In order to facilitate the deployment of the GHS system within the Group and the implementation of CLP, the DRC has developed information-sharing tools and a worldwide project group in order to prevent regions from producing contradictory classifications between countries for one same product;
- the registration of the first substances.

*(24) Supply Chain includes supply, production and logistics.*

# 3.3 Rhodia's commitments to its employees

It is because of the involvement and skills of its employees at all levels that the Rhodia Group achieves its economic performance and growth objectives. Creating the conditions for this involvement is the chief objective of the Human Resources policy, which provides employees with the means to fulfill their mission on a daily basis, as well as grow professionally and blossom in their work environment.

Human Resources also has the task of fashioning the Group's identity worldwide. This is something it accomplishes by deciding and implementing transverse policies executed consistently in all countries where Rhodia operates, observing local identities and needs.

**The Human Resources policy is organized around the following five major principles:**

- a motivating and fair compensation and fringe benefits policy to attract talent and build loyalty at all levels of the organization;
- performance management for fact-based and transparent evaluation of performance and skills with the objective of professional recognition and development;
- an individual development policy to identity and manage talent at all levels of the Company, involving managers in developing their employees' skills and building a professional track encouraging transversality within the Group;
- a policy of labor and management dialogue to develop constructive quality consensus conditions locally and close communication at each site, encouraging "active listening" of the social climate, the guarantee of a good quality of life at work;
- a strong contribution to developing the Rhodia culture by managing the right balance between the Group's core values and local variations, especially by building a wealth of strong trust throughout the organization.

Rhodia is a Group whose identity is based on very specific values. Human Resources, the guarantor of these values, translates them into rules of conduct widely disseminated within the Company by relying on "skills" training and the sustainable development framework, the *Rhodia Way*®.



## 3.3.1 CHANGE IN STAFF AND EMPLOYMENT: MAJOR TRENDS

As of December 31, 2009, the Rhodia Group had 13,581 employees worldwide for all its activities. After eight years of significant decreases and a leveling off in 2007 (+ 0.4%), Rhodia reduced its staff by 6.6% at a constant rate and in the midst of the crisis that affected a large number of countries.

In 2009, 59% of hires were made in Asia and Latin America. Overall, the portion of Rhodia staff in these two regions continues to increase, going from 27% in 2003 to 42% in 2009, which largely reflects the Group's growth strategy. The portion of staff in developed countries was 58% in 2009 (including 46% in Europe and 12% in North America).

The age pyramid is balanced with a 14% rate of employment of those over 55 years old.

The tables below show the total number of employees on indefinite- and definite-term employment contracts, excluding temporary personnel, which are subject to a specific analysis. These data are presented based on a historical scope of consolidation as of December 31st of each year:

### Change in total staff

| | 2007 | 2008 | **2009** |
|---|---|---|---|
| Change in staff | 15,530 | 14,353 | 13,581 |

## Comparison of jobs created/eliminated (excluding effect of changes in the scope of consolidation)

| | 2007 | | 2008 | | **2009** | |
|---|---|---|---|---|---|---|
| | Recruits | Departures | Recruits | Departures | **Recruits** | **Departures** |
| North America | 173 | 119 | 110 | 156 | 95 | 158 |
| Latin America | 272 | 221 | 201 | 297 | 152 | 320 |
| Asia Pacific | 341 | 232 | 243 | 237 | 129 | 479 |
| Europe | 406 | 561 | 246 | 591 | 103 | 481 |
| **TOTAL** | **1,192** | **1,133** | **800** | **1,281** | **479** | **1,438** |

## Change in total staff by geographical zone

| | 2007 | 2008 | **2009** |
|---|---|---|---|
| France | 34% | 31% | 32% |
| Europe excluding France | 14% | 15% | 14% |
| North America | 11% | 11% | 12% |
| Latin America | 20% | 21% | 21% |
| Asia/Pacific | 21% | 22% | 21% |

## Breakdown of total staff by age as of December 31, 2009

| Age | % |
|---|---|
| < 18 years | 0.10% |
| from 18 to 24 years | 3.41% |
| from 25 to 34 years | 21.12% |
| from 35 to 44 years | 31.90% |
| from 45 to 54 years | 29.47% |
| > 55 years | 14.00% |
| **TOTAL** | **100.00%** |

In 2009, 21.3% employees had the status of manager, of which 27.1% were women (remaining steady compared to 2008). Out of the managers, 280 were executives, of which 10.7% were women, an increase of 8% since 2007. Overall, women made up 22.9% of the Group's staff.

## Breakdown of total manager and non-manager staff by geographical zone

| Zone | Manager | Non Manager | Total |
|---|---|---|---|
| North America | 3.8% | 8.6% | 12.4% |
| Latin America | 3.1% | 17.9% | 21.0% |
| Asia/Pacific | 3.4% | 15.9% | 19.3% |
| Europe | 11.1% | 36.2% | 47.3% |
| **TOTAL** | **21.4%** | **78.6%** | **100.0%** |

## Breakdown of total manager and non-manager staff by sex

| | Women | Men | Total |
|---|---|---|---|
| Total Managers | 27.1% | 72.9% | 100.0% |
| of which Executives | 10.7% | 89.3% | 100.0% |
| of which Other Managers | 28.8% | 71.2% | 100.0% |

Concerning temporary personnel, the economic crisis led in some countries to a very sharp decrease in this type of contract, reducing this staff worldwide to 242 at the end of 2009, compared to 601 at the end of 2008. The breakdown at the end of 2009 between emerging countries and developed countries was relatively homogeneous, i.e. 47.1% in Asia and Latin America and 52.9% in Europe and North America.

## Breakdown of the average number of temporary personnel

| | 2007 | 2008 | **2009** |
|---|---|---|---|
| North America | 5.0 | 7.3 | 36.8 |
| Latin America | 157.3 | 130.1 | 34.3 |
| Asia/Pacific | 237.2 | 202.3 | 80.0 |
| Europe | 329.3 | 261.1 | 91.3 |
| **TOTAL** | **728.8** | **600.8** | **242.4** |

# Diversity

In October 2004, the Group signed the Diversity Charter in France, which committed 60 major French companies in a voluntary program to promote diversity within them in all forms. Within this context, Rhodia entrusted a team from the University of Évry with the task of evaluating the degree of assimilation of the concept of diversity by the Group's body corporate (status of awareness of the Group's policy on the subject, diversity as experienced on a daily basis, signs of progress, etc.).

In early 2007, the results of this study were presented simultaneously to the Advisory Board and to labor union organizations for purposes of sharing and building a consensus on actions to be undertaken. A consensus was reached to carry out a stronger offensive in favor of employing people with reduced employability. Negotiations on this subject will be started in 2010 with corporate partners.

In 2008, a diversity training course was taught in France to Human Resources Department personnel, especially those involved in recruiting, specifically to explain the challenges and the need to apply exemplary practices in this area.

In Brazil, Rhodia launched a program in 2007 to hire disabled persons. This program, which includes a plan for training and adaptation to work stations and their environment, was continued in 2008. It also includes actions with management to integrate this population. Accordingly, 73 individuals were hired in 2007, 44 in 2008 and 19 in 2009.



## 3.3.2 DEVELOPING A RICH AND BALANCE CORPORATE DIALOGUE

Regular dialogue with corporate partners, present at most of Rhodia's sites around the world, is an integral part of the Rhodia culture.

The Group's Management is mindful of keeping personnel representatives informed in complete transparency with the intention that together everyone can better prepare for economic, social and organizational changes. This approach aids the expression of the sense of responsibility of corporate partners and the parties' capacity for joint commitment.

This shared culture made possible the signing in 2004 of an agreement to establish a Strategic Dialogue Body (SDB), bringing together the Chairman of Rhodia and his general managers, along with French union coordinators and the secretaries of European Works Councils and of the France Group Committee.

This body, which has met 13 times since its creation, is a major venue for exchanges on the Group's strategy.

Corporate dialogue manifests itself also in heavy negotiations for collective bargaining agreements concerning employees.

In France, the following were also signed at the Group level in 2009:

- an agreement on the Company Savings Plan, making it possible for employees to invest their money in a joint investment fund geared toward corporate saving; Rhodia agreed at this time to match these sums;
- a profit-sharing agreement connected to achievement of results in terms of free cash flow;
- two salary agreements: the one for 2009 is one of the best signed in France in the midst of the crisis, as well as one for 2010: the effort made by the Group with its proposals puts Rhodia's budget for wage increases among the highest in the industry in France for 2010;
- an agreement on the second part of employee careers, aimed at ensuring employee development and motivation: highlights include the creation of a career-end grandparental leave allowing for a transition between professional life and retirement, and the mechanism of reverse mentoring, which allows younger employees to aid older ones especially in terms of using new technologies; and
- an agreement on partial unemployment during times of crisis allowing for compensation to be continued up to a certain salary threshold.

In general, a new method of working with employee representatives was instituted in France with the mutual establishment of a corporate agenda ensuring the scheduling of subjects discussed at a systemic weekly meeting.

Lastly, the first worldwide Social and Environmental Responsibility agreement, which was signed by Rhodia in 2005 with the International Federation of Industry Employees (*Fédération Internationale des Salariés du Secteur* – ICEM), was updated and renewed in 2008 (see Chapter 3.1.3 – A worldwide social and environmental responsibility commitment – in this Reference Document). ICEM members traveled with Rhodia management to different Group sites: after China and Brazil, a trip to the United States took place in December 2009.

## 3.3.3 DEVELOPING SKILLS AND ENCOURAGING EMPLOYEE TRANSFERS

Aiding the advance planning of job requirements, the skills development policy is based on procedures aimed at identifying Group needs by job categories as far ahead as possible. These data are supplemented by detailed knowledge of the skills acquired or to be developed by each of our employees and their desires for advancement.

The fundamental procedure, which guarantees this level of knowledge, is the annual performance and development interview (APDI). It has been implemented among 100% of the Group's executives and among approximately 70% of non-executive employees. The objective going forward is to cover 100% of the staff worldwide.

The APDI facilitates the training and transfer process at Rhodia. In fact, during this interview, a manager and employee make an in-depth analysis of behavior and technical aspects, in order to identify strong points and areas for improvement. They then determine the development tracks necessary for individual performance. This analysis allows for reflecting on professional advancement and its inclusion in the Group's transfer and career management process.

### 3.3.3.1 Transfer management policy and process

The challenge of the transfer policy is to encourage in-house transfers of employees while capitalizing on local employees' expertise and skills. Its implementation is based on coordinated international management of the different job categories.

Led by the Group Human Resources network, the transfer process is applied in each country for positions created locally. For international positions essentially concerning executives, transfers are organized by Geographic Zone. At the same time, through the "career opportunities" section on the Intranet, employees can learn of and apply for positions to be filled within the entire Group.

The transfer process is based on two tools widely disseminated within the Group:

- the Progression, Development and Succession Plan (PDSP), "intended to anticipate changes and replacements to be made" is sent to all managers. Disseminated worldwide according to a very strict annual schedule, it allows for preparing succession plans on the basis of individual advancement plans;
- the advance planning of jobs and skills involves all job categories. It involves a collective approach implemented within the Group, which translates in France in particular into agreements with corporate partners.

The performance of the transfer process is currently measured by in-house and geographic transfer criteria.

## In-house transfers

In 2009, in-house transfers of Group executives were estimated at 20%. More specifically, 16.5% of Group executives received a lateral transfer or a promotion, of which 3.5% were international.

## Geographic transfers

Due to the economic difficulties experienced in 2009, the number of employees receiving international transfers decreased and this occurred proportionately to the change in Group staff.

This decrease is associated with the limitation of new assignments in 2009 combined with numerous returns due to the expiration of expatriation contracts.

| | 2004 | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|---|
| Number of expatriates, "opportunity assignments," and short-term assignments | 121 | 111 | 137 | 132 | 114 | 106 |

### Breakdown of employees receiving international transfers by geographical zone as of December 2009

| Area | Expatriates NCC/MILD | Opportunity + | Short-term Assignments | Total |
|---|---|---|---|---|
| Asia | 33 | 16 | 2 | 51 |
| Europe | 13 | 10 | 3 | 26 |
| Latin America | 7 | 1 | 0 | 8 |
| North America | 7 | 13 | 1 | 21 |
| **TOTAL** | **60** | **40** | **6** | **106** |

### 3.3.3.2 Training management policy and process

Rhodia's training policy aims to provide the Group's 13,581 employees with the same number of hours of training regardless of their position, the unit they belong to or their geographical location.

To train the largest number of employees, Rhodia has chosen to value the wealth of internal knowledge by relying on the skills of some employees, who agree to give their time above and beyond their specific job to share their expertise for the benefit of those interested in it. External training programs are thus limited to the acquisition of new skills or the enrichment of internal programs.

The training management system is facilitated by the APDI and by annual "Group Training Guidelines," structured according to two principles:

- the specific responses to the challenges specific to job categories, Enterprises or Departments, or to local, national or regional challenges; and
- the development of a Rhodia culture through the implementation of transverse programs within the Group, focusing on operational excellence, behavioral excellence and business expertise.

All of the individual needs expressed during the APDI are consolidated at the level of each country, then prioritized within the general framework provided by the "Group Training Guidelines." This process allows for creating training plans specific to each country. Their proper implementation is a pledge to each employee's successful individual development, which success contributes to the Group's overall growth.

The performance of the Rhodia Training process is currently measured by different indicators for which the changes are shown in the tables below:

| | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|
| Investment indicator per person *(€/person)* | 317 | 357 | 290 | 186 |

| Average number of hours of training per year per employee and per job category | 2008 | **2009** |
|---|---|---|
| **TOTAL** | 19 | **27** |
| Managers | 22 | 33 |
| Non managers | 18 | 26 |

| Average number of hours of training per year per employee | **2009** |
|---|---|
| **TOTAL** | 27 h/employee |
| Of which Internal | 16 h/employee |

### *Focus 2009: Internal training, power driver and accelerator of growth*

The economic crisis and the associated cost-cutting efforts prompted Rhodia to revise its training guidelines at the beginning of the year. The Group nevertheless signaled its intention to maintain its investment and to resort systematically to internal training to develop its employees' skills.

In 2009, Group employees had 27 hours of training on average, an increase of 42% compared to 2008, in a very tight budgetary situation. Out of these 27 hours per employee, more than 16 hours were provided in-house. In 2009, 80% of Group employees had training, with more than 95% in the Asia region and 85% in the Latin America region.

The tool behind this improvement was the creation in 2009 of a worldwide catalogue grouping together all the training courses taught internally. This project mobilized all training players worldwide. After full identification of the internal training offerings, 150 courses were included in the catalogue. At the same time, 550 voluntary instructors were mobilized.

These courses enabled the major training plan objectives stipulated by the 2009 "Training Guidelines" to be met:

#### Strengthening operational excellence

- Continued implementation of the Six Sigma program based on a five phase methodology "define, measure, analyze, improve, control", to improve the performance of the processes and the procedures to reduce the variability of defaults. In 2009, the worldwide group of experts trained in the Six Sigma method was enriched with 28 black belts and 68 green belts. Ten training sessions were organized throughout the world, in each of the Group's major zones (7 in Europe, 1 in Brazil and 2 in the United States), bringing the total number of experts to 140. In 2009, 90 new projects generated €20.3 million in savings.
- Intended for all information systems users, the new "IT Security Management" course trained more than 500 employees in Asia-Pacific, and a pilot started up in Brazil. This program seeks the assimilation of fundamental rules for the protection of Rhodia's information and the implementation of related good practices.

#### Strengthening behavioral excellence

- Continued implementation of the observation and development procedure. Specifically, instructor training sessions were scheduled in the United States and Asia in order to ensure the excellence of the instructors in charge of teaching this program.
- Local initiatives on more general programs intended to improve knowledge of the Group are being implemented: in Asia, 50 people already took the "Rhodia Knowledge" course, which aims to improve knowledge of the Group's Companies, business units and products.

#### Strengthening business expertise

- The first Rhodia Finance for Financiers university has opened its doors. Its objectives are to disseminate and improve understanding of financial subject and accelerate the integration of new arrivals. Implemented in each region, it mobilized 12 in-house instructors for 90 participants for a full week in Europe. This course, which furthers expertise and performance, will be repeated each year.

## 3.3.4 MONITORING PERSONAL HEALTH AND SAFETY

Rhodia makes its employees' health and safety a priority. Providing good working conditions and controlling risks are daily concerns for the Group.

To this end, Rhodia has implemented systematic preventive procedures with regard to its own employees, as well as third parties working at its sites and communities neighboring its plants.

In 2006, with regard to a "red line" in its Management Book (see Chapter 5.1.2.1 of this Reference Document), the Group developed a procedure for managing CMR products (carcinogens, mutagens, and substances toxic for reproduction) that provides a framework for substitution possibilities and risk management (see Chapter 3.2.7 of this Reference Document).

The Rhodia Group's mobilization in the areas of health, safety and the environment has translated into a very specific commitment by managers in the field. In this regard, the "Safety" inspections by members of the Group Executive Committee and the "Safety" inspections by upper management ("*VSH*"), carried out by the Management Committees of Rhodia Enterprises, have helped raised awareness and motivate staff. The average VSH rate per Company Management Committee member remained steady at 7.5 in 2009.

Rhodia has numerous methods at its disposal, most of which are based on conduct to improve the application of good practices by employees in terms of safety. Thus, in 2009, 90% of employees were involved in an improvement measure in terms of health, safety and the environment. The development of measures on human and organizational factors in safety (HOFS) with the preparation of a program known as "VIGILANCE," plus the hiring of an HOFS contact person were two significant acts in 2009 for the Rhodia Group in its desire to maintain its current performance on safety matters.

Forty-eight occupational diseases, recognized or likely to be recognized as such, were identified in 2009 throughout the Rhodia Group's sites. These 48 illnesses were all in France. The majority of these diseases are the result of past exposures, primarily to asbestos (85%), antedating the creation of Rhodia. In fact, the latency time for asbestos diseases is generally high between the initial exposure and the first clinical X-ray manifestations (most often between 30 to 40 years). In many cases, the Rhodia Group nevertheless assumes the consequences of these diseases.

### Safety Results

Since 2006, the Group has developed overall frequency rates that take into account all the people working at its sites. This demonstrates Rhodia's desire to treat all players concerned by HSE issues in a uniform manner.

Starting in 2007, Rhodia decided to present more precise results (2 digits after the decimal), which will allow for better evaluating the progress made on Safety indicators (data provided on the basis of the historical scope of consolidation).

| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| TF1 Personnel working at a Rhodia site (1) | 0.9 | 0.7 | 0.67 | 0.59 | 0.62 |
| TF2 Personnel working at a Rhodia site (2) | 2.1 | 1.5 | 1.43 | 1.18 | 1.18 |
| TF1 Rhodia Personnel (3) | 0.8 | 0.5 | 0.50 | 0.63 | 0.60 |
| TF2 Rhodia Personnel (4) | 1.8 | 1.1 | 1.18 | 0.91 | 1.04 |
| TG Rhodia Personnel (5) | 0.05 | 0.04 | 0.05 | 0.05 | 0.05 |
| Occupational diseases for Rhodia personnel | 41 | 57 (10) | 53 (10) | 69 (10) | 48 (10) |
| TF1 Temporary workers (6) | 1.4 | 1.7 | 2.57 | 1.05 | 0 |
| TF2 Temporary workers (7) | 2.3 | 2.3 | 3.22 | 2.11 | 0 |
| TF1 Outside contractors (8) | 1.1 | 1.2 | 0.82 | 0.46 | 0.71 |
| TF2 Outside contractors (9) | 3.0 | 2.6 | 1.79 | 1.68 | 1.65 |
| Number of deaths of Rhodia personnel, outside contractors and temporary workers | 0 | 0 | 1 | 0 | 0 |

*(1) Frequency rate of accidents leading to a work disruption for one full day (or more), in addition to the day of the accident, for Rhodia personnel, temporary workers and companies not belonging to the Group working at Rhodia sites, measured in number of accidents occurring per million work hours.*
*(2) Frequency rate of accidents leading to a work disruption or not for Rhodia personnel, temporary workers and companies not belonging to the Group working at Rhodia sites, measured in number of accidents occurring per million work hours.*
*(3) Frequency rate of accidents leading to a work disruption for one full day (or more), in addition to the day of the accident for Rhodia personnel, measured in number of accidents occurring per million work hours.*
*(4) Frequency rate of accidents leading to a work disruption or not for Rhodia personnel, measured in number of accidents occurring per million work hours.*
*(5) Severity rate of accidents with a work disruption for Rhodia personnel, measured in number of work days lost per thousand work hours.*
*(6) Frequency rate of accidents leading to a work disruption of one full day (or more), in addition to the day of the accident for temporary workers employed by Rhodia Group sites, measured in number of accidents occurring per million work hours.*
*(7) Frequency rate of accidents leading to a work disruption or not for temporary workers employed by Rhodia Group sites, measured in number of accidents occurring per million work hours.*
*(8) Frequency rate of accidents leading to a work disruption for companies not belonging to the Rhodia Group but working at Rhodia sites, measured in number of accidents occurring per million work hours.*
*(9) Frequency rate of accidents leading to a work disruption or not for companies not belonging to the Rhodia Group but working at Rhodia sites, measured in number of accidents occurring per million work hours.*
*(10) Recognized or likely to be recognized subsequently, as defined in the Group's internal procedure (DRC 28) on the process for managing occupational diseases.*

The TF1 frequency rate (accidents with work disruptions for all people working at Group sites), which is the only one widely reported by all industrial companies, has been below 1 for five years now, a level that ranks Rhodia among the best worldwide [25] in the chemical industry in terms of occupational safety results. In 2009, this rate was close to the value for 2008, i.e. 0.62.

The TF2 frequency rate (accidents with or without work disruptions) remained at a level of excellence for chemical and petrochemical companies with a value close to 1.

The Group nevertheless regrets to report accidents with irreversible injuries, which have led it to implement and monitor a specific "restated severity rate," enabling better management of the "Individual Workplace Safety" process. Implemented in 2007, this trend indicator showed the same degree of severity at the end of 2009 as in 2008, regardless of the number of accidents, which decreased over the same period. The reduction achieved after two years of monitoring this indicator, and the lessons drawn from it, have allowed specifically for justifying the implementation of an awareness/action program known as Vigilance, the objective of which is to promote prudent and responsible conduct by operatives in their daily tasks.

## 3.3.5 HYGIENE, HEALTH AND SAFETY INVESTMENTS IN 2009

In 2009, the investments in hygiene, health and safety for the entire Group amounted to €21.9 million.

*(25) Ernst&Young Study – February 2009 – according to data disclosed by companies*

# 3.4 Rhodia's commitments in relations with local communities

## 3.4.1 CONTROLLING FACILITIES-RELATED INDUSTRIAL RISKS

### Evaluating risks associated with facilities and processes

Controlling Rhodia's industrial risks is based on a precise evaluation of existing risks. To this end, there is a safety audit program for all Group facilities. These extremely detailed "Safety Procedure" audits evaluate the potential risks associated with both products and processes and are reviewed every five years. This program relies on a network of process safety experts supported by process managers responsible for validating the transition from one phase of a project to another, both in terms production as well as safety. The objective of these procedures is to prepare the prevention and protection measures required for all sites and facilities and to analyze all processes in action in order to evaluate the risks by detecting key parameters.

Rhodia's objective is to conduct or to have reviewed a safety audit suitable for its risks within the past five years for each facility.

A process safety risk analysis has been performed for 83% of the facilities in less than 5 years. The effort has focused primarily on facilities classified as Seveso or the like (for countries outside of the European Union) for which a coverage rate of 98% [26] has been achieved.

In its reporting as of December 31, 2009, Rhodia identified 27 "high or low tier" Seveso sites or the like throughout the world (including 13 in Europe), likely to put the health or safety of neighboring populations and the environment at risk due to the danger of explosion or emissions of harmful products.

All accidental events caused by a process-related malfunction are recorded and analyzed. Rhodia tracks the number of these "accidents" worldwide classifying them by level of severity: C (catastrophic), H (high), M (medium), L (low).

| | 2005 | 2006 | 2007* | 2008* | **2009*** |
|---|---|---|---|---|---|
| Number of category C "process" accidents | 0 | 0 | 0 | 0 | 0 |
| Number of category H "process" accidents | 1 | 3 | 2 | 3 | 2 |
| Number of category M "process" accidents | 45 | 19 | 37 | 48 | 53 |
| Number of category L "process" accidents | N/A | N/A | 112 | 324 | 267 |

* *Starting in 2007, Rhodia changed the scope of its reporting of "process" accidents. In fact, the Group has implemented two separate reports, making the cause of accidents more visible (accidental or chronic cause).*

Process safety improvements are part of an ongoing improvement approach with continual efforts by the Group's sites.

In 2009, for the ninth consecutive year, no category C (catastrophic) event occurred.

In addition, the number of H (high) level accidents is low and has remained the same from one year to another for four years.

Lastly, in order to improve the safety of its processes, in 2007 Rhodia began reporting L (low) level accidents. Awareness by the principal players of this new report made for improved thoroughness in 2008, which explains the increase in the number of accidents in this category compared to 2007. The 2009 results confirm the 2008 value. Analyzing their principal causes has brought several work aspects and in particular one action in the Human and Organizational Factors (HOFS) area, in this sense merging with the "Vigilance" program (see Chapter 3.3.4 in this Reference Document).

Lastly, in France, risk analysis efforts were kept on track with the continued preparation of files for Technological Risk Prevention Plans (TRPP) pursuant to the law by the same name of July 30, 2003.

*(26) Indicator based on cumulative percentages of coverage of each unit.*

## Defining emergency plans to manage any type of accident situation

Rhodia's objective is to produce emergency plans for each entity and each activity suitable for the risks identified. Rhodia makes significant accident prevention efforts focusing on a "zero accident" objective. Since zero risk does not exist, the Group prepares itself for different types of accident situations, whether they are industry-, transport- or product-related. Given the variety of risks, the Group has prepared emergency plans at different levels of the organization: Group, country, Enterprises and industrial sites. The emergency plans define the roles of each entity according to the type of crisis encountered and precisely how the different entities must coordinate with each other to ensure effective management. The objective is for each company to implement (or revise) an emergency plan suited to its activities.

Since employee preparedness for emergency interventions is indispensable for acquiring good reflexes and acting proactively, training is provided especially in the principal countries where the Group has an industrial presence. These worldwide crisis management training programs emphasize the importance of coordination, cohesion and mobilization of expertise (inside and outside the Group), as well as the different stages of crisis situations.

In 2009, 98% of the entities tested their emergency plan within three years (97% reviewed their emergency plan within less than three years). This achievement, confirming the progress made last year, demonstrates that this practice is by now permanently established at almost all the Group's operating entities.

In transport, the change in the number of accidents was as follows:

| Historical scope of consolidation | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Number of accidents | 23 | 22 | 25 | 22 | 24 |

More specifically, concerning transport accidents:

- close to 50% of accidents are still due to events occurring during transport, which is why carrier awareness actions will be continued in 2010;
- 50% of accidents occur during loading or unloading operations, which is why procedures are reviewed at sites to try to remedy these malfunctions.

Rhodia pays special attention to the choice of its carriers, based on data from the European Chemical Industry Council (CEFIC). In addition, as part of the Group's sustainable development approach, the Purchasing Department has implemented and disseminated a sustainable development and corporate social responsibility (CSR) questionnaire in the new supplier selection stage. Lastly, an annual performance evaluation process is in place in the Europe zone.

The following actions, initiated several years ago, were continued in 2009 in the transport area:

- pursuant to international transport regulations, Rhodia sites have implemented transport security plans for ***high consequence dangerous goods***. "Security" is understood as measures or precautions taken to minimize theft or improper use of dangerous goods that could imperil people, goods or the environment;
- following the commitment made by Rhodia in 2003 to fight against terrorism as part of the voluntary US C-TPAT ***(Customs Trade Partnership against Terrorism)***, the U.S. Customs & Border Protection conducted an audit in 2006 on three of Rhodia's French sites. The inspectors estimated that certain good practices implemented at these sites could be considered as examples that should be publicized. In 2007, they awarded Rhodia Inc. the highest level achievable (Tier III). After audits made by the U.S. Customs in India and the United States, the three-year "recertification" by the U.S. Customs is expected in 2010;
- 100% of the Rhodia sites shipping goods to the United States implemented an extensive transport security plan in 2009 in keeping with C-TPAT requirements;
- a clause on transport security vis-à-vis terrorist threats was introduced into new transport contracts. It provides that when transport flows entrusted to providers involve shipping goods intended for the United States in maritime containers, these providers must meet the requirements of the voluntary US C-TPAT commitment;
- an international emergency information number, operating 24 hours a day, 365 days a year, should be implemented during 2010 in order to respond to any request from customers, local authorities, etc. It will enable the Group to have knowledge very quickly of events (such as transport accidents) and to respond as fast as possible to provide expertise and assistance to the caller.

Lastly, in France, Rhodia was designated in 2009 as "Operator of Vital Importance" (OIV), pursuant to the French SAIV (Sectors of Activity of Vital Importance) decree pursuant to Articles L.1332-1 *et seq.* of the Defense Code. This regulation amends the vigilance and protection regime for facilities that are most sensitive for the nation's defense and national security in keeping with the governmental Vigipirate and Orsec plans. It is part of an overall security initiative even though mention is made primarily of the risk of terrorism. Although it obligates an industrial company to take additional protective measures, in turn it ensures it the assistance of official protection forces. Consequently, Rhodia proposed in late 2009 that certain French sites be designated as Points of Vital Importance. The degree of protection associated with this regulation does not permit further information to be disclosed legally.

## 3.4.2 STRENGTHENING EXCHANGES AND DIALOGUE WITH LOCAL STAKEHOLDERS

### Proactive information and communication

As part of its industrial risk control policy, the Group also makes efforts to explain its actions outside of the Group. Opening up sites such as during open house days in France, as well as participating in local information and consensus-building committees (CLIC in France, Community Consultation Committees in the United States, etc.) contribute to information and dialogue with the populations neighboring Rhodia sites, elected officials and associations.

In 2009, Rhodia continued the application in France of the "emergency communication" initiative launched by the Union of Chemical Industries (UIC) and the Ministry of Ecology, Energy, Sustainable Development and Territorial Development. This initiative aims to quickly report even minor incidents occurring at the Group's production sites or during transport of its products. Applicable to all Rhodia production units in France, this proactive communication initiative strengthens the dialogue the Group maintains with neighboring populations, the local media, elected officials and other stakeholders.

Rhodia has achieved excellent results in this area, since 90% of its accidents were subject to emergency reporting, while the chemical industry (UIC) is at only one report for every two reportable accidents, i.e. 50%.

### Involvement in local life

In 2007, the Group created the Rhodia Foundation *(Instituto Rhodia)* in Brazil, which acts as an independent organization. Its purpose is to develop social and environmental projects in the country. From 2007-2013, the Foundation has funding from Rhodia in the amount of US$1 million (€735,000). Part of this endowment will come from the added value created by the greenhouse gas emissions reduction project at the Paulinia site in Brazil.

This foundation's first project, called *Alquimia Jovem* (Young Alchemy), is focused on educating disadvantaged or socially marginalized youths. It involves the communities near the Rhodia research center located in the region. The foundation serves 80 youths, 12 to 16 years old, who live near the Paulinia site in the state of Sao Paulo in Brazil. Twice a week, the youths practice a sports activity (soccer, basketball, or volleyball) and participate in exchanges on different issues (health, the environment, drugs, career counseling, etc.). Starting in 2009, the foundation's Board of Directors, made up of Rhodia executives and employees, as well as representatives of local civil society, will study the development of new projects.

Rhodia Brazil's support of the *Museu de Arte Jovem* (program bringing art and youth together) continued in 2007. Since March 2008, the Group has been developing a new project called *Memoria Local Na Escola*. Its objective is to make children and teachers reflect on the history of their community and to bring young and old together. This project is intended for children age nine to twelve and in two years has involved over 2,840 students and 134 teachers at 77 public schools in Santo Andre and in Paulinia, the city where Rhodia established its first Brazilian plant. Since the project's launch in 2008, exhibits at public places have shown the result of this work at the end of each year. For more information on the foundation and the projects it carries out, a dedicated Internet site has been created (in English and Portuguese): www.institutorhodia.com.br

# 3.5 Review report by one of the Statutory Auditors on a selection of environmental and safety indicators published in the Rhodia Group's 2009 reference document



This is a free translation into English of the review report by one of the Statutory Auditors issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Further to your request and in our capacity as Rhodia's Statutory Auditor, we have carried out a review for the purpose of enabling us to express moderate assurance on a selection of environmental and safety indicators listed below, based on historical Group structure for 2009 (all sites that belonged to Rhodia in 2009) and presented in sections 3.2.5 and 3.3.4 of the reference document:

- Air: greenhouse gases expressed in $CO_2$ equivalent, acidification (nitrogen and sulphur oxides) and tropospheric ozone (volatile organic compounds).
- Water: water withdrawals, eutrophication (nitrogen and phosphorus) and damage to the aquatic environment (chemical oxygen demand and suspended solids).
- Safety: Rhodia personnel (TF1, TF2, TG and deaths), contractors (TF1, TF2 and deaths) and temporary staff (TF1, TF2 and deaths), all personnel (Rhodia, contractors and temporary: TF1 and TF2).

The data are prepared under the responsibility of Rhodia's Senior Management in accordance with the Responsible Care reporting procedures (DRC 06 and the related glossary, DRC 06-01), which are available for consultation at corporate headquarters.

Our responsibility is to express a conclusion on the data based on our review.

## Nature and scope of our work

We conducted our work in accordance with professional standards applicable in France.

We carried out the procedures described below to obtain moderate assurance that no material irregularities exist with regard to the data. We did not perform all of the procedures required to obtain reasonable assurance (a higher level of assurance).

Our work was conducted at corporate headquarters and at six major sites worldwide, representing six operating units, selected on the basis of 2008 data (main contributors to environmental indicators or sites not visited in previous years):

- Chalampé (France)
- Zhenjiang (China)
- Freiburg Acetow (Germany)
- Houston Regen Acid (United States)
- Vernon (United States)
- St Fons Chimie Silcea (France)

Our work was conducted between December 2009 and the end of January 2010.

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

| | |
|---|---|
| Greenhouse gases ($CO_2$ equivalent, after elimination of intra-Group transfers) 2009 | 49% |
| Acidification (nitrogen and sulphur oxide emissions) 2009 | 32% |
| Tropospheric ozone (VOC emissions) 2009 | 33% |
| Water withdrawals 2009 | 54% |
| Eutrophication (nitrogen and phosphorus emissions) 2009 | 50% |
| Damage to the aquatic environment: COD emissions 2009 | 47% |
| Damage to the aquatic environment: suspended solids 2009 | 20% |

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

| | |
|---|---|
| Rhodia personnel | 15% |
| Contract employees | 9% |
| Temporary staff | 10% |
| All personnel (Rhodia, contract, temporary) | 13% |

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

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

### *During site visits:*

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

– We reviewed the calculation methods used to determine Responsible Care reporting data, in particular for consistency and reliability.

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

– We performed an analytic review of the raw data used to calculate the 2009 indicators, compared with data for the previous year.

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

### *After the site visits, at corporate headquarters:*

- For the sites visited:

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

- For the sites that were not visited:

– We reviewed, on a test basis, the work carried out by the reporting managers to follow-up and explain the discrepancies between 2008 and 2009 data.

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

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

We were assisted in our work by experts from our Sustainable Development Department.

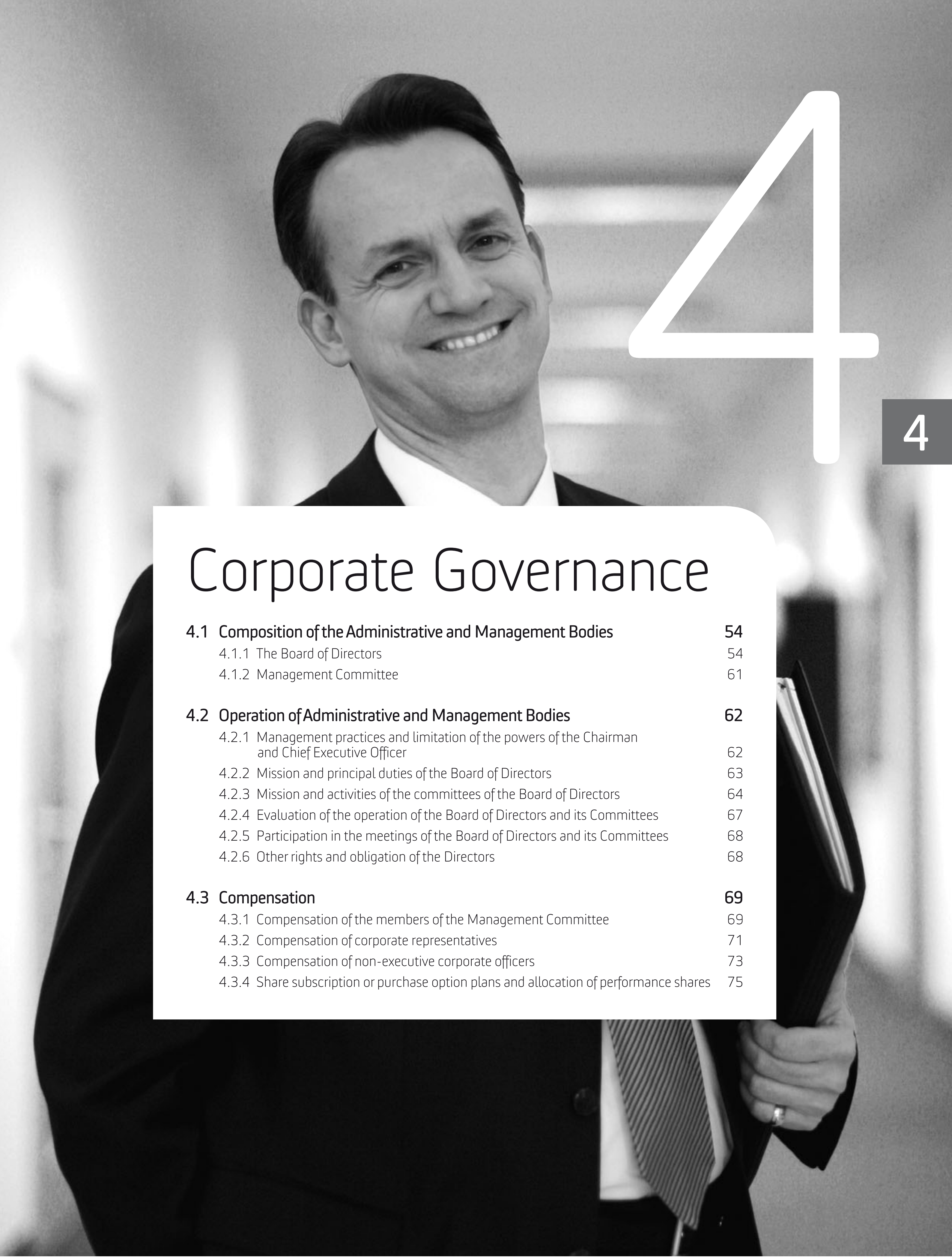
### Conclusion

Based on our work, no material irregularities came to light causing us to believe that environmental and safety data described in the first paragraph above do not comply, in all material respects, with the Group's Responsible Care reporting procedures applicable in 2009.

Neuilly-sur-Seine, February 15, 2010

PricewaterhouseCoopers Audit

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



4

# Corporate Governance

*This Chapter 4, supplemented by sections 5.1.1, 5.1.2, 7.3.4 and 7.4.8 of this Reference Document, constitutes the report of the Chairman on the corporate governance of the Enterprise and internal control pursuant to article L.225-37 of the Commercial Code. The Chairman and Chief Executive Officer submitted this report to the Board of Directors, which approved it during its meeting of February 23, 2010.*

Rhodia is committed to fully integrate the corporate governance good practices, recommendations and provisions of listed companies with the operating processes of its administrative and management bodies. The Company has therefore chosen to voluntarily refer to the AFEP-MEDEF Code, as amended in December of 2008, in particular with regard to the report required under Article L.225-37 of the Commercial Code. The Company believes that its practices are in conformity with the recommendations of such code and has not circumvented any of its provisions. The AFEP-MEDEF Code is available on the MEDEF website (www.medef.fr).

# 4.1 Composition of the Administrative and Management Bodies

## 4.1.1 THE BOARD OF DIRECTORS

### 4.1.1.1 Composition of the Board of Directors

The Board of Directors of Rhodia is currently composed of eleven directors. The Company's bylaws state that it must have a minimum of three and a maximum of eighteen members.

Since 2005, the directors have been appointed for four-year terms, with the internal rules of the Board of Directors also specifying that a non-executive Director cannot remain in office for more than 12 years. Renewals are spread over 2 consecutive years.

Two directors, Mr Jean-Pierre Clamadieu, Chairman and Chief Executive Officer, and Jacques Khéliff, Vice-President for Sustainable Development, exercise executive functions within the Group. The latter is also the Director representing employee shareholders.

In addition, the internal rules of the Board of Directors have provided, since November 3, 2009, that a Lead Independent Director be nominated by the Board of Directors on a motion presented by the Compensation, Selection and Governance Committee. Mr Michel de Fabiani has been carrying out this function since such date. His role is to be the special liaison between the Chairman and Chief Executive Officer and the independent directors, to be consulted in setting the agenda for the meetings of the Board and to chair the meetings of the Board in the event of the absence of the Chairman and Chief Executive Officer. Lastly, he may convene the independent directors.

The Company's bylaws provide that each director must hold a minimum of 100 shares.

#### Changes since the beginning of 2009

Since the beginning of 2009, the composition of the Board of Directors has undergone the following changes:

**Mr Pierre Lévi** resigned on February 25, 2009.

**Mr Henri Poupart-Lafarge** was co-opted on May 5, 2009 by the Board of Directors to replace **Mr Jérôme Contamine** who had resigned following his appointment as Chief Financial Officer of Sanofi-Aventis, a function which he considered incompatible with his mandate as director at Rhodia. The ratification of the election of Mr Henri Poupart-Lafarge will be proposed at the General Shareholders' Meeting on April 28, 2010.

**Mr Patrick Buffet** was appointed during the General Shareholders' Meeting of May 20, 2009.

In addition, **Mr Jacques Khéliff,** director since the General Shareholders' Meeting of June 23, 2005, was appointed director representing the employee shareholders during the General Shareholders' Meeting of May 20, 2009.

#### Presentation of the members of the Board of Directors at February 23, 2010

Among the criteria chosen for the selection of the directors are their expertise and their experience in management. The biographies below, as well as the tables appearing in Chapter 4.1.1.2, also give an indication of the experience and expertise of each director.

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

**Patrick Buffet** has been a director of Rhodia since May 20, 2009 and chairs the Strategic and Sustainable Development Committee of the Group. He has been Chairman and Chief Executive Officer of the Eramet Group, Chairman and Chief Executive Officer of Société Le Nickel and director of Comilog (companies of the Eramet Group) since April 2007. He is also a director of Bureau Veritas and of Banimmo Company (Belgium) and a member of the Supervisory Board of Arcole Industries. Between 2001 and April 2007, he was General Delegate and, member of the Executive Committee of Suez and a member of the Supervisory Board of Areva. From 1998 to 2001, he occupied the position of Deputy General Manager and Member of the Executive Committee of the Suez Lyonnaise des Eaux Group and Société Générale de Belgique. From 1994 to 1998, he was Industrial Portfolio Manager of Société Générale de Belgique, a subsidiary of Suez. From 1991 to 1994, Mr Buffet was Industrial Consultant to the Presidency of the Republic, after his position as Chairman and Chief Executive Officer of Sanders S.A. (1989-1991). Before that he had various responsibilities within the Ministry for Industry (Principal Private Secretary of the Energy Secretary, Technical Adviser to the Office of several ministers). Mr Buffet began his career as an engineer in the Corps des Mines as Mission Manager to the Prefect for the Rhône-Alpes region, then as projects manager (Responsable "Grands Projets")with the General Management of Energy and Raw Materials. He was born on October 19, 1953.

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

**Pascal Colombani** was appointed a director of Rhodia during the Shareholders' Meeting of June 23, 2005, and currently serves as member of the Strategic and Sustainable Development Committee and a member of the Compensation, Selection and Governance Committee. Mr Colombani has been a Senior Advisor of the strategy consulting office A.T. Kearney since 2003, the Chairman of the Board of Directors of Valeo and a director of Alstom, Technip, the British Energy Group (EDF subsidiary) and Energy Solutions. Mr Colombani held the chair of the Supervisory Board of Areva until 2003 and was managing Director and Chairman of the Board of Directors of the Atomic Energy Commission Commissariat from January 2000 to December 2002. From 1998 to 1999 he was the Director of Technology at the French Ministry of Education, Research and Technology, after having worked almost 20 years for Schlumberger in various positions in Europe, the United States, and Asia, presiding notably over a Japanese subsidiary of the Group in Tokyo. Mr Colombani began his career at CNRS and Lawrence Berkley Laboratory. He was born on October 14, 1945, and graduated from the École Normale Supérieure of Saint-Cloud in France, with a degree in physics (Aggregation) (1969) and holds a doctorate in physics (1974).

**Laurence Danon** has been a director of Rhodia since May 16, 2008 and is currently a member of the Strategic and Sustainable Development Committee of the Group. She joined Edmond de Rothschild Corporate Finance in 2007 as a member of the Executive Board and was appointed Chairman of the Executive Board in November 2009. She is a graduate of the Ecole Normale Supérieure (Ulm), and of the Corps des Mines, with a teaching qualification in Physics and a post-graduate diploma in Organic Chemistry, Laurence Danon began her career in 1984 at the Ministry of Industry as Head of Industrial Development and Research Division of the Picardy Region. In 1987, she joined the Department of Hydrocarbons of the Ministry of Industry as Head of Exploration-Production. In 1989, she joined the Elf Group where she successfully fulfilled commercial responsibilities within the Polymer Division. In 1991, she became Director of the Industrial Specialties Division before being appointed Director of the Worldwide Division of Functional Polymers. In 1996, she became Chief Executive of Ato Findley Adhesives, which became Bostik after merging with Total in 1999. Mrs Danon was appointed Chairman and CEO of Printemps in 2001. After the successful sale of Printemps in October 2006, she left her position in February 2007. Laurence Danon chairs the "New Generations" Commission of the MEDEF. She is also a member of the Board of Directors of Diageo Plc and Plastic Omnium S.A. and Lafuma, as well as a member of the Supervisory Board of BPCE. She was born on January 6, 1956.

**Michel de Fabiani** was appointed a director of Rhodia in April 2003 and currently serves as the Lead Independent Director and as a member of the Compensation, Selection and Governance Committee and a member of the Audit Committee. He is also the President of the Franco-British Chamber of Commerce and Industry, as well a Chairman of the Hertford British Hospital Corporation, a director of BP France and Valeo SA, and a member of the Supervisory Board of Vallourec. Abroad, he is a director of EB Trans Luxembourg. He was the Chairman and Chief Executive Officer of BP France from 1995 to 2004 and the Regional President of Europe BP Group from 1999 to 2004. He also previously served as the Chief Executive Officer of BP Oil Europe. He was born on June 17, 1945 and is a graduate of the École des Hautes Études Commerciales (1967).

Jacques Khéliff was appointed a director of Rhodia at the Shareholders' Meeting of June 23, 2005, upon a voluntary motion by the Board of Directors due to its interest in having a representative of employee shareholders on the Board. He was appointed a director representing employee shareholders at the Shareholders' Meeting of May 20, 2009. Since October 2003, he has been Rhodia's Vice President for Sustainable Development, after having joined the Group in November 2002 as Assistant and Special Advisor to the President for Sustainable Development. Mr Khéliff was the federal secretary of the Federation of Chemical Industry CFDT from 1984 and general secretary of the same Federation from 1987. At the same time, he became a member of the CFDT trade union's national bureau. He also was Vice President of the European Mine, Chemical and Energy Workers Federation (EMCEF). He started his career with Rhône-Poulenc at the Chalampé factory in 1972, where he was involved in CFDT trade union activities. Mr Khéliff was born on October 19, 1953.

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

Francis Mer has been a director of Rhodia since May 13, 2004 and currently serves as member of the Strategic and Sustainable Development Committee of the Group. He is also a director of Adecco (Switzerland) and Chairman of the Supervisory Board of Safran. Mr Mer served as Minister for the Economy, Finance and Industry in the French government from May 7, 2002 to March 30, 2004, and Chairman of the Board of Directors of Usinor-Sacilor and formerly of Arcelor from 1986 to 2002. In July 1982, he became Chairman and Managing Director of Pont-à-Mousson S.A. and a director of the Pipeline and Mechanical Engineering Division of the Saint-Gobain Group, after having been its deputy Managing Director in charge of industrial policy. He acted as Managing Director of Saint-Gobain Industries (1974 to 1978) and as Planning Director of Saint-Gobain Pont-à-Mousson (1973). He had joined the Saint-Gobain Group in 1970. He was born on May 25, 1939 and is a graduate of the École Polytechnique and the École des Mines.

Yves René Nanot has been a director of Rhodia since October 25, 2002. He served as the Vice President of the Board of Directors from October 3, 2003 to March 30, 2004, and as Chairman of the Board of Directors from March 31, 2004 to March 17, 2008. Since January 1, 2010, he is the Chairman of the Board of Directors of Ciments Français, having served as its Chairman and Chief Executive Officer since July 1993, Director of Provimi, Italcementi (Italy) and the foreign subsidiaries of Ciments Français in the United States, Morocco, India, Thailand, Turkey and Egypt. He served as Chairman and Chief Executive Officer of Total France, then as Chairman of Total Refining and Marketing and a member of the Total Group Executive Committee. Mr Nanot joined the Total Group in 1983, and was the Chairman and Chief Executive Officer of Hutchinson S.A. from 1983 to 1989. Mr Nanot started his career at Du Pont de Nemours in the United States of America, holding various positions in that company in France and in Europe between 1962 and 1983. Mr Nanot is a graduate of the École Nationale Supérieure des Arts et Métiers of Paris and holds an MBA and PhD from the University of California at Los Angeles (UCLA). Mr Nanot was born on March 27, 1937.

Henri Poupart-Lafarge has served as a director of Rhodia since May 5, 2009 and as Chairman of the Audit and Risk Committee of the Group. He has been the Chief Financial Officer of Alstom since October 2004 and is also the Chairman of Alstom Holdings. He began his career in 1992 at the World Bank in Washington DC before joining the Ministry of the Economy and Finance in 1994 in the Treasury Department, then in the cabinet of the Minister for the Economy and Finance. He joined Alstom in 1998. He is a graduate of the École Polytechnique, the École Nationale des Ponts et Chaussées and the Massachusetts Institute of Technology. He was born on April 10, 1969.

## Independence of the directors

Mrs. Laurence Danon and Messrs. Patrick Buffet, Aldo Cardoso, Pascal Colombani, Michel de Fabiani, Olivier Legrain, Francis Mer and Henri Poupart-Lafarge are considered independent directors, **representing 8 of the 11 members of the Board of Directors (72%).**

This ratio is higher than what is recommended by the AFEP-MEDEF Code, which recommends that only a majority of the members of the Board of Directors be independent.

In addition, **the Committees of the Board of Directors are entirely composed of independent directors** (details of the composition of the Committees are shown in Chapter 4.2.3 below). The AFEP-MEDEF Code recommends that the proportion of independent directors be half in the Compensation Committee and two thirds in the Accounts (or Audit) Committees.

In accordance with the AFEP-MEDEF Code and with its own internal rules, the annual evaluation of the independence of the directors was undertaken by the Board of Directors on a motion by the Compensation, Selection and Governance Committee during its meeting on January 13, 2010.

In carrying out this review, the Board of Directors (i) examined the situation of each director and any changes that might have occurred since the last review undertaken and (ii) referred to the definition of the AFEP-MEDEF Code which considers that a ***"director***

***is independent when he has no relationship of any kind with the corporation, its group or the management of either that is such as to colour his judgement."*** In addition, the Board took into account all the criteria of the AFEP-MEDEF Code to evaluate the independence of the directors, namely:

- not being an employee or officer of Rhodia, or an employee or director of a company which it consolidates, and not having been such during the past five years;
- not being an officer of a company in which Rhodia directly or indirectly holds a seat on the Board of Directors or in which an employee designated as such or an officer of Rhodia (currently or within the past five years) holds a seat on the Board of Directors;
- not being a customer, vendor, business or loan banker:
  - of any significance for Rhodia or its Group, or
  - for which Rhodia or its Group represents a significant share of business
- not having with a close family tie to a corporate officer;
- not having served as Rhodia's auditor during the past five years.
- Not having served as a Director of Rhodia for more than twelve years.

With regards to **Mrs. Danon, and Messrs. Cardoso, Colombani, de Fabiani, Legrain and Mer,** their situation as independent directors has not changed since their most recent qualification by the Board. They continue to meet the indicative criteria recommended by the AFEP-MEDEF Code in order to qualify as independent directors.

The Board of Directors also confirmed the qualification of independence of **Messrs. Poupart-Lafarge and Buffet**. They were qualified during the meeting of the Board of Directors on July 28, 2009, following their nomination to the Board of Directors on May 5 and May 20, 2009, respectively. It was, in fact, noted that they met all indicative criteria recommended by the AFEP-MEDEF Code for qualification as independent directors.

With regards to **Mr Yves René Nanot**, the Board of Directors decided not to apply this qualification in light of his having served as Chairman of the Board of Directors, from 2004 to 2008 and having received compensation associated therewith.

**Mr Jean-Pierre Clamadieu,** Chairman and Chief Executive Officer, and **Mr Jacques Khéliff,** Vice President for Sustainable Development of the Group, are not considered independent, because of their executive functions within the Group and the compensation associated therewith.



## 4.1.1.2 Information on the directors

| Name and additional information | Positions and other offices in French or foreign companies during the past 5 years | Professional activities during the past five years |
|---|---|---|
| **JEAN-PIERRE CLAMADIEU**<br>(born on August 15, 1958)<br>**Principal positions held in the Company:**<br>Chairman and Chief Executive Officer<br>**Status of the mandate:**<br>Co-optation on October 3, 2003<br>Ratification on March 31, 2004<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>140,934<br>In addition he holds, as PEE of Rhodia, 18,388 units of the FCPE "Rhodia Shares," corresponding to an equal number of Rhodia shares | *Current positions:*<br>*In France:*<br>Director of Faurecia* and SNCF | Chairman and Chief Executive Officer of Rhodia* since March 17, 2008<br>Chief Executive Officer of Rhodia from October 3, 2003 to March 17, 2008 |

** Listed companies.*

| Name and additional information | Positions and other offices in French or foreign companies during the past 5 years | Professional activities during the past five years |
|---|---|---|
| **PATRICK BUFFET**<br>(born on October 19, 1953)<br>**Principal positions held in the Company:**<br>Director<br>Chairman of the Strategic and Sustainable Development Committee<br>**Status of the mandate:**<br>Appointment on May 20, 2009<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>200 | *Current positions:*<br>*In France:*<br>Chairman and Chief Executive Officer of Eramet*<br>Chairman and Chief Executive Officer of Société Le Nickel and Director of Comilog (companies of the Eramet Group)<br>*Director of Bureau Veritas**<br>Member of the Supervisory Board of Arcole Industries<br>*Abroad:*<br>Director of Banimmo (Belgium)<br>*During the past five years and no longer exercised:*<br>Member of the Supervisory Board of Areva and Astorg-Partners<br>Director of CDC Ixis and various subsidiaries held mainly by Suez Group | Chairman and Chief Executive Officer of Eramet* (since April 2007)<br>Acting general manager, Executive Committee member of Suez (2001 to April 2007) |
| **ALDO CARDOSO**<br>(born on March 7, 1956)<br>**Principal positions held in the Company:**<br>Director<br>Chairman of the Compensation, Selection and Governance Committee<br>Member of the Audit and Risks Committee<br>**Status of the mandate:**<br>Co-optation on July 28, 2004<br>Ratification on June 23, 2005<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>2,156 | *Current positions:*<br>*In France:*<br>Director of GDF-Suez*, Gecina*, Imerys* and Bureau Veritas. Censor of Axa Investment Managers<br>*Abroad:*<br>Director of Mobistar* (Belgium)<br>*During the past five years and no longer exercised:*<br>Director of Penauille Polyservices, Axa Investment Managers, Gaz de France, Orange and Accor | |
| **PASCAL COLOMBANI**<br>(born on October 14, 1945)<br>**Principal positions held in the Company:**<br>Director<br>Member of the Compensation, Selection and Governance Committee and the Strategic and Sustainable Development Committee<br>**Status of the mandate:**<br>Appointment on June 23, 2005<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>1,157 | *Current positions:*<br>Chairman of the Board of Directors of Valeo S.A.*<br>Director of:<br>*In France:*<br>Alstom S.A.* and Technip S.A.*<br>*Abroad:*<br>British Energy Group plc, an EDF subsidiary (UK) and Energy Solutions* (USA)<br>*During the past five years and no longer exercised:*<br>*In France:*<br>Director of the Institut Français du Pétrole (2001-2006)<br>Chairman of the *Association française pour l'avancement des sciences* (2003-2006) | *Senior Advisor* strategic planning consultancy A. T. Kearney since 2003<br>*Senior Advisor* of Arjil Banque and of Detroyat & Associés (until October 2009) |
| **LAURENCE DANON**<br>(born on January 6, 1956)<br>**Principal positions held in the Company:**<br>Director<br>Member of the Strategic and Sustainable Development Committee<br>**Status of the mandate:**<br>Appointment on May 16, 2008<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2011<br>**Number of Rhodia shares held:**<br>1,000 | *Current positions:*<br>*In France:*<br>Director of Compagnie Plastic Omnium S.A.*<br>Member of the Supervisory Board of BPCE<br>*Abroad:*<br>Director of Diageo Plc*<br>*During the past five years and no longer exercised:*<br>*In France:*<br>Director of Lafuma (until November 2008)<br>*Abroad:*<br>Director of Experian plc (until December 31, 2009) | President of the Executive Board of Edmond de Rothschild Corporate Finance since November 2009<br>Member of the Executive Board of Edmond de Rothschild Corporate Finance (September 2007 to November 2009)<br>Chairman and Chief Executive Officer of Printemps (2001 to February 2007) |

** Listed companies.*

| Name and additional information | Positions and other offices in French or foreign companies during the past 5 years | Professional activities during the past five years |
|---|---|---|
| **MICHEL DE FABIANI**<br>(born on June 17, 1945)<br>**Principal positions held in the Company:**<br>Director<br>Lead Independent Director<br>Member of the Audit and Risks Committee and the Compensation, Selection and Governance Committee<br>**Status of the mandate:**<br>Co-optation on April 29, 2003<br>Ratification on March 31, 2004<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2011<br>**Number of Rhodia shares held:**<br>3,125 | *Current positions:*<br>*In France:*<br>Chairman of the French-British Chamber of Commerce and Industry;<br>Chairman of Hertford British Hospital Corporation<br>Director of Valeo SA* and BP France<br>Member of the Supervisory Board of Vallourec<br>*Abroad:*<br>Director of EB Trans Luxembourg<br>*During the past five years and no longer exercised:*<br>*In France:*<br>Director of the Institut Français du Pétrole<br>*Abroad:*<br>Director of Star Oil Mali and Sems Maroc | |
| **JACQUES KHÉLIFF**<br>(born on October 19, 1953)<br>**Principal positions held in the Company:**<br>Vice President of Sustainable Development<br>Director representing the employee shareholders<br>**Status of the mandate:**<br>Appointment as director on June 23, 2005<br>Appointment as director representing the employee shareholders on May 20, 2009<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>25,105<br>He also holds 363 shares of ECPE "Rhodia Shares" in the context of the PEE Rhodia corresponding to an equal number of Rhodia shares | | Vice President of Sustainable Development of Rhodia (since October 2003) |
| **OLIVIER LEGRAIN**<br>(born on September 30, 1952)<br>**Principal positions held in the Company:**<br>Director<br>Member of the Compensation, Selection and Governance Committee and the Strategic and Sustainable Development Committee<br>**Status of the mandate:**<br>Appointment on June 23, 2005<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>227 | *Current positions:*<br>*In France:*<br>Chairman or Director of various subsidiaries of the Materis Group<br>Director of Parrot* Solaire, Trèfle, Trèfle 2 and Mécénat Balas<br>*Abroad:*<br>Chairman or Director of various subsidiaries of the Materis Group<br>*During the past five years and no longer exercised:*<br>*In France:*<br>Director of Terreal | Chairman and Chief Executive Officer of Materis since January 2001 |

** Listed companies.*

| Name and additional information | Positions and other offices in French or foreign companies during the past 5 years | Professional activities during the past five years |
|---|---|---|
| **FRANCIS MER**<br>(born on May 25, 1939)<br>**Principal positions held in the Company:**<br>Director<br>Member of the Strategic and Sustainable Development Committee<br>**Status of the mandate:**<br>Co-optation on May 13, 2004<br>Ratification on June 23, 2005<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2012<br>**Number of Rhodia shares held:**<br>116 | *Current positions:*<br>*In France:*<br>Chairman of the Supervisory Board of SAFRAN*<br>Member of the Supervisory Board of the *Fondation pour l'Innovation Politique*<br>*Abroad:*<br>Director of Adecco (Switzerland)<br>*During the five last years and no longer exercised:*<br>*In France:*<br>Chairman of the Supervisory Boar of the *Fondation pour l'Innovation Politique* (until 2005)<br>Director of Alstom<br>*Abroad:*<br>Director of Inco (Canada) | Chairman of the Board of Directors of Ciments Français since January 1, 2010 |
| **YVES RENÉ NANOT**<br>(born on March 27, 1937)<br>**Principal position held in the Company:**<br>Director<br>**Status of the mandate:**<br>Co-optation on October 25, 2002<br>Ratification on April 29, 2003<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2011<br>**Number of Rhodia shares held:**<br>11,000 | *Current positions:*<br>*In France:*<br>Chairman of the Board of Directors of Ciments Français*<br>Director of Provimi<br>*Abroad:*<br>Director of: Italcementi SpA (Italy) and various subsidiaries of Ciments Français<br>*During the past five years and no longer exercised:*<br>Director of Centre Technique Groupe SpA. (Italy) and Imerys | Chairman and Chief Executive Officer of Ciments Français* from July 1993 to December 31, 2009<br>Chairman of the Board of Directors of Rhodia (from March 31, 2004 to March 17 2008) |
| **HENRI POUPART-LAFARGE**<br>(born on April 10, 1969)<br>**Principal positions held in the Company:**<br>Director<br>Chairman of the Audit and Risks Committee<br>**Status of the mandate:**<br>Co-optation on May 5, 2009<br>Ratification submitted to the General Shareholder Meeting 2010<br>End of the mandate at the conclusion of the General Shareholders' Meeting called to rule on the financial statements 2011<br>**Number of Rhodia shares held:**<br>1,000 | *Current positions:*<br>*Abroad:*<br>President of a Subsidiary of Alstom | Finance Director at Alstom* since October 2004 |

** Listed companies.*

The business address of the directors for the purposes of their functions at Rhodia is the registered office of Rhodia.

### 4.1.1.3 Other information

#### Sanctions applicable to the directors and management

To the knowledge of the Company, none of the directors of the Company was, during the past five years, the subject:

- of a ruling for fraud, nor associated with a bankruptcy, confiscation or liquidation;
- of an accusation or an official public sanction delivered by legal or regulatory authorities or professional organizations, nor barred by a court from acting as a member of an administrative body, management or oversight of an issuer, or from intervening in the management or running of the business of an issuer.

#### Absence of conflicts of interests

To the knowledge of the Company, there is no conflict between the duties of the members of the administrative bodies of the Group with regards to the Company, and their private interests and other duties.

In addition, aside from the applicable legal provisions relating to regulatory requirements, the internal rules of the Board of Directors provide that all directors have the obligation to inform the Board of any conflict of interest, even potential conflicts of interest, and to abstain from taking part in the vote on any deliberation which could give rise to a conflict of interest.

#### Absence of family ties

To the knowledge of the Company, there are no family ties between the individual members of the Board of Directors.

#### Service contracts

Rhodia has not signed any service contracts granting future benefits.



## 4.1.2 MANAGEMENT COMMITTEE

The Management Committee (CDG), which is presented below, supervises the Enterprises, Support Functions and Zones. It contributes to the definition and implements the strategy of the Group adopted by the Board of Directors and defines the policies at the level of the Group. It settles disputes and allocates resources. In this function, it relies on the support of functional teams specialized in the areas of strategic planning, industrial policy, marketing and sales as well as on the competence and expertise of the Support Functions.

As of December 31, 2009 this committee consisted of:

- Jean-Pierre Clamadieu, Chairman and Chief Executive Officer;
- Gilles Auffret, Chief Operating Officer;
- Pascal Bouchiat, Group Executive Vice President and Chief Financial Officer;
- Marc Chollet, Group Executive Vice President, Strategy;
- Yolène Coppin, Group Executive Vice President, Human Resources;
- Jean-Pierre Labroue, Group Executive Vice President, General Counsel and Corporate Secretary.

Beyond this first General Management layer of the Group, the Executive Committee (Comex), which brings together the members of the CDG, Presidents of the Enterprises and the Directors of support functions and Geographical Zones, has the role of formulating the overall guidelines regarding the general policy of the Group (organization, procedures for allocating investments, variable compensation rules, etc.). It ensures the alignment of the priorities between the various entities that comprise Rhodia (Enterprises, Support Functions, Geographical Zones) and coordinates the activities of the Group in transversal subjects (innovation, communication, growth of Rhodia in the countries with strong growth potential, etc.). It also has the role of being the "champion" and the vehicle for the culture, values and identity of the Rhodia Group.

In addition, in 2008, the General Management wanted to enrich the work done by the CDG by integrating within it the competence and experience of operational managers with various profiles. This led to the creation of an extended Management Committee that meets monthly and has the responsibility of contributing to the definition and ensuring the implementation of the strategy of the Group adopted by the Board of Directors, of allocating resources between the various Enterprises and Functions and of guaranteeing the smooth operation of all operational processes of the Group.

# 4.2 Operation of Administrative and Management Bodies

The management and executive functions of Rhodia are divided between the Chairman and Chief Executive Officer and the Board of Directors. In accordance with the law and the AFEP-MEDEF Code, the Board of Directors is responsible for overseeing the management of the general management to define the strategic orientation of the Company and to monitor its operations. All powers relating to the ongoing management of the Company and its interaction with third parties are vested in the Chairman and Chief Executive Officer. He is supported in this task by the Management Committee.

In order to supplement the legal and statutory provisions and to specify the rules concerning the composition, the role and the respective powers of the Board of Directors, its Committees and the general management, the Company introduced internal rules for its Board of Directors in 2000. These rules have been modified several times since that date in order to account for any changes in the functions of the administrative and management bodies of the Company as well as any changes with regard to corporate governance, and in particular with regard to the recommendations of the AFEP-MEDEF Code. Their objective is to both optimize the effectiveness of the meetings and debates of the Board of Directors and to integrate into the functions of the governing bodies of the Company proper corporate governance practices.

The internal rules thus set forth the respective responsibilities of the Board of Directors and the Chairman and Chief Executive Officer, setting limits to the powers of the latter (Chapters 4.2.1 and 4.2.2 below), the existence of three **Committees** (Audit and Risks Committee; Compensation, Selection and Governance Committee; Strategic and Sustainable Development Committee) and their rules regarding composition, procedures, mission and powers (Chapter 4.2.3 below).

The internal rules also provide that the Board must **evaluate** its operations once a year, in particular by giving a progress report on its governance and by making sure that important questions are properly prepared and discussed (Chapter 4.2.4 below).

Lastly, the internal rules specify a certain number of **rights and duties of the directors** (Chapter 4.2.5 below).

## 4.2.1 MANAGEMENT PRACTICES AND LIMITATION OF THE POWERS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

### Management practices

During the meeting of the Board of Directors on March 17, 2008, Mr Yves René Nanot resigned as Chairman of the Board (keeping his position as director) pursuant to the statutory provisions concerning the age limit of the Chairman. In light of this situation, and the development of the Company, the Board of Directors, at that same meeting, decided to combine the functions of Chairman and Chief Executive Officer and to entrust Mr Jean-Pierre Clamadieu with the position of Chairman of the Board of Directors, assuming the direction of the Management Committee of the Company.

The choice to combine the functions of Chairman of the Board of Directors and Chief Executive Officer was made so as to simplify the decision-making process and accountability. The presence of a majority of independent directors on the Board as well as the internal rules of the Board of Directors offer sufficient guarantees to ensure that such a management structure is in line with good corporate governance.

The internal rules therefore provide for a limit of the powers of the Chairman and Chief Executive Officer, and the function of Lead Independent Director was established in 2009 for this purpose to ensure that a Director, appointed by the Board of Directors from among the independent directors, upon a motion submitted by the Compensation, Selection and Governance Committee, would be the privileged point of contact of the Chairman and Chief Executive Officer and ensure the liaison with the other directors. The Lead Independent Director is therefore consulted for setting the agenda for the Board meetings; he may request that a Board meeting be called or he may convene the independent directors; he also chairs the meetings of the Board of Directors in the absence of the Chairman and Chief Executive Officer. This function has been entrusted to Mr Michel de Fabiani.

### Limitation of the powers of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer has broad powers to act in all circumstances on behalf of the Company. He exercises his powers within the limit of the purpose of the Company and is subject to the powers which the law expressly reserves for the shareholder meetings and the Board of Directors.

The internal rules of the Board of Directors indicate that in the performance of his duties, the Chairman and Chief Executive Officer is responsible for creating a permanent and optimal relationship with the Board to allow:

- the Board of Directors to make its decisions in full knowledge of the facts and to discharge its functions to the fullest; and
- to give proper consideration to the guidelines and decisions of the Board of Directors.

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

- the strategic orientation of the Group;
- significant acquisitions and disposals of equity interests or assets;
- strategic alliance and industrial cooperation agreements;
- significant financial transactions;
- significant internal capital expenditures;
- significant changes to the structure and organization of the Group;

and, more generally, on:

- any significant operation outside the proclaimed strategy of the Company; and
- any other operation which the Chairman and Chief Executive Officer must submit to the Board for review or approval pursuant to his due diligence obligation.

The threshold beyond which the Board must be consulted is set at €60 million and at €250 million for financial transactions.



## 4.2.2 MISSION AND PRINCIPAL DUTIES OF THE BOARD OF DIRECTORS

### Powers

The Board of Directors has the powers invested in it by the applicable legislation, and in particular the following:

- determining the business orientation of the Company and monitoring its implementation;
- handling all issues regarding the progress of the Company's operations and settles its deliberations on the business matters that concern it, subject to the powers expressly reserved for the shareholder meetings and within the limit of the stated purpose of the Company;
- undertaking the controls and verifications which it considers useful;
- deciding whether to set up Committees (specifying their composition and powers) and/or conferring to one of its members or to third parties any special mandate necessary for the purpose;
- moreover, it has certain specific powers attributed by law, specifically:

– convening general shareholder meetings and setting the agenda,

– approving the individual and consolidated financial statements of the Company and the management report,

– authorizing so-called "regulated transactions" within the meaning of the law,

– co-opting directors,

– appointing or dismissing the Chairman and Chief Executive Officer (and if necessary Deputy General Managers) and determining their compensation,

– determining Directors' compensation, and

– increasing or decreasing the capital upon delegation of the Extraordinary Shareholders' Meeting.

### Activities of the Board of Directors in 2009

**Number of meetings of the Board of Directors: 8** (8 in 2008 and 9 in 2007)

**Rate of participation by the directors: 95%** (94% in 2008 and 90% in 2007)

**Average duration of the meetings: about 3 hours**

Globally, the main events of the financial year occupying the Board and involving intense participation of the directors were evaluations, studies and decisions relating primarily to:

- a thorough review of the Group's strategy and a study of the main strategic projects, including, in particular:

– acquisition of McIntyre Group Ltd,

– acquisition of an equity investment of the Econcern Group within six biogas production pilot projects in China and Vietnam;

- regular monitoring of the business of the Group and the measures taken in the context of the financial and economic crisis;
- compliance of the compensation elements of the Chairman and Chief Executive Officer with the AFEP-MEDEF Code;

- composition and the operation of the Board of Directors:
  - co-optation of Mr Henri Poupart-Lafarge and motion for the appointment of Mr Patrick Buffet and renewal of the mandates of Messrs. Cardoso, Clamadieu, Colombani, Legrain and Mer,
  - review of the nomination process for a Director representing the employee shareholders, resulting in the appointment of Mr Jacques Khéliff,
  - after the evaluation of the operations of the Board of Directors and its committees by an external expert, modification of the internal rules of the Board in order to take into account the recommendations coming out of this evaluation (refer to Chapter 4.2.4 below);

For the preparation of this work the Board of Directors relies on its Committees whose composition, functions, powers and activities during the financial year 2009 are described in Chapter 4.2.3 below.

## 4.2.3 MISSION AND ACTIVITIES OF THE COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has three Committees: the Audit and Risk Committee, the Compensation, Selection and Governance Committee and the Strategic and Sustainable Development Committee.

The name and powers of certain committees changed during 2009. Thus, the Audit Committee became the Audit and Risks Committee and saw its powers changed to take into account the provisions of the ordinance of December 8, 2008 (which transposed the 8th European Directive into French law). The role of the Strategic Committee has been expanded to cover Sustainable Development and is called now the Strategic and Sustainable Development Committee.

As indicated in the internal rules of the Board of Directors, the committees' role is to study and prepare certain deliberations of the Board of Directors. They issue, in their respective fields of competence, recommendations and advice as the case may require. If necessary they may invite to their meetings any person of their choice and request the help of external specialists. They have only advisory power and act under the authority of the Board of Directors. They cannot substitute the Board of Directors, which alone makes all decisions. The Committees report to the Board as needed, and at least as many times as there are Committee meetings during the year.

In addition to the permanent specialized committees, the Board of Directors may decide to constitute *ad hoc* committees for operations that are exceptional either because of their importance or their specificity, for the duration of the study.

### 4.2.3.1 The Audit and Risks Committee

#### Composition and methods of operation

The Audit and Risks Committee is composed of three directors:

- Mr Henri Poupart-Lafarge (Chairman);
- Mr Aldo Cardoso;
- Mr Michel de Fabiani.

During 2009, Mr Henri Poupart-Lafarge was named a member of the Audit and Risks Committee, replacing Mr Jerome Contamine who had resigned. He was also nominated Chairman of this Committee, replacing Mr Aldo Cardoso.

All members of the Audit and Risks Committee are qualified as being independent (100% independents). They were appointed based on their experience in the field in which the Audit and Risks Committee is concerned as much as for their independence. The Board of Directors considers that all members of the Committee have the special financial or accounting competences as defined by Article L.823-19 of the Commercial Code. Additional information regarding the education and careers of the members of the Audit and Risks Committee is available in Chapter 4.1.1. above.

The Committee hears, outside the presence of the General Management, the Group finance controler, the Internal Audit Director, the Statutory Auditors and, as the case may be, the Director of Risks.

The Statutory Auditors are invited to every committee meeting. A complete file is sent to each committee member before each meeting.

#### Powers

The internal rules of the Board of Directors provide that the Audit and Risks Committee has, in particular, the rule of:

- **ensuring oversight over the process of how financial information is handled,** and in particular, reviewing the individual and consolidated annual, semi-annual and quarterly financial statements of the Company and the respective periodic financial reports;
- **ensuring oversight over the effectiveness of internal control and risk management systems of the Company**, and, in particular, reviewing the risks and important off-balance sheet liabilities and examining the consistency between the internal audit evaluation and the internal audit reports;
- **ensuring oversight over the statutory audit of the financial statements,** and for this purpose, reviewing the general program of activities of the Statutory Auditors and compliance with their observations and recommendations;
- **ensuring and monitoring the independence of the statutory audit of the financial statements,** and for this purpose, taking part in the

selection of the Statutory Auditors and issuing recommendations on the selection of the latter, scheduling regular meetings with the Statutory Auditors, reviewing the fees paid to them and their network and the services provided in connection with the assignment given to the Statutory Auditors (which are the subject of a prior approval process by the Audit and Risks Committee, if necessary).

The Audit and Risks Committee finally reviews all questions of a financial or accounting nature submitted to it by the Chairman and Chief Executive Officer.

### Activities of the Committee in 2009

**Number of Audit and Risks Committee meetings: 7** (9 in 2008 and 7 in 2007)

**Rate of participation of the directors: 100%** (96% in 2008 and 90% in 2007)

Its work primarily involved the review of the key points regarding the preparation of the annual (consolidated and individual) and semi-annual financial statements and closing options, in the presence of the Statutory Auditors.

Other major work was related to:

- internal control: assessment of the 2008 internal control and 2009 organization;
- the outcome of the internal audit in 2008 and the audit plan for 2009;
- the new organization and procedures for the risk management of the Group (please refer to Chapter 5 below) and a detailed presentation of certain risks;
- the operation of fraud proceedings and the whistle-blowing procedure;
- insurance policies and programs;
- relations with the Statutory Auditors: fees, review of services and external audit plan for 2009.

The Audit and Risks Committee also conducts a self-evaluation of its operation on the basis of the summary of the responses to the self-evaluation questionnaire proposed by the AICPA (American Institute of Certified Public Accountants), filled out by each member of the committee.

During its meeting on February 22, 2010, the Audit and Risks Committee interviewed the Statutory Auditors, in the absence of management. The interviews for the Group finance controler and the Director of Internal Audit have been planned for a later date.

## 4.2.3.2 The compensation, selection and governance committee

### Composition and methods of operation

The Compensation, Selection and Governance Committee is composed of four members:

- Mr Aldo Cardoso (Chairman);
- Mr Pascal Colombani;
- Mr Michel de Fabiani;
- Mr Olivier Legrain.

During 2009, Mr Aldo Cardoso was appointed Chairman of the Committee, replacing Mr Michel de Fabiani.

All members of the Compensation, Selection and Governance Committee are qualified as being independent (100% independent).

The Committee meets at least twice a year and as often as required in the best interests of Rhodia. In addition, discussions or informal meetings may take place in order to handle certain specific items.



### Powers

Established in May 1998, the Compensation and Selection Committee was granted additional powers in 2008 by the Board of Directors with respect to corporate governance and was thus renamed the "Compensation, Selection and Governance Committee."

As indicated in the Board of Directors' internal rules, the purpose of this Committee is now primarily as follows:

- **with regards to compensation:** the Committee makes recommendations on the compensation of the Chairman and Chief Executive Officer and, if need be, the Deputy General Managers. It is responsible, by referring to the general compensation practices of equivalent French or foreign groups, to recommend each year to the Board the amounts of fixed compensation, the criteria of the variable part of the compensation and their annual application based on performance, and to examine other forms of compensation and benefits in-kind. It is also involved in defining a general compensation and benefits policy for the officers (Executive Committee), including retirement benefits. Concerning stock subscription or purchase options and the free allocation of shares, it is involved in preparing plans for the benefit of executives and officers, as well as deciding on the most appropriate allocation categories, taking into consideration the practices at equivalent French or foreign groups, and if necessary eliminating any discounts as well as defining in advance the vesting and holding periods. The work of the Committee also involves possible increases in share capital reserved for employees;
- **with regards to appointments:** the Committee makes recommendations on the progression and succession of the members of the Executive Committee and on plans for making significant changes in the organization of the Group's management. The search for and selection of future directors are also part of the work of the Committee. The Chairman and Chief Executive Officer works systematically with the Committee on these subjects;
- **with regards to governance:** the Committee primarily ensures that the internal rules of the Board of Directors and the recommendations with regard to corporate governance found in the AFEP-MEDEF Code, which the Company follows, are taken into account for the proper functioning of the corporate bodies. It reviews the composition of the Committees, prepares the annual procedure for evaluating the operation of the Board of Directors and makes recommendations on the independence of each of the Directors.

### Activities of the Committee in 2009

Number of meetings of the Compensation, Selection and Governance Committee: 4 (4 in 2008 and 4 in 2007)

Rate of participation of the members: 100% (93% in 2008 and 100% in 2007)

Its work, opinions and recommendations mainly involved the following:

- compensation for the Chairman and Chief Executive Officer, setting the fixed and variable parts and conforming all elements of his compensation to the AFEP-MEDEF Code. This last point was the subject of several informal meetings of the Committee on the side of the Board of Directors meetings;
- performance share's and stock purchase options plans (please refer to Chapter 4.3.4 below);
- composition of the Board of Directors: proposing candidates to replace outgoing directors and proposing the renewal of the mandates of directors;
- review of the mechanism for appointing a director representing employee shareholders;
- review of the process for evaluating the operation of the Board of Directors and the committees by an external entity and proposals for modifying the internal rules of the Board of Directors to take into account the recommendations resulting from such evaluation;
- review of the progression and succession plans for the members of the Executive Committee.

## 4.2.3.3 The Strategic and Sustainable Development Committee

### Composition and methods of operation

The Strategic and Sustainable Development Committee is composed of five members:

- Mr Patrick Buffet (Chairman);
- Mr Pascal Colombani;
- Mrs Laurence Danon;
- Mr Olivier Legrain;
- Mr Francis Mer.

During 2009 Mr Pierre Lévi left the Strategic Committee following his resignation as a Director. Mr Patrick Buffet was appointed member of the Strategic and Sustainable Development Committee and appointed as Chairman, replacing Mr Francis Mer.

All members of the Strategic and Sustainable Development Committee are qualified as independent (100% independent).

### Powers

Established in September 2000, the Strategic Committee was given additional powers by the Board of Directors at its meeting of November 3, 2009 relating to Sustainable Development. The Committee was thus renamed "Strategic and Sustainable Development Committee."

This Committee is now responsible for the following main tasks as indicated in the internal rules of the Board of Directors:

- **with regards to strategy:** the Committee reviews and prepares all strategic proposals recommended by the General Management and submitted for approval by the Board; it reviews all major acquisition, sale and alliance transactions in conformity with the selected strategy and identifies the impact of the strategic options taken by the Group on Sustainable Development;
- **with regards to Sustainable Development:** the Committee (i) prepares proposals aimed at defining, changing and improving the policy and commitments in terms of the social and environmental responsibility (RSE) of the Group and monitors the introduction and review of processes allowing an evaluation as to how the RSE policy and commitments of the Group are applied, and (ii) reviews the information published with regard to Sustainable Development (Annual Report, Sustainable Development Report of the Group...).

### Activities of the Committee in 2009

Number of meetings of the Strategic and Sustainable Development Committee: 1 (3 in 2008 and 3 in 2007)

Rate of participation of its members: 100% (100% in 2008 and 89% in 2007)

In addition to the meeting of the Strategic and Sustainable Development Committee, all the directors met for one working day, discussing the strategy of the Group and Enterprises. This type of meeting on strategy, in the presence of all directors and the general management of the Group, was initiated in 2008 and will be organized in the future at the request of the directors each year.

Work at these meetings involved a review of the strategic options and the strategic priorities of the Group, a review of the strategic planning process of each Enterprise and the innovation strategy. Lastly, the Committee reviewed the various growth projects of the Group and, in particular, the acquisition and subsequent integration of McIntyre Group Ltd.

## 4.2.4 EVALUATION OF THE OPERATION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The internal rules of the Board of Directors provide that the operation of the Board and the committees must be reviewed annually, above all in order to make sure that all important questions are properly prepared and discussed, and to give a progress report on the relationship between the Chairman and Chief Executive Officer and the Board. This might be (i) a self-evaluation carried out under the control of the Compensation, Selection and Governance Committee on the basis of individual questionnaires addressed to each director or individual interviews with each director, or (ii) an evaluation performed by an outside entity. The form and the procedures of the evaluation of the Board are the subject of discussion in the Compensation, Selection and Governance Committee.

In the beginning of 2009, the Company ordered a review of the operation of the Board and committees by "Whitehead Mann", an outside entity. The conclusions of this review, submitted to the Board of Directors, emphasized the smooth operation of the Board (involvement and diligence of the directors, the transparency requested by the Chairman and Chief Executive Officer, the independence and experience of the directors, the freedom of expression within the Board and the search for continuous improvements in the way the Board operates). Certain needs for improvement were also pointed out and were taken into account during 2009, with an objective of continual improvement of the functioning of the Board and the committees:

- creation of the function of Lead Independent Director in order to create a special link between the Chairman and Chief Executive Officer and the Independent directors;
- decision taken by the Board to change the Chairman of each of the committees;
- reduction of the time allotted to presentations and more time devoted to discussions: the way the meetings of the Board of Directors were prepared was modified as a result;
- beyond their regular review by the Strategic and Sustainable Development Committee, the major strategic options could be presented at the Board meetings in a more systematic manner to allow all directors to participate in them: as in 2008, a strategic seminar was organized in 2009 to present to all directors the major strategic options of the Group as well as the strategic plans of each Enterprise;
- continuation of the renewal of the composition of the Board as well as a change in the composition of the Committees: since 2008, 3 new independent directors became members of the Board of Directors. In addition, a new Chairman was appointed for each Committee.

Concerning 2009, it was decided to carry out a self-evaluation of the operation of the Board of Directors and its committees. The Compensation, Selection and Governance Committee therefore elected Messrs. Olivier Legrain and Pascal Colombani to contact every director and obtain their opinion about the functioning of the Board and committees on the basis of a questionnaire established by the AFEP.

This assessment was then subject to feedback at the meeting of the Board held on February 23, 2010.

The directors first reviewed the summary table of activities from the meetings of the Board and the committees. From this review it came to light that the Board of Directors met 8 times in 2009. The average duration of these meetings was about 3 hours. Directors' involvement was high throughout the year: 95%. Such frequency and attendance assure that, during the year, the Board of Directors was fully in a position of power to play its role. This important implication of the directors is also manifested within and by the important preparatory work of the Committees whose activity continued to be strongly supported during the year.

Following this activitiy, Messrs. Olivier Legrain and Pascal Colombani presented the conclusions of the interviews conducted with the directors. A positive opinion about the Board operation emerged, though some improvements remain to be studied.

**The positive opinion about the Board's operation** that had emerged from previous evaluations has been confirmed:

- assiduity and high involvement of the Board in operations; topics being thoroughly addressed, based on quality files elaborated by the management teams;
- the Board is composed of directors having a full range of skills and very diverse experiences. Their independence and ability to use their experience have been noticed;
- openness to discussion and consideration of remarks and comments (on the agenda as well as on the aforementioned topics) by senior management and the management team is good. Access to the Company's Senior management is appreciated;
- the role of committees is perceived as positive, especially concerning the Audit and Risks Committee and the Compensation, Selection and Governance Committee. The directors also reported the improvement of the operation of the Strategic and Sustainable Development committee and its relevance.

**Guidelines to improve** the operation of the Board of Directors have been identified, such as:

- concerning the topics addressed by the Board, the directors would like to be able to spend more time on the main mid-term stakes/challenges for the Company and on the review of some risks studied in the specialized Committees;
- with respect to the discussion paper about the evolution of the composition of the Board of Directors, it is suggested to continue to take into account the following primary selection criteria for applicants: their developed knowledge of Rhodia's businesses and activities, and also their good knowledge of the developing geographical areas of the Group, by internationalizing, if possible, the composition of the Board;
- regarding the Strategic and Sustainable Development Committee, an annual meeting should be organized in order to address exclusively the topics linked to Sustainable Development. To that extent, the Committee might be led into reviewing some risks or stakes linked to its new powers.

## 4.2.5 PARTICIPATION IN THE MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

| | Board of Directors | Audit and Risks Committee | Strategic and Sustainable Development Committee | Compensation, Selection and Governance Committee |
|---|---|---|---|---|
| Number of meetings in 2009 | 8 | 7 | 1 | 4 |
| *Directors who have a current mandate* | | | | |
| Jean-Pierre CLAMADIEU | 8/8 | | | |
| Patrick BUFFET* | 3/3 | | - | |
| Aldo CARDOSO | 7/8 | 7/7 | | 4/4 |
| Pascal COLOMBANI | 8/8 | | 1/1 | 4/4 |
| Laurence DANON | 7/8 | | 1/1 | |
| Michel de FABIANI | 8/8 | 7/7 | | 4/4 |
| Jacques KHELIFF | 8/8 | | | |
| Olivier LEGRAIN | 8/8 | | 1/1 | 4/4 |
| Francis MER | 8/8 | | 1/1 | |
| Yves René NANOT | 7/8 | | | |
| Henri POUPART-LAFARGE** | 4/4 | 4/4 | | |
| *Directors whose mandate ended in 2009* | | | | |
| Jérôme CONTAMINE*** | 2/3 | 2/2 | | |
| Pierre LEVI**** | 2/2 | | - | |

* *Appointment of Mr Buffet as a member of the Board of Directors during the general shareholder meeting of May 20, 2009.*
** *Co-option of Mr Poupart-Lafarge as a member of the Board of Directors at the meeting of the Board of Directors on May 5, 2009.*
*** *Resigned his mandate as director on April 27, 2009.*
**** *Resigned his mandate as director on February 25, 2009.*

## 4.2.6 OTHER RIGHTS AND OBLIGATION OF THE DIRECTORS

In terms of the **right to information,** the internal rules provide that the Board must be regularly informed, directly or via its committees, of any significant event affecting the business of Rhodia. It calls for all directors to receive the documentation and information necessary to carry out their responsibilities, and especially all important information that allows an evaluation of the proper implementation of the strategy adopted by the Board as well as the financial and cash position of the Company. A regular checklist on the progress of the business is reviewed at the meetings of the Board of Directors.

The internal rules spell out the **rules for prudence and confidentiality.** In this respect, they provide, in particular, that the directors and corporate officers must concentrate their operations on the financial instruments of the Company as from the day following the communication of the annual, semi-annual and quarterly results and for a period of thirty (30) calendar days (provided this period is not regarded as "locked" by the Company and that the results do not contain privileged information during that period).

They also create the **right of review** by the Board of Directors with the provision that the latter reviews and deliberates beforehand on any significant operations. This point is presented in Chapter 4.2.1 "Limitation of the powers of the Chairman and Chief Executive Officer" above.

# 4.3 Compensation



The presentation of this section corresponds to the recommendations of the AFEP-MEDEF Code and the AMF recommendations of December 22, 2008.

## 4.3.1 COMPENSATION OF THE MEMBERS OF THE MANAGEMENT COMMITTEE

### General policy for compensation of the members of the Management Committee

The Compensation, Selection and Governance Committee reviews the compensation structure proposed by the Chairman and Chief Executive Officer for the members of the Management Committee. To do this, several studies are presented to the committee, in particular analyses of the market practices of comparable companies.

Based on these elements, the Chairman and Chief Executive Officer determines the fixed and variable compensation of the members of the Management Committee.

In addition, in the framework of the overall compensation policy, the members of the Management Committee benefit from the allocation of performance shares (these plans are described in Chapter 4.3.4.2 below).

### Annual compensation

The overall gross compensation amount [27] owed to members of the Management Committee of the Group for 2009 (taking into consideration changes in the make-up of the Committee in the course of the year) was €5,713,150. For reference, the gross compensation owed to members of the Management Committee came to €3,438,509 in 2008 and €4,152,241 in 2007. This change is mainly due to the increase in the variable part (which had been at a very low level in 2008) and to the change in the composition of the Management Committee during 2009.

The overall gross compensation amount paid in 2009 (including the amount of the variable part for 2008 and the variable part for 2009) to members of the Management Committee of the Group (taking into consideration the changes in the make-up of the Committee in the course of the year) was €4,562,377. For reference, the gross compensation paid to members of the Management Committee came to €4,925,888 in 2008 and €4,803,681 in 2007.

The members of the Management Committee are not paid attendance fees within the framework of the mandates which they hold in the companies of the Group.

The overall gross amount of benefits in-kind paid to these same individual members during 2009 came to €69,037, compared to €43,975 in 2008 and €31,068 in 2007.

*(27) Gross amount in this "Compensation and benefits" section refers to the amount without the employer portion of social security but before deducting the social security contributions.*

For 2009, 2008 and 2007 financial years, the compensation due and paid to the members of the Management Committee was as follows:

| (in euros) | **Amounts for financial year 2009 (7 individual members)*** | | Amounts for financial year 2008 (7 individual members)** | | Amounts for financial year 2007 (6 individual members)*** | |
|---|---|---|---|---|---|---|
| | **due** | paid | due | paid | due | paid |
| Total compensation | 5,713,150 | 4,562,377 | 3,438,509 | 4,925,888 | 4,152,241 | 4,803,681 |

* *One member having left the Company in the course of the financial year.*

** *Including 2 members having joined the Management Committee in the course of the financial year.*

*** *One member having left the Company in the course of the financial year.*

## Retirement obligations

There are two specific supplemental retirement plans for executive directors from which the members of the Management Committee benefit:

- the "supplemental" retirement plan with defined benefits called "GRCD." Closed to all newly hired employees since 2001, this plan ensures the future payment of a retirement supplement to former and current members of Management who were part of the Management Committee before 2001;
- the "supplemental" retirement plan for executive directors called "RSD" (defined benefits plan). This plan, created after 2001 for the new members of management who are part of the Management Committee, ensures the future payment of a retirement supplement, subject to compliance with the double condition of (i) having accumulated 10 years of service in the Group and one year on the Management Committee (as an employee or corporate officer), and (ii) still being employed by Rhodia at the time of retirement or having left Rhodia after the age of 55 without returning to work later.

  The annual supplemental pension payment based on such a plan is equal to for each of the first 10 years of seniority respectively 1.5% and 3% of the beneficiary's base compensation in excess of the ceiling of the tranches B and C AGIRC, increased for each year of seniority in excess of 10 years by respectively 0.5% and 1% of the base compensation. However, this yearly supplemental pension payment may not result in the beneficiary receiving an amount exceeding (i) 45% of his base compensation under all the plans supported by Rhodia or (ii) 55% of his base compensation under all pensions payments received by such beneficiary.

The amount of retirement obligations, excluding social charges, as of December 31, 2009 for the members of the Management Committee of the Group was €17,389,693 compared to €16,049,959 in 2008 and €14,113,342 in 2007. This change is explained by the variation of the discount rates and the automatic increase of the obligations due for the additional year of seniority.

The amount of commitments with respect to social security contributions on future retirements was €7,419,046 at December 31, 2009, compared to €1,145,583 in 2008 and €1,008,880 in 2007. This change is pursuant to the 2010 *Loi de Financement* for Social Security.

## Commitments related to the termination of employment

The obligations undertaken for the benefit of the members composing the Management Committee of the Group in the event that their contract of employment is terminated were, as of December 31, 2009, €3,363,500 compared to €4,531,167 as of December 31, 2008 and €3,063,000 as of December 31, 2007. This change is explained mainly by the change in the composition of the Management Committee in 2009 and the conditions applicable to these obligations.

These additional benefits may apply in some cases of departure from the Company, excepting dismissal for misconduct, or resignation.

This amount does not include the indemnity related to the non-compete and non-solicitation undertaking that could be due to Jean-Pierre Clamadieu in case his mandate as Chairman and Chief Executive Officer is terminated as described in Chapter 4.3.2 below.

## 4.3.2 COMPENSATION OF CORPORATE REPRESENTATIVES

The only corporate representative of the Company is the Chairman and Chief Executive Officer.

### General compensation policy

The Compensation, Selection and Governance Committee plays a major role in the remuneration of the executive corporate representatives as a result of its recommendations and proposals to the Board of Directors. To carry out this role, the committee relies on various studies and in particular on the analyses of the market practices of comparable companies. It thus proposes:

- setting the fixed part of the Chairman and Chief Executive Officer's compensation;
- the criteria for determining the variable part of the Chairman and Chief Executive Officer's compensation, these criteria being quantitative and qualitative.

The Board of Directors determines all these elements based on these proposals.

In addition, some corporate representatives may, within the limits provided for by law, benefit from plans for the allocation of performance shares that may be decided by the Board of Directors (for more information on the stock subscription option plans and performance share plans, see Chapter 4.3.4 below).

Lastly, like all other executive managers and corporate representatives of the Group and its subsidiaries, Rhodia executive corporate representatives benefit from civil liability insurance coverage for Directors and Officers called "Directors and Officers."

### Summary of the compensation and benefits of the Chairman and Chief Executive Officer

**Summary of the compensation and benefits as well as options and performance shares allotted to the Chairman and Chief Executive Officer**

| *(in euros)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Compensation due for the financial year | 1,755,824 | 1,020,076 | 1,650,076 |
| Value of the options granted during the financial year | - | - | - |
| Value of the performance shares granted during the financial year (refer to Chapter 4.3.4 below)* | 175,380 | 404,780** | 1,522,000 |
| **TOTAL** | **1,931,204** | **1,424,856** | **3,172,076** |

* *Value used in the consolidated financial statements.*

** *After taking into account the fact that the performance condition of plan A 2008 was not reached.*

The information relating to the allocation of performance shares to the Chairman and Chief Executive Officer is presented in Chapter 4.3.4 of this document.

### Annual compensation of the Chairman and Chief Executive Officer

The gross amount of the **fixed part of the compensation** paid in 2009 to the Chairman and Chief Executive Officer was €700,000, unchanged since 2007.

The **variable part of the compensation** of the Chairman and Chief Executive Officer depends on the achievement of quantitative objectives related to the performance of the Group and qualitative personal objectives related to attaining the personal objectives are met. Since 2007, the variable part may vary between 0 and 180% of the fixed compensation. If necessary the Board of Directors adjusts the result of the evaluation as to whether the objectives have been reached within the range mentioned above, based on its overall assessment of the performance and the conditions under which it was achieved.

For financial year 2009, the calculation of the variable part of the compensation of the Chairman and Chief Executive Officer depended on objectives that were 50% quantitative (level of free cash-flow of the Group) and 50% qualitative (20% for strategy, 10% for the results as regards health, safety and environment, 10% for the preparation of the progression and succession plan of the extended Management Committee and identification of candidates with top potential and 10% for financial communication). On this basis, the Board of Directors, upon recommendation of the Compensation, Selection and Governance Committee and in the absence of the Chairman and Chief Executive Officer, approved a gross amount for the variable compensation of the Chairman and Chief Executive Officer due for 2009 (which will be paid out in 2010) of €1,027,000, of which €504,000 for the quantitative objectives and €523,000 for the qualitative objectives. This amount represents 147% of the fixed part of his compensation.

Mr Jean-Pierre Clamadieu benefited from benefits in kind corresponding to a company car, health coverage and a supplemental retirement plan, with all costs borne by the Company, amounting to €28,824 during 2009.

Summary of the compensation and benefits of the Chairman and Chief Executive Officer

| | **Amounts in financial year 2009** | | Amounts in financial year 2008 | | Amounts in financial year 2007 | |
|---|---|---|---|---|---|---|
| *(in euros)* | **due** | paid | due | paid | due | paid |
| Fixed compensation | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 |
| Variable compensation | 1,027,000 | 315,000 | 315,000 | 945,000 | 945,000 | 950,000 |
| Exceptional compensation | - | - | - | - | - | - |
| Attendance fees | - | - | - | - | - | - |
| Benefits in-kind | 28,824 | 28,824 | 5,076 | 5,076 | 5,076 | 5,076 |
| **TOTAL** | **1,755,824** | **1,043,824** | **1,020,076** | **1,650,076** | **1,650,076** | **1,655,076** |

## Commitments for the period following the mandate of the Chairman and Chief Executive Officer

In the context of reviewing all compensation elements of the Chairman and Chief Executive Officer and their conformity with the recommendations of the AFEP-MEDEF Code, the Board of Directors decided to gather, in an agreement related to his mandate, all commitments for the period following the mandate of the Chairman and Chief Executive Officer. This agreement and the commitments which it contains were approved beforehand by the Board of Directors after a special deliberation that took place at its meeting of March 16, 2009. This agreement is "a regulated agreement" and was submitted to the vote of the General Shareholder Meeting held on May 20, 2009. It came into effect on May 28, 2009 following the termination of the employment contract of Mr Jean-Pierre Clamadieu, on his own initiative, thus making it possible to comply with the recommendations of the AFEP-MEDEF Code by not combining an employment contract with a corporate mandate.

The legal effect of this new agreement also ended the severance agreement that was signed in 2007 and modified in 2008 which provided for severance pay and benefits usually granted in listed companies comparable to Rhodia in the event that the mandate of Chief Executive Officer, later Chairman and Chief Executive Officer, Mr Jean-Pierre Clamadieu was terminated.

The commitments contained in this new agreement are described below.

### Retirement obligations

There are no specific supplementary retirement plans for the benefit of the corporate representatives. However, Mr Jean-Pierre Clamadieu potentially benefits from the "RSD" supplementary retirement plan (see Chapter 4.3.1 above).

This agreement confirms that the years during which he exercised his mandate as Chairman and Chief Executive Officer as well as the compensation and benefits received on this account have been taken into consideration in calculating the rights (and particularly the base compensation and seniority in the Group) which might be owed to Mr Jean-Pierre Clamadieu under the "RSD" supplementary retirement plan; Mr Jean-Pierre Clamadieu became a potential beneficiary of this plan in 2002, before his appointment as Chairman and Chief Executive Officer, taking into consideration his membership in the Management Committees and his seniority in the Group.

With 17 years seniority in the plan as of December 31, 2009, Mr Jean-Pierre Clamadieu's income could be estimated as 31.5% of his base compensation at such date.

### Non-compete and non-solicitation obligation

This new agreement provides for a non-compete and non-solicitation obligation on the part of Mr Jean-Pierre Clamadieu, which he has accepted, prohibiting him, for a period of two years following the termination of his mandate, (i) from conducting any activity for the benefit of a company active in the chemical sector in any territory where the Rhodia Group is established and (ii) from contacting any member of the Executive Committee of Rhodia to offer him an activity for his benefit or for the benefit of an entity in which he would have an interest. As consideration, Rhodia undertakes to pay Mr Jean-Pierre Clamadieu a gross quarterly indemnity amounting to €220,000 for two years from the end of his mandate.

In addition the agreement confirms that, in the event that his mandate as Chairman and Chief Executive Officer ends, and under the condition that the performance criteria set forth in the plans are met, Mr Jean-Pierre Clamadieu will keep the rights attached to the allocation of performance shares and the share subscription or purchase options which he benefited or will benefit under his employment contract or the corporate mandates that he has exercised in the Rhodia Group. The agreement specifies that any future plan for the benefit of Mr Jean-Pierre Clamadieu will be subordinated to performance criteria as long as he is a corporate representative.

Summary of the commitments undertaken by the Company for the benefit of the Chairman and Chief Executive Officer

| | Employment contract | | Supplemental retirement plan | | Payments or benefits due or potentially due in case of termination or change of position | | Payments due under a non-compete clause | |
|---|---|---|---|---|---|---|---|---|
| | yes | no | yes | no | yes | no | yes | no |
| Jean-Pierre Clamadieu Chairman and Chief Executive Officer | | x | x | | | x | x | |



## 4.3.3 COMPENSATION OF NON-EXECUTIVE CORPORATE OFFICERS

### 4.3.3.1 Directors' fees

The maximum annual amount of the Directors' fees which the Board of Directors of Rhodia may distribute between its directors is set at €600,000. It was last modified during the combined Annual Shareholders' Meeting of May 3, 2007.

Within the limit of this ceiling, the Board of Directors distributes the Directors' fees according to criteria specified in its internal rules. These criteria provide for fixed and variable parts based on the actual presence at the meetings of the Board of Directors and its committees.

#### Fixed part

- Each director receives a fixed part of €20,000 euros.
- Each Committee Chairman receives a fixed part of €6,000 euros.

In addition, as from the financial year 2010, the Board of Directors decided to allocate a fixed annual compensation of €6,000 in Directors' fees for the newly created function of Lead Independent Director.

#### Variable part

- €4,000 for each participation in a Board of Directors meeting.
- €4,000 for each participation in a Study Committee meeting.

In 2009 the total Directors' fees which Rhodia owed its directors was €599,600. It was €599,400 in 2008 and €586,000 in 2007.

Among the current directors, Messrs. Jean-Pierre Clamadieu and Jacques Khéliff did not receive any Directors' fees during the financial year 2009.

The table below shows the Directors' fees due to the members of the Board of Directors in 2009, 2008 and 2007:

Directors' fees received by the directors

| *In euros* | **Directors' fees due for financial year 2009 and paid in 2010** | Directors' fees due for financial year 2008 and paid in 2009 | Directors' fees due for financial year 2007 and paid in 2008 |
|---|---|---|---|
| ***Directors whose mandate was current as of December 31, 2009*** | | | |
| Mr Jean-Pierre Clamadieu (Chairman and Chief Executive Officer) | - | - | - |
| Mr Patrick Buffet (1) | 34,100 | - | - |
| Mr Aldo Cardoso | 93,400 | 96,200 | 102,000 |
| Mr Pascal Colombani | 64,600 | 59,400 | 68,000 |
| Mrs. Laurence Danon | 46,700 | 34,900 | - |
| Mr Michel de Fabiani | 91,600 | 96,200 | 102,000 |
| Mr Jacques Khéliff (2) | - | - | - |
| Mr Olivier Legrain | 64,600 | 66,400 | 68,000 |
| Mr Francis Mer | 55,600 | 57,700 | 70,000 |
| Mr Yves René Nanot | 43,100 | 34,900 | - |
| Mr Henri Poupart-Lafarge (3) | 48,500 | - | - |
| ***Directors whose mandate ended during 2009*** | | | |
| Mr Jérôme Contamine (4) | 32,300 | 69,900 | 60,000 |
| Mr Pierre Lévi (5) | 25,100 | 55,900 | 60,000 |

*(1) Appointment in the capacity as director during the General Shareholders' Meeting of May 20, 2009.*
*(2) Mr Jacques Khéliff receives compensation in his capacity as director for Sustainable Development of the Group and therefore does not receive Directors' fees. This compensation was €301,071 in 2009,€223,636 in 2008 and €239,936 in 2007.*
*(3) Co-optation in the capacity as director by the Board of Directors on May 5, 2009.*
*(4) Mandate ending April 27, 2009.*
*(5) Mandate ending February 25, 2009.*

## 4.3.3.2 Retirement Plans to non-executive corporate representatives

### Current corporate representatives

There is no specific supplementary retirement plan in place for corporate representatives.

Mr Jacques Khéliff, Director representing the employee shareholders, benefits from the IRP-RP supplemental retirement plan with guaranteed benefits covering all French employees at the time and which was closed to new incoming employees since the end of the 1970's.

### Former corporate representatives

The commitments of Rhodia for retirement plans for former corporate representatives (executive and non-executive) as of December 31, 2009 amounted to €14,480,450.

## 4.3.3.3 Commitments to non-executive corporate representatives in terms of holding, ending or changing the function

Rhodia has not undertaken any commitments for the benefit of its non-executive corporate representatives, be they current or former representatives, in terms of holding, ending or changing the functions of the corporate representatives.

Under the terms of his employmentcontract, in the event he leaves the Company, Mr Jacques Khéliff may be entitled to severance pay in an amount equal to 36 months of his base salary as defined in his employment contract. This commitment would apply under certain scenarios of departure from the Company.

## 4.3.4 SHARE SUBSCRIPTION OR PURCHASE OPTION PLANS AND ALLOCATION OF PERFORMANCE SHARES

### 4.3.4.1 General policy of allocation

At the end of 2009, the Board of Directors evaluated the effectiveness of various tools in recruiting and retaining executive employees and recognize their performance. It was decided that the allocation of performance shares to managers (including officers), and, in exceptional circumstances, to certain salaried workers with great potential was the most effective and fair mechanism. Thus, it was decided that there would no longer be allocations of stock subscription or purchase options for the foreseeable future. As a result, it will be proposed at the following General Meeting of Shareholders that (i) a new delegation of competence be given to the Board of Directors to proceed with the allocation of performance shares, and (ii) the authorization granted by the general meeting of shareholders of May 20, 2009, allowing for the allocation of stock subscription and share options, shall be cancelled as such authorization was never used.

The allocation of performance shares to salaried employees and managers takes into account the level of their commitment to Rhodia and the number of performance shares allocated increases with the hierarchical level of the beneficiary. Since 2006, the different performance share plans aimed at the persons defined above are authorized by the Board of Directors during the first quarter of each financial year and are conditional upon the achievement of certain economic performance criteria. This authorization which will be submitted to the next general meeting of shareholders, includes the obligation to link the performance shares allocated to this population to economic performance conditions that will be assessed over the course of several years.

### 4.3.4.2 Allocation policy for the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer may benefit from performance shares plans.

Since 2006, all performance shares that the Chairman and Chief Executive Officer has benefited from have been conditional on attaining certain economic performances.

In addition, during its meeting on March 16, 2009, the Board of Directors reviewed all compensation elements of the Chairman and Chief Executive Officer, taking into consideration the recommendations relating to compensation from the AFEP-MEDEF Code. With respect to future allocations of performance shares the Board:

- confirmed that the number of shares issued or to be issued under said share allocation plans which the Chairman and Chief Executive Officer must hold until the expiration of his functions was fixed at 25%. This holding obligation without a ceiling applies to all shares allocated to the Chairman and Chief Executive Officer since 2007;
- set at 10% the maximum percentage of performance shares that can be allocated to the Chairman and Chief Executive Officer compared to the total of all allocated performance shares;
- set the number of Rhodia shares which he must purchase on the open market when the performance shares become available at 10% of the number of performance shares delivered to the Chairman and Chief Executive Officer (i.e. at the end of the holding period).

The Board of Directors also makes sure that the value (according to IFRS 2 standards) of the performance shares granted to the Chairman and Chief Executive Officer during a financial year does not exceed 50% total compensation which includes the value of the performance shares.)

Lastly, the Code of Conduct in effect in the Group for preventing insider deals provides that the Chairman and Chief Executive Officer (also the principal managers of the Group) must concentrate his operations on financial instruments of the Company from the day following the announcement of the annual, semi-annual and quarterly results, and for a period of thirty (30) calendar days (provided this period is not regarded as "locked" by the Company and that they are not aware of privileged information during that period). Pursuant to this Code of Conduct, the Chairman and Chief Executive Officer may not subscribe instruments hedging the options or the performance shares that were granted to him.

For information about the possibility of employees to participate in the performance share scheme of the Company, please refer to Chapter 3.3.2 of this Reference Document.

### 4.3.4.3 Share subscription or purchase option plans

As of December 31, 2009, the number of outstanding shares subscription or purchase options was 2,574,938 representing 2.55% of the capital of the Company if all share subscription or purchase options were exercised.

In addition, the number of share subscription options remaining at that time was 1,564,938, representing a maximum dilution of 1.55% if all share subscription options were exercised, and after the issuance of new shares. It should however be noted that the strike price of these share subscription options lies between €15.12 and €87.48.

The weighted average duration of the remaining term for share subscription options at the end of the financial year was 5 years in 2009, 3 years in 2008 and 4 years in 2007.

Lastly, pursuant to the retention policy of certain managers and employees of the Group, no new share subscription or purchase option plans will be authorized for the foreseeable future.

### 4.3.4.3.1 Information on the share subscription or purchase options for 2009

#### *Allocation of share subscription or purchase options*

During 2009 and prior to evaluating the effectiveness of certain tools to recruit and retain salaried workers as described in Chapter 4.3.4.1 above, the Board of Directors authorized during the first half, exceptionally, a conditional share purchase option plan providing for:

- the allocation of 1,010,000 options (entitling to the purchase of an equivalent number of Rhodia shares) to 41 beneficiaries, it being understood that neither the members of the Management Committee, nor the Chairman and Chief Executive Officer, benefited from this allocation;
- a strike price of €5.62;
- a lock-in period of 2 years (to which is added an additional lock-in period of 2 years for tax reasons for persons residing in France);
- a performance condition linked to the cumulative free cash-flow generated by the Company in financial years 2009 and 2010 as shown in the consolidated financial statements of the Company at December 31, 2009 and December 31, 2010.

#### *Exercise of share subscription options*

No share subscription or purchase options were exercised during 2009.

#### *Summary tables*

Share subscription or purchase options granted during 2009 to each corporate representative by the issuer and any other affiliate of the Group

| Name of the corporate representative | No. and date of the plan | Type of option (purchase or subscription) | Value of the options according to the method used in the consolidated financial statements | Number of options granted during the financial year | Strike price | Financial year period |
|---|---|---|---|---|---|---|
| DOES NOT APPLY<br>NO SHARE ALLOCATION TO A CORPORATE REPRESENTATIVE DURING 2009 | | | | | | |

Share subscription or purchase options exercised during 2009 by each corporate representative

| Name of the corporate representative | No. and date of the plan | Number of options granted during the financial year | Strike price |
|---|---|---|---|
| DOES NOT APPLY<br>CORPORATE REPRESENTATIVES DID NOT EXERCISE ANY SHARE OPTIONS DURING 2009 | | | |

Share subscription or purchase options granted to the first ten employees not holding a corporate office and options exercised by them

| | Total number of granted options/subscribed or purchased shares | Weighted average price *(in euros)* | Respective plan |
|---|---|---|---|
| Options granted during the financial year by the issuer and any affiliate included in stock option plans to the ten employees of the issuer and any affiliate included in such plans, whose number of options thus granted is the highest (aggregate information) | 450,000 | 5.62 | Plan 2009 |
| Options held on the issuer and the enterprises specified above, and options exercised during the financial year by the ten employees of the issuer and its affiliated enterprises, whose number of options thus subscribed or purchased is the highest (aggregate information) | DOES NOT APPLY<br>NO OPTIONS EXERCISED DURING THE FINANCIAL YEAR 2009 | | |

### 4.3.4.3.2 Summary and features of current subscription option and share purchase plans

Please refer to Note 34.2 to the consolidated financial statements appearing in Chapter 6.4.2 of this Reference Document (which in table 8 shows the recommendation of the AMF on the compensation and benefits of the corporate representatives).

## 4.3.4.4 Allocation of performance shares

As of December 31, 2009, the number of shares to be allocated free of charge at the end of the acquisition period was 1,381,745, representing 1.37% of the capital of the Company after the final purchase of these shares, of which 1,247,180 are granted conditionally if certain performance conditions are reached.

It should be noted that the shares delivered to beneficiaries within the context of the various plans in 2007 and 2008 were existing shares, repurchased beforehand by the Company within the framework of a share repurchase program. At December 31, 2009, the Company held 1,121,784 of its own shares and purchase options for the purchase of 1,010,000 Rhodia shares, fully dedicated to cover performance share plans or share subscription or purchase options in order to limit the impact of dilution for the shareholders.

### 4.3.4.4.1 Information on the performance shares for financial year 2009

*Performance shares granted during 2009*

The Board of Directors authorized, at its meeting of March 16, 2009 and after approval by the combined Annual Shareholders' Meeting of May 3, 2007 in its 16th resolution, the following plans for the allocation of performance shares, with the plans 2+2 primarily benefiting French tax residents and plans 4+0 foreign tax residents:

- the first plan (Plan A 2+2), conditional upon reaching certain economic performances and including:
  - a performance condition consisting of a positive free cash-flow generated by the Company, as shown in the consolidated financial statements of the Company as of December 31, 2009,
  - the allocation of 279,800 shares to 101 beneficiaries,
  - a vesting period of 2 years (which will thus end on March 16, 2011) and a 2-year holding period (which will thus end on March 16, 2013);
- the second plan (Plan B 2+2), conditional upon reaching certain economic performances and including:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (including the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2009, and which is 2 points above the average ratio of a reference panel made up of specialty chemistry companies (Arkema, Clariant, DSM and Lanxess),
  - the allocation of 279,800 shares to 101 beneficiaries,
  - a vesting period of 2 years (which will thus end on March 16, 2011) and a 2-year holding period (which will thus end on March 16, 2013);
- the third plan (Plan A 4+0), conditional upon reaching certain economic performances and including:
  - a performance condition consisting of a positive free cash-flow generated by the Company, as shown in the consolidated financial statements of the Company as of December 31, 2009,
  - the allocation of 101,400 shares to 72 beneficiaries,
  - a vesting period of 4 years (which will thus end on March 16, 2013);
- the fourth plan (Plan B 4+0), conditional upon reaching certain economic performances and including:
  - a performance condition consisting of achieving a recurring EBITDA to sales ratio (including the CER activity), as shown in the consolidated financial statements of the Company as of December 31, 2009, and which is 2 points above the average ratio of a reference panel made up of specialty chemistry companies (Arkema, Clariant, DSM and Lanxess),
  - the allocation of 101,400 shares to 72 beneficiaries,
  - a vesting period of 4 years (which will thus end on March 16, 2013).

Taking into account the economic crisis situation in early 2009 and the weak foreseeability at that time, the Board decided to require that the performance conditions be met over the period of one year. These performance conditions were met.

### *Performance shares granted to each corporate representative*

Performance shares granted during 2009 to each corporate representative

| | No. and date of the plan | Number of shares granted during the financial year | Value of the shares according to the method adopted for the consolidated financial statement (1) | Purchase date | Dates of availability | Performance goals |
|---|---|---|---|---|---|---|
| Jean-Pierre Clamadieu (Chairman and Chief Executive Officer) | Plan A 2+2 2009 3/16/2009 | 37,000 | 87,690 | 3/16/2011 | 3/16/2013 | Please refer to the description of the plan above |
| | Plan B 2+2 2009 3/16/2009 | 37,000 | 87,690 | 3/16/2011 | 3/16/2013 | Please refer to the description of the plan above |
| **TOTAL** | | **74,000** | **175,380** | | | |

*(1) The value, according to the method adopted for the consolidated financial statement, is €2.37 per share (please refer to Note 34.3 to the consolidated financial statement in Chapter 6.4.2 of this Reference Document).*

The performance shares granted to the Chairman and Chief Executive Officer under the 2009 plans account for 9.7% of all shares granted by the Board of Directors under these 2009 plans and 0.07% of the share capital of the Company.

In addition, in accordance with Article L.225-197-1 II, indent 4 of the Commercial Code and with the AFEP-MEDEF Code, the Board of Directors of the Company set at 25% the number of shares allocated under these 2 plans which the Chairman and Chief Executive Officer must hold until end of his office.

The Chairman and Chief Executive Officer must also acquire on the open market a number of Rhodia shares equal to 10% of the shares becoming available under these plans.

### *Performance shares granted to the first ten employees of the Group who are not corporate representatives*

| | Total number of allocated performance shares | Affected plans |
|---|---|---|
| Performance shares granted during 2009 to the ten employees of the Group whose number of options thus granted is the highest (aggregate information) | 270,000 | Plan A 2009 2+2<br>Plan B 2009 2+2<br>Plan A 2009 4+0<br>Plan B 2009 4+0 |

### *Performance shares that became available during the financial year 2009*

No performance shares granted to corporate representatives became available during the financial year 2009.

Performance shares that became available during 2009 for each corporate representative

| Name of the corporate representative | No. and date of the plan | Number of shares that became available during the financial year | Conditions of acquisition |
|---|---|---|---|
| DOES NOT APPLY<br>NO PERFORMANCE SHARES BECAME AVAILABLE DURING 2009 | | | |

#### 4.3.4.4.2 Information on other current performance share allocation plans

*Plans for 2006*

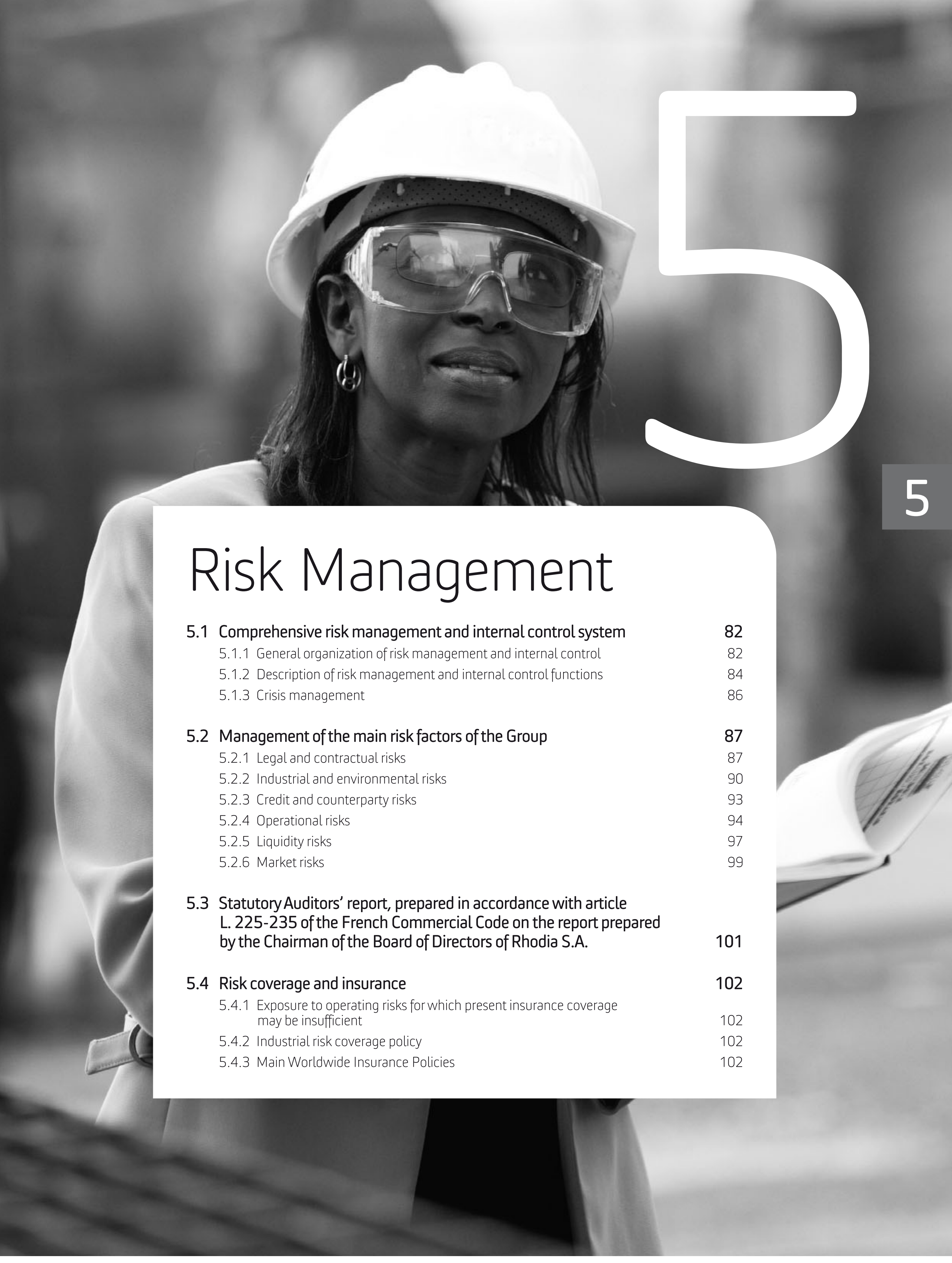
For performance share plans authorized by the Board of Directors in 2006, the 718,126 shares which had been delivered to the beneficiaries on January 14, 2008 became available on January 14, 2010 and have therefore been available for sale by the beneficiaries since that date.

*Plans for 2008*

The Board of Directors approved four performance share allocation plans in 2008. Since the performance conditions set in the A plans (2+2 and 4+0) were not reached, these plans became null and void. On the other hand, since the performance conditions set in the B plans (2+2 and 4+0) were met, the shares will be delivered to the beneficiaries of these plans at the end of the vesting period. Concerning the B 2+2 plan, the allocated shares will thus be delivered by the Company to the plan beneficiaries at the end of the vesting period, on March 17, 2010. These shares will have to be held by their owners until the expiration of the holding period, until March 19, 2012.

#### 4.3.4.4.3 Summary and features of the current plans for free allocations of shares at December 31, 2009

Please to refer to Note 34.3 to the consolidated financial statement appearing in Chapter 6.4.2 of this Reference Document.



# 5

5

# Risk Management

# 5.1 Comprehensive risk management and internal control system

*The first two paragraphs of this chapter are an integral part of the report of the Chairman on the risk management and internal control procedures as mentioned in the correlation table. The purpose of these paragraphs, prepared with the help of the Internal Control Department and the Internal Audit Department, is to present the significant internal control and risk management procedures currently in effect in the Rhodia Group, comprising the parent company and the consolidated companies. The following points are elaborated in this chapter:*

- *the general organization of risk management and internal control;*
- *a description of how risk management and internal control work.*

## 5.1.1 GENERAL ORGANIZATION OF RISK MANAGEMENT AND INTERNAL CONTROL

### 5.1.1.1 Definition and objectives of internal control at Rhodia

Rhodia uses the definition of internal control appearing in the reference work published by the AMF in January 2007, which is consistent with that of the COSO (Committee of Sponsoring Organizations of the Treadway Commission), the standards which Rhodia has adopted.

Internal control is a system defined and implemented by the Group, under its responsibility, which aims to ensure:

- compliance with all rules and regulations;
- the application of the guidelines and instructions outlined by General Management;
- the smooth functioning of the company's internal processes, specifically those contributing to the protection of its assets;
- the trustworthiness of financial information;

and anything which, in more general terms, contributes to the management of the business, the effectiveness of its operations and the efficient use of its resources.

To be effective, the internal control system relies:

- on the code of conduct and integrity advocated by the governing bodies of the Company and communicated to all employees;

and on:

- a description of the processes, flow of information and responsibilities;
- control activities tailored to each process;
- an organization based on the separation of tasks:
  - keeping the recording tasks, the operational tasks and the record-keeping tasks separate,
  - keeping operational activities separate from supervisory activities;
- the continuous monitoring of the internal audit system and a regular review of its methods of operation.

Internal control thus contributes to identify, prevent and control the risks that might affect the goals of the Group.

It should be noted, however, that any control system, powerful and effective is it may be, can give only reasonable but never absolute assurance that the objectives pursued will be reached.

### 5.1.1.2 Definition and objectives of risk management

The risk management process is designed to:

- identify and evaluate the main risks that might prevent the various entities of the Group from reaching their goals;
- ensure that these risks are dealt with.

Until 2008, this process was managed independently by each entity of the Group.

In 2009, a common approach of management (the Enterprise Risk Management method – ERM) was instituted at each Enterprise, Department and Zone so as to reinforce the global vision of the risks at the level of the Group.

### 5.1.1.3 The players involved in risk management and internal control

**General Management** in its function as business manager is of course the principal player in defining the principles and in implementing risk management and internal control procedures.

A **Risk Committee** was created in 2009, replacing the Internal Control Supervisory Committee. This internal committee is composed of the Chief Operating Officer, the Group Executive Vice President and Chief Financial Officer, the General Council and Corporate Secretary, the Manager of Sustainable Development, the Manager of Information Systems, the Risk Manager and the Internal Audit Manager.

The Committee is in charge of:

- validating the principal orientation of the Company and the organization chosen for the purpose;
- making key decisions as to what is an acceptable risk and the resources dedicated to risk management;
- reviewing the progress of the work and the corrective measures taken;
- assuring the application of the internal control standards of the Group.

Each **General Manager of** a **Business Unit, Function** or **Zone** is responsible for the risk management relevant to his area.

The **Department Managers**, members of the Management Committee or the Executive Committee, are responsible for designing, changing, communicating and monitoring each of their processes and are, for this reason, **Corporate Process Owners** (CPOs). They guarantee that the sub-processes and the internal control processes of their Department are applied.

This role may be delegated to one or more **Corporate Process Managers** (CPMs) who are in charge of the key sub-processes and rely on their knowledge of the processes to identify and evaluate risks. They design monitoring procedures and activities adapted to these risks and introduce them to the entire Group.

For this purpose they rely on a network of **Local Process Owners** (LPOs).

**Operational Personnel** must take ownership of the processes and controls defined by the CPM and ensure their implementation and proper functioning.

The **Risk Management Department** created in 2009 and reporting to the Chief Finance Officer:

- provides methodological Risk management support to the Enterprises, Departments and Zones and assists in deploying it;
- consolidates the main risks at the level of the Group by using a common standard;
- assures the review of these risks and the action plans designed by the Enterprises and Functions in order to deal with them.

In terms of internal control it:

- provides methodological support to the CPOs and CPMs in designing and introducing the internal control system for all processes under their responsibility;
- makes sure that control activities are tailored to the risks of each process;
- makes sure that the organization allows for the separation of responsibilities (in particular between operational activities and supervisory activities).

The **Internal Audit Department** reports to the Chairman and Chief Executive Officer of the Group, which guarantees the independence that is essential to its effectiveness. Its general mission and rules of intervention are formalized in the Internal Audit Charter which is inspired by the principles recognized in the profession (IIA/IFACI).

**Internal Audit** carries out reviews of operations and procedures, and recommends improvements related to internal control within the frame of reference of the Group and in particular the Management Book and the Code of Conduct.

It also has global responsibility for the annual evaluation of internal control to be submitted to General Management.

**Finally, it is the role of the Board of Directors, together with its Audit and Risk Committee to:**

- monitor the way financial information is presented;
- monitor the effectiveness of the internal audit and risk management systems of the Group;
- monitor and review the independence of the statutory audit of the accounts.

## 5.1.2 DESCRIPTION OF RISK MANAGEMENT AND INTERNAL CONTROL FUNCTIONS

### 5.1.2.1 The control environment

Most policies and various standards of the Group (rules, regulations, best practices, etc.) which apply to all subsidiaries may be accessed via the Intranet of the Group.

They specifically include:

- the **Management Book**, which links corporate governance and internal control. This document describes the processes underlying the operation of the Group.

  The ten processes presented in the Management Book are the following:

– the Spring System, a dynamic process of management forecasts,

– Marketing & Sales,

– Industrial,

– Finance,

– Legal,

– Information Systems,

– Purchasing and Procurement,

– Human Resources,

– Communications & Public Relations,

– Research & Development.

  Each of these processes is placed under the responsibility of a Corporate Process Manager (CPM).

  The goals to be reached, the sub-processes, the risks related to the processes, the *red lines* wich are principles that all employees must follow, and the rules to be followed as well as the audit standard(s) are described for each process.

- the **Compliance Policy**, which is meant to prevent certain legal risks which employees and corporate officers of the Group might face, and which deals with the ethical principles to which they must adhere, especially with regard to the following topics:

– Purchase and sale of shares (insider trading),

– Protection of sensitive information,

– Protection of the legal entity,

– Conflicts of interest,

– Use of communication networks,

– Respect for unrestricted competition,

– Best business practices,

– Prevention of the risk of bribery,

– Responsible influence;

- the **Fraud Reporting Procedure**, whose purpose is to allow the investigation of cases of fraud and the monitoring of measures taken against fraud. It requires the supervisor or finance manager to ensure that all cases of fraud are reported to the Corporate Financial Comptroller and the Internal Audit Manager using the appropriate form. Measures to make the various players aware of best practices are regularly undertaken in cooperation with the Internal Audit Department, either within the context of special sessions or by way of the newsletter that is distributed in-house to all employees of the Group;
- the **Rhodia Way® Standard**, which establishes the Group's ambitions in terms of responsibility toward its customers, employees, suppliers, investors, communities and the environment. An analysis matrix and a rating system allow managers to evaluate on a yearly basis the level of progress in terms of the Social and Environmental Responsibility (RSE) of their units and to define progress plans;
- the **Ethical Code for Financial Managers,** which specifies the rules of conduct expected from the principal managers of the Finance Department who, with their signature, personally commit themselves to complying with the Code;
- the **Internal Audit Charter of the Group,** which defines the rights and obligations of the auditing and audited entities;
- **Whistle-blowing,** which allows any employee of the Group to report to the Ethics Committee by mail or e-mail, either anonymously or openly, any breach of the accounting and financial rules. In order to respect confidentiality, the Ethics Committee, made up of five employees of the Group, investigates the allegations before sending the accepted files to the General Management, which must decide on measures to be taken. The National Commission for Data Protection and Liberties (CNIL) guidelines were analyzed and taken into consideration when setting up this procedure. So far, use of the whistle-blowing mechanism has been marginal.

The general policies defined by the Corporate Process Managers are set forth in the Group Procedures, accessible on the Group Intranet, and can be tailored to the local specifics of the subsidiaries.

In particular, the Finance Department provides the following documents on a dedicated Intranet:

- a Group Reporting Guide specifying the accounting principles to be applied in the framework of the consolidation, with detailed explanations of the more complex issues. This Guide is regularly updated by the central consolidation team as a function of changes in the financial reporting standards (IFRS);

- Group procedures that serve as a general framework for the managers of the Finance Department and which, if necessary, can be tailored to local circumstances;
- instructions issued before the quarterly closing, which emphasize the topics to be considered, with special attention paid to the changes in accounting rules or possible improvements recommended after the previous quarterly closing.

Finally, and as in previous years, the Chief Executive Officers and General Managers of the various consolidated legal entities answered a questionnaire in January 2010, covering some fifty points related to internal control, before signing letters of affirmation pledging their responsibility for following and applying the procedures and controls that ensure the trustworthiness of the information published in 2009 and relevant to their area.

### 5.1.2.2 Risk management

Rhodia manages its risks with a sustainable development approach, the objective of which is to better protect its employees, the environment, its customers and suppliers, and also to safeguard the assets of the company.

For many years now, the Group has been implementing processes to ensure that risks, specifically industrial and environmental risks and risks related to products sold by Rhodia, are assessed and managed at the appropriate level of the organization.

In 2009, in order to improve the overall vision of the risks to which the Group is exposed, a methodology called Enterprise Risk Management (ERM) was developed by Risk Management. It is broken down into the following phases:

- identifying and assessing risks;
- dealing with risks, including the definition of action management plans and risk mitigation;
- monitoring and controlling the risk mechanism.

A unique methodology, a common language and standards were defined and are used by the Enterprises, Departments and Zones.

### 5.1.2.3 Control activities

In terms of financial reporting, process managers in 2009 continued to improve the standards for controlling risks, in particular to reduce the risks that might have a negative effect on the trustworthiness of the financial reporting system. Within this context these efforts led to:

- the identification of risks that might compromise the trustworthiness of the financial reporting system;
- the definition, if necessary, and, whenever possible, the standardization of key controls, specifying in particular their nature and frequency;
- the deployment of controls at all relevant levels of the organization.

The principal processes that have an impact on the preparation of financial information, and for which key controls were put in place, cover the following areas:

- consolidation and preparation of the financial documents;
- taxation;
- management of cash flow and financing operations;
- account-closing processes;
- inventory management (physical inventories, valuation, etc.);
- management of environmental costs and provisions;
- purchases, procurement (from purchase orders to the payment of invoices);
- sales (from taking the order to receipt of payment, management of Client accounts);
- management of tangible and intangible fixed assets;
- payroll and management of social commitments (including pensions and related benefits);
- data processing controls.

Some processes specific to the activities of the Enterprise Energy Services are added to the processes common to all subsidiaries within the Group's scope of consolidation.

Management's instructions and guidelines in the areas of Health, Safety and the Environment (HSE) and product safety (Responsible Care®) are expressed either in the form of the *"red lines"* found in the Management Book or in the form of rules and regulations. Their implementation is measured with an assessment *("Responsible Care Assessment®")*, which undergoes a yearly external audit (please see the report and certification by PricewaterhouseCoopers Audit regarding the calculation of environmental and security indicators in 2009 in Chapter 3.5 of this Reference Document).

The Industrial Management Department ensures the compliance of Group sites to the relevant laws and regulations within the framework of audits carried out at least every 3 years and based on two standards, one for locations with more than 100 employees and the other for locations with fewer than 100 employees.

In addition, for Social and Environmental Responsibility, Rhodia signed an agreement in 2005 with the ICEM, the International Federation of Chemical, Energy, Mine and General Workers' Unions, which was renewed in March 2008 for a three-year period.

Every year, an assessment of how this agreement is applied is prepared, and compliance with the commitments under the agreement and the achievements in this context are monitored jointly with the ICEM.

### 5.1.2.4 Information and communication

The Information Systems Department is responsible for all information and telecommunication systems of the Group. It is organized in a way that favors the independence of the operational activities of the Group. It manages the infrastructure and worldwide computer services.

All financial information related to consolidated data is obtained through a single, centrally managed consolidation computer tool (Magnitude).

A majority of operating subsidiaries use a unified computer software program to manage their operations. The Group is seeking convergence in this area through the generalized use of a centralized system named RCS (Rhodia Core System).

The general controls for the information systems cover compliance with laws and regulations, the security and protection of the data, and the quality aspects aimed at finding solutions (change management) and services (operations) that best fit the needs of the user.

A team of computer specialists who are independent from the project or operating teams but work closely with Rhodia Group's Internal Audit Department monitors the effectiveness of the controls as so defined and also makes suggestions for improvement. These controls are also reviewed annually by Rhodia's Statutory Auditors.

The same is true for the area of communications, whose policies and standards (rules, procedures, best practices, etc.) which all entities of the Group must apply, can easily be accessed on the global Intranet of the Group. An internal bi-monthly webzine used by all employees of the company around the world is intended in particular for relaying and explaining these policies and standards, while at the same time promoting the sharing of best practices. Lastly, up-to-date news of the Group may be accessed on the homepage of the Intranet and all employees are regularly informed about this via an e-mail alert system.

### 5.1.2.5 Steering "internal control over the financial reporting" process

To ensure the desired degree of local appropriation and implementation of the internal control of financial reporting, the Risk Management Department updates, together with the managers responsible for the process (Corporate Process managers, the standards for the preparation and processing of financial and accounting information. It ensures that control activities match the Group's risks and that key controls are in place.

The Internal Audit Department determines the policies for testing such key controls, at both the corporate and subsidiary levels, in order to arrive at a statistically significant notion of the degree to which the risks are controlled and to ensure adequate coverage of the inherent risks of the different account categories. In 2009, effectiveness tests were conducted on approximately 2,000 control points, including approximately 150 specific to Information systems.

The Internal Control Department managed this process by using a specific computer tool and by centralizing, for the whole Group, the key controls in place, the results of the effectiveness tests and, where appropriate, the corrective actions decided upon.

The Internal Audit Department submits an action program each year for the approval of General Management, which is based primarily on:

- the requests made by the principal managers of the Group (Enterprises, Departments, Zones);
- the analysis of the results of the evaluations of previous years;
- specific criteria for regular coverage of the principal locations and entities of the Group.

In 2009, the work of the Internal Control Department and the Internal Audit Department was supervised by:

- the Risk Committee, which met three times in 2009 in order to validate the chosen main direction and organization, make key decisions, especially on the nature of acceptable risk, take note of the progress of the work and the corrective measures taken, and monitor the deployment of Rhodia's internal control model;
- the Audit and Risk Committee of the Board of Directors, which was kept informed in 2009 on a regular basis about the progress of the work and the results that were achieved. In addition, the Audit and Risk Committee is kept up to date on cases of fraud detected and the measures undertaken in that regard. The few cases identified in 2009 were not related to facts leading to any significant loss of assets on the part of Rhodia.

Rhodia recognizes the importance of the internal control tools for keeping these activities in check, for the effectiveness of its operations and the efficient use of its resources. The elements described in this report testify to the Group's progress in this area.

## 5.1.3 CRISIS MANAGEMENT

A crisis is defined as any actual or potential event which may, because of its possible effects or its media coverage, adversely affect Rhodia's image and strategic interests vis-à-vis customers, personnel, shareholders or the general public. Such an event may be industrial, commercial, logistical, legal, financial, political or social in nature.

Rhodia's crisis management procedure aims to disseminate and share information concerning a potential crisis situation, identify the individuals responsible for managing the situation, guarantee the responsiveness of the decisions and ensure effective communications throughout the various entities of the Rhodia Group vis-à-vis the internal and external audience.

A crisis is managed by the crisis units closest to the event and the principal actors, by the site managers, Enterprises, commercial entities, corporate departments, countries or zones concerned.

# 5.2 Management of the main risk factors of the Group

## 5.2.1 LEGAL AND CONTRACTUAL RISKS

### 5.2.1.1 Risks resulting from current or future regulations

#### Environmental, health and safety risk

*Identification of the risk*

Rhodia's activities must comply with a set of continually changing environmental, health and safety laws and regulations at the local, national and international level. These regulations impose increasingly stringent restrictions concerning air and water pollution, the use and handling of hazardous materials, the storage and disposal of hazardous materials and waste and the clean-up of environmental contamination. In particular, industrial activities require prior permits or licenses in most countries and markets in which Rhodia operates. Moreover, they are for the most part regulated: biocides, materials in contact with food, cosmetics, pharmaceuticals, etc.

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

Rhodia could also incur significant expenses in the event that new regulations or governmental policies are enacted or if the courts or competent authorities interpret or apply current regulations more strictly. For example, Rhodia has incurred substantial costs with the implementation of the REACH regulations. Also, considerable expenditures could be necessary particularly if certain materials, especially materials with low radioactivity, which have, up to now, been considered partially recyclable by the Group and which are currently stored at the La Rochelle site, were to be considered by the government as waste that must be transferred to specialized and regulated off-site storage locations.

In Europe, the application of the Water Framework Directive and the reviews underway in other European directives, in particular the directive relating to industrial emissions (Industrial Emission Directive – IED), could change the obligations of Rhodia in these areas.

Concerning France, certain provisions in the Environmental Code introduced in 2005 could result in new costs for the Group. For example, the provisions of Article R.515-39 et seq. of the Environmental Code regarding risk prevention plans created measures for monitoring the urbanization around the most hazardous sites. A technological risk prevention plan would have to be implemented for approximately eight sites that Rhodia operates in France. In addition, the provisions of Articles R.512-1 et seq. of the Environmental Code provide for new security and remedial procedures for a site when operations cease. These provisions could in certain cases generate additional costs, depending on the outcome of the discussions with the relevant authorities.

The cessation of operations or the protection of soil and groundwater or the impact on the surroundings could result in considerable expenses for remedial measures, including for fines and penalties. The potential liabilities, estimated at approximately €183 million at December 31, 2008, were reappraised at approximately €181 million at December 31, 2009 (gross amount without financial update). The potential liabilities relate mainly to the sites of La Rochelle and Pont de Claix (France), Silver Bow and Freeport (United States of America) and Cubatao (Brazil), for the possible obligation to store and or process waste or materials off-site, as well as the possible containment of an internal landfill in France. The fact that the overall amount did not change much is due to the reappraisal of the contingent liability for Cubatao, neutralized by a partial reduction of the potential liability in Pont-de-Claix and La Rochelle.

These new regulations or the modification of current regulations may limit Rhodia's ability to modify or develop its facilities or continue its operations, and could force the Company to install expensive control equipment or commit to unforeseen substantial expenses, including the decontamination of polluted sites. Non-compliance with these regulations could entail administrative, civil, financial, criminal or other sanctions against Rhodia, which could have negative consequences on its business, its results and its financial position.

Moreover, Rhodia could be held liable, under certain laws such as the U.S. Comprehensive Environmental Response, Compensation and Liability Act (known as Superfund Act), to contribute to the expenses for remedial measures undertaken at sites or installations operated by Rhodia or belonging to third parties, on which Rhodia stored or disposed of waste. Under the terms of these laws, the owner or operator of contaminated sites and the producer of waste sent to these sites could be held jointly liable for the decontamination of such sites, irrespective of guilt (please refer to Note 28.4 (Environment) of the notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document).

### *Risk management*

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

Also, Rhodia has had facilities in the various countries in which it operates for many years and therefore has a thorough knowledge of the applicable regulations, and a good relationship with local authorities which makes it possible to anticipate, to some extent, regulatory modifications that might be introduced.

In addition, in the context of its Sustainable Development policy, Rhodia is committed to applying high standards for the environment, health and safety, which are identical in all locations around the world. This policy allows us to anticipate the consequences of new regulatory requirements, particularly in countries where the regulatory framework is, at this point, still not as stringent.

As an example, the systematic research into its hazardous waste, the goal to clean up the bodies of water by 2015 and the reduction of NOx emissions at its industrial sites illustrate how the Group manages this risk (please refer to Chapter 3 "Responsibilities and sustainable development").

Finally, Rhodia ensures regulatory compliance by its own Environment teams (Responsible Care® and Environmental Rehabilitation Functions) and the same in principal countries through the monthly bulletins prepared by specialized consulting firms. Rhodia also participates in work groups prior to the adoption of these laws and regulations.

## Compliance with fiscal regulations

### *Identification of the risk*

Rhodia has operations in many countries in Europe, the Asia-Pacific area, North America and South America and is therefore liable to pay taxes in many fiscal jurisdictions. The tax burden on the Group thus depends in particular on the interpretation of local tax regulations, bilateral or multilateral international tax treaties and the administrative doctrines in each one of these jurisdictions.

Changes in these tax regimes could have an impact on Rhodia's tax burden.

### *Risk management*

Rhodia has a Tax Department supported primarily by local teams in the main countries in which Rhodia operates, and it uses external consultants, if necessary. These teams constantly review the regulatory environment in the various countries in order to be able to anticipate changes, to the extent possible, in local tax laws.

The Tax Department also proceeds with an exhaustive quarterly review of the tax positions everywhere the Group operates and is, consequently, susceptible to being audited. In the case of an audit led by foreign tax authorities, the Tax Department will supply aid and assistance to the local teams.

In addition, Rhodia relies on the rules enacted by the OECD, notably with regards to transfer prices. The Group is committed to reviewing the determination of these prices with the objective of ensuring the security of completed transactions. To this effect, the adoption of regulations respecting OECD principles allows the reduction of exposure. The Group may also have recourse pursuant to advanced pricing approval procedures (APA), with the objective of controlling the risks linked to such transactions, with the agreement of the tax authorities of the relevant countries.

## Competition law compliance

### *Identification of the risk*

Taking into account its strong focus on some of its markets, the Group cannot exclude the risk that it will be the subject of investigations relative to unfair competition practices by the relevant antitrust authorities. These investigations could result in a judgment and the payment of fines or penalties which, taking into account the level of the fines that could be imposed by the antitrust authorities, could have a negative impact on the image of Rhodia as well as on its results and its financial position. However, Rhodia is not aware of any current practices or complaints of this nature.

### *Risk management*

In this context, the Group implements its commercial and industrial strategy very prudently so as to ensure that its employees do not employ unfair competition practices (abuse of dominant market position, agreements with other market players, etc.). Various tools and resources have been put in place to raise the awareness of the employees of the Group with regard to these risks:

- the Group's Rules of Conduct, subject to regular updates, lay down the general rules and principles of behavior to be followed and complied with by all employees of the Group;
- information, training and awareness sessions are organized on a regular basis with regard to these rules of conduct.

### 5.2.1.2 Risks due to non-performance under a contract

#### *Identification of the risk*

Certain contracts entered into with suppliers or customers may entail obligations for purchasing a minimum product volume (clauses known as "take or pay") or firm commitments for the delivery of certain quantities of products within certain time periods. Thus, the failure to perform under these purchase or sale contracts could result in the payment of indemnities to customers or suppliers, which could have a negative impact on the results or the financial position of Rhodia. This risk is all the more important during an economic crisis in the event of a sharp drop in demand. Thus, the drop in demand that occurred in the fourth quarter of 2008 forced Rhodia to adjust its raw materials purchase orders, and in certain cases to renege on some of its commitments to its suppliers and pay the penalties set forth in the contract. This could negatively affect the results of Rhodia and its financial position. Please refer to Chapter 5.2.6.2 "Risks related to raw materials and energy" for further information on the supplier as counterparty risk.

#### *Risk management*

In order to manage this risk, Rhodia tries to limit the scope of such commitments by including hardship clauses which enable it to renegotiate the contract or to adapt its application whenever the particular economic circumstances would lead to an economic imbalance between the parties.

### 5.2.1.3 Intellectual property risk

#### *Identification of the risk*

Rhodia's business relies, to some extent, on controlling its key technologies and its capacity for innovation. The denial by third parties of Rhodia's right to use certain technologies could affect its business. In the same way, an insufficient protection of its innovations could limit its prospects for the future.

#### *Risk management*

Rhodia is implementing a dynamic policy for protecting its innovations and its know-how. In 2009, Rhodia filed 110 patent applications for a range of products and methods which added clout to its already considerable global trademark and patent portfolio. Moreover, Rhodia takes special precautions to protect its innovations and know-how in its selection of partners in research and development as well as by the localization of its research activities. Depending on its operating needs, the Group may also acquire or grant patent licenses.

### 5.2.1.4 Joint venture risks

#### *Identification of the risk*

Rhodia has developed strategic partnerships with other companies in order to have access to new businesses, new markets or new technologies or know-how. Some of these strategic partnerships take the form of joint ventures over which Rhodia has no control. A list of these joint ventures consolidated by Rhodia appears in Note 37 (List of companies included in the consolidated financial statements at December 31, 2009) of the notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

Rhodia bears the risks inherently associated with this type of structure. Depending on the case, because of the autonomy of these joint ventures or the rules regarding power-sharing at shareholder meetings, Rhodia might have to abide by decisions relating in particular to new financing, capital expenditures, approval of operating plans as well as the timing and the amount of the dividend distributions. Also, any serious disagreements between the associates may generate situations where the actions of the joint venture are blocked. Such situations could have an unfavorable impact on the results and the financial position of the Group.

#### *Risk management*

Rhodia is implementing the usual practices aimed at managing risks related to joint ventures. For example, Rhodia tries to make sure that it holds, if at all possible, at least 50% of the capital of any significant joint venture. Moreover, Rhodia tries to negotiate and include stipulations in the agreements signed by it with its partners, which are intended to ensure a just power-sharing between the associates within the governing bodies on which they are represented. Other clauses of these agreements make it possible to resolve blockages.

### 5.2.1.5 Risks related to mergers/ acquisitions

#### *Identification of the risk*

By implementing its strategic plan focused on those businesses where Rhodia is the market leader, Rhodia sold a number of businesses to third parties over the past several years. Under these sales agreements, and as is usual in similar cases, Rhodia might have given guarantees to the purchasers, particularly with regard to the conformity of the sold business with the legislative and regulatory requirements, to business liabilities and to business assets. In addition to these contractual commitments, Rhodia could be held liable as the seller, depending on the applicable laws.

Rhodia also undertook targeted acquisitions and intends to continue pursuing this avenue. Acquisitions might expose Rhodia to the various risks and in particular to contingent liabilities or responsibilities attached to these businesses.

Moreover, these operations and their prospects are based on assumptions which, if they do not materialize, could weigh down the growth prospects of the acquired businesses.

*Risk management*

In order to manage the risks related to mergers/acquisitions, Rhodia relies on specialized internal services and also makes use of reputable outside consultants. Also, Rhodia takes all useful precautions when starting to look for and evaluate acquisition targets and when analyzing their risks.

In addition, Rhodia includes the usual contractual clauses when negotiating these transactions, with the intent to limit its liability in case of a sale and to obtain guarantees from third-party vendors in case of a purchase.

### 5.2.1.6 Judicial and arbitral procedures

In the ordinary course of its business, Rhodia is and might be involved in complaints and actions filed mainly by the buyers of businesses previously sold by Rhodia or in connection with environmental claims or civil liability claims related to chemicals marketed by Rhodia. Rhodia is also subject to certain claims and lawsuits which fall outside the scope of its normal business, the most significant of which are summarized below in Note 32 of the notes to the consolidated financial statements appearing in Chapter 6.4.2 of this Reference Document.

There are no other governmental, legal or arbitral procedures aside from the ones mentioned above, including proceedings of which Rhodia is aware or which are pending or imminent, which are likely to have, or have had during the last twelve months, a significant impact on its financial position or its profitability.

## 5.2.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

### 5.2.2.1 Risks related to our current business

#### 1. Risks related to the health and the safety of individuals

#### Health risks

*Identification of the risks*

Occupational hazards [28] identified by the Group are mostly a consequence of past exposure.

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

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

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

*Risk management*

Rhodia has made the health and safety of its employees a priority. Providing good working conditions and managing risks are daily concerns for the Group. To this end, Rhodia has set up systematic preventive procedures with regard to the health, not only of its own employees, but also that of third parties who work on its sites, as well as with regard to the communities surrounding its plants.

By way of illustration, Rhodia has a world-wide census and reporting system and constantly analyses all occupational diseases reported by the employees and pensioners of the Group as well as by employees who resigned on their own initiative. A data-processing tool which will make it possible to keep better track of collective exposures and ensure follow-up over a period of more than 50 years will be gradually introduced world-wide starting in 2010. In the long term, the link between this management tool and the human resources tool will allow us to reconstruct the entire professional career and track down possible exposures.

Please refer to Chapter 3 (Responsibilities & Sustainable Development) for more detailed information on health-related risks.

*(28) Illnesses recognized or likely to be recognized in the future, according to the definition provided by public health authorities and as defined by the internal procedures of the Group (DRC 28), which are part of the occupational hazards management.*

## Risks related to the safety of individuals

### *Identification of the risks*

The operation of the production tools of the Group, both in a stationary and in a transit mode, under sometimes severe operating conditions (pressure level and high temperature), as well as the situations made necessary for the maintenance of these tools or for correcting any abnormal situation, is the foremost work accident risk.

The handling and possible contact with some of our products and hazardous raw materials is the second most important work accident risk.

### *Risk management*

The policy of the Group makes the prevention of professional risks part of its safety approach.

The signing of the Responsible Care® Global Charter in November 2006 reinforced the Responsible Care® commitment (Progress Commitment) that has been in place for more than thirty years. This risk control policy is one of the three pillars of the Group's Sustainable Development policy and is reflected in continuous performance improvements. As demonstrated by the work accident frequency rate indicated in Chapter 3.3 above, Rhodia is achieving excellent results in terms of constant year-to-year improvements in work safety.

## 2. Risks related to the operation of industrial sites

### *Identification of the risks*

Rhodia's business activities create certain inherent major risks which expose it to health, safety and environmental liability. In particular, Rhodia operates a certain number of "Seveso" installations as defined by European Directive 96/82/CE of December 9, 1996, known as the "Seveso Directive", or similar facilities outside Europe, where hazardous substances such as natural gas, ammonia, butadiene, cyanhydric acid, fluorhydric acid, phenol and cyclohexane, which can pose significant risks for the health and safety of the surrounding population and for the environment, are used, stored or produced. Indeed, Rhodia has been and could be held liable for personal injury (resulting from exposure to hazardous substances used, produced or disposed of by Rhodia or situated on its sites) and damage to property or harm to natural resources. Such situations could have a negative impact on the results and financial situation of the Group.

### *Risk management*

Controlling its industrial risks and taking into account the environmental consequences of its activities are among Rhodia's commitments concerning Sustainable Development. Rhodia's Sustainable Development approach, presented in Chapter 3 of this Reference Document, provides additional information, particularly the main actions undertaken in 2009 for the continuous improvements in managing its industrial and environmental risks.

**Management system**

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

Rhodia has developed its own safety and environmental management system, SIMSER +, which integrates the requirements of the ISO 14001 or OSHA 18001 standards and the principal international regulations. This system, or its simplified version for smaller sites (Rhodia Rules and Recommendations/3RHSE), is implemented at all the Rhodia locations world-wide.

According to this system, each site must be audited every three years. In addition, all facilities and processes are the subject of safety studies tailored to their risks. These studies must be revised every 5 years in the light of changes in the regulations and the scientific and technical knowledge, the methods of analysis and numerical impact modeling tools.

If a significant event occurs at an installation, these reviews are initiated or updated immediately. Rhodia uses recognized methods and a network of trained experts to perform these reviews. Particular care is devoted to the "upper tier " Seveso sites (as defined by European Directive 96/80/CE of December 9, 1996, known as the "Seveso" Directive, which include facilities likely to present very large risks to the health or safety of the surrounding population and the environment due to the danger of explosion or release of harmful products) or similar sites outside Europe, 27 sites at December 31, 2009 (a site being defined as the geographic location that might belong to or be operated by several subsidiaries of the Rhodia Group) on a worldwide level (13 in Europe, including 8 in France). These safety studies allow us to identify the hazards, whether physical or chemical, and to evaluate the risks, taking into account the factors contributing to the occurrence of accidents and the potential targets. They make it possible to classify the risks into three categories. Rhodia's objective is to eliminate the highest category risks in the year following their identification.

Rhodia also encourages exchanges of experiences between its sites, which for the most part have systems for compiling incident reports. A monthly letter called "Safety Procedures" encourages such exchanges.

**Cooperation with the public authorities and the community**

Rhodia cooperates with public authorities through the Union of Chemical Industries (UIC) and the French Business Confederation (MEDEF) to enforce the decrees that implement the Law 2003-699 of July 30, 2003 with regard to industrial risks, and in particular for controlling the degree of urbanization surrounding the sites that pose a risk. Rhodia helps communicate this information through the Local Information and Consultation Committees (CLIC). With procedure DRC 40 Rhodia uses a methodology recognized by INERIS (National Institute for Environmental Industrial Risks).

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

**Capital expenditures**

As in the past, Rhodia intends to continue making investments each year in order to comply with the regulations, norms standards in force. For example, capital expenditures devoted to carrying out projects for the improvement of the environment rose to €30 million in 2009.

## 3. Risks related to products

### Product risks related to the implementation of the European regulation concerning the Registration, Evaluation and Authorization of Chemicals ("REACH")

#### *Identification of the risk*

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

Rhodia had been actively preparing for the REACH regulation for the past five years. As of December 1, 2008, the Group had pre-registered, in conformity with the regulation, 736 substances contained in the products it imports, manufactures or sells on the European market. In addition, Rhodia pre-registered about 100 substances contained in the raw materials, as a precaution. The registration of these substances could represent approximately €80 million in expenditures on tests over the period corresponding to the implementation of the regulation, i.e., between 2008 and 2018.

The Purchasing Department of Rhodia, in conjunction with the operating units, evaluates the risks that this regulation could create for its supplies of raw materials: unwitting use by a supplier (meaning that Rhodia cannot use the product or has to proceed to register the product itself), shut-down of production of a product in the upstream chain, lack of registration of the substance by a non-European supplier, etc. About 2,300 pairings of materials/suppliers have been evaluated in this sense.

#### *Risk management*

Convinced early on of the need for regulation in this area, and adhering to its long-established culture of Responsible Care®, Rhodia has implemented REACH since 2005, particularly its "Authorization" part, notably through its *red line*, which concerns CMR substances (Carcinogens, Mutagens and substances toxic for Reproduction) and controlling risks related to the use and sale of these products. Please refer to Chapter 5.1.2.1 "Control environment" for a definition of the red line.

The Group has set up a structure as a guideline for the implementation of this regulation. In addition to all the Enterprises, it includes the departments involved (Purchasing, Information Systems, Legal, etc.). Furthermore, a project director was appointed at the end of 2007.

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

Rhodia also contributes actively to the implementation of REACH by its suppliers and customers by providing them with the necessary documents to register the supplied substances (chemical safety and risk evaluation report).

Rhodia's support for the European REACH regulation program is consistent with the Group's commitment to Sustainable Development and its reputation as a responsible producer of chemicals.

### Risks related to the shipment of products

#### *Identification of the risks*

Rhodia calls upon the services of freight carriers for the shipment of its manufactured goods to its customers by road, railway, river or ocean freight.

An incident or accident during the shipment of products manufactured by Rhodia could represent a risk for the health and safety of persons and for the environment. Even if the Group is not responsible for the incident or accident, such a situation could have negative consequences for Rhodia's reputation.

To the knowledge of Rhodia, the image of the Group has not been significantly affected by incidents or accidents during the shipment of its products until now.

#### *Risk management*

Rhodia pays particular attention to which carriers it chooses by using the data published by the European Chemical Industry Council (CEFIC). In 2009 the carrier selection process was expanded to include the Sustainable Development and Social Responsibility criteria. Lastly, the Group carries out a qualitative review of the services of its carriers.

The management of the risks related to the shipment of the products manufactured by Rhodia is completely integrated with its continuous progress policy as regards health, safety, environment and transportation. Prevention, just like the preparation for various types of accidental situations, whether they are related to the industry, the products or the shipment of these products, lies at the heart of its risk management system in these areas.

By way of example, the Rhodia locations and the carriers jointly implement safety plans for high-risk hazardous raw materials. These plans formalize the measures or precautions to take in order to minimize the risk of theft or the improper or malevolent use of hazardous materials that could put people, property or the environment at risk.

Moreover, during 2010 Rhodia plans to introduce an international emergency number that will be operational 24 hours a day, 365 days per year, to answer any inquiries by customers, local authorities, freight forwarders, etc. This emergency number will allow the Group to react as quickly as possible to advise and assist the caller, in particular in the case of a freight accident.

Please refer to Chapter 3 (Responsibilities & Sustainable Development) for more information about the risk management related to the shipment of products.

### 5.2.2.2 Risks related to our past activities

#### Risks of discovery of past pollution

*Identification of the risks*

Environmental, health and safety regulations concern not only activities at sites currently in operation, but may also concern Rhodia's past activities or sites that it has shut down or sold. A large number of Rhodia's current, past or discontinued production sites have a long history of industrial use. As a result, soil and groundwater contamination has occurred at certain sites in the past, and it is possible that further contamination could be discovered at these sites or other sites in the future. Rhodia could be held liable and incur considerable expenses for remedial measures at these sites and for any new obligations in addition to those existing as of December 31, 2009.

*Risk management*

Rhodia regularly evaluates all of its environmental liabilities and the resources for dealing with them. Rhodia sets up provisions for environmental risks when it is legally, contractually or implicitly obligated to do so, when it is probable that these liabilities will translate to a commitment of resources or when the obligation can be assessed reliably at this time. Rhodia evaluates these provisions in light of its knowledge of the applicable regulations, the nature and extent of the pollution, remedial techniques, expense schedule and other available information.

As of December 31, 2009, the provisions set up by Rhodia for environmental liability expenditures (studies, soil and underground water surveys, projects to create and operate remedial tools) amounted to €239 million, compared to €196 million in 2008 and €203 million in 2007 (see Note 28 (Provisions) of the notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document).

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



## 5.2.3 CREDIT AND COUNTERPARTY RISKS

*Identification of the risks*

The credit and counterparty risk is the risk of default by a counterparty on its contractual commitments. Rhodia is exposed to the credit risk in the framework of its operational and financial activities. The maximum exposure to credit risk lies mainly in client accounts and in financial assets, including the client accounts and other debtors shown in the balance sheet.

*Risk management*

**Clients, products, markets**

Given the diversity of its portfolio, which is made up of six business lines serving highly diversified markets, Rhodia believes that it is not dependent, at the Group level, on any particular client who could have a significant impact on the financial position, operations and results of the Group. In fact, the 30 largest customers represent a total of less than 33.33% of the Group's sales, with the largest representing about 2.81% of annual sales.

On the other hand, sales of Enterprises Acetow and Silcea depend on a very limited number of customers. The markets for acetate tow used in cigarette filters and silica used in tires are highly concentrated both at the producer and the customer level.

Rhodia has implemented client risk analysis procedures that are intended to define the credit lines for each customer. The Credit Management teams monitor exposure by recovery procedures and by ensuring appropriate insurance coverage and/or guarantees.

**Indemnity insurance**

The Group has set up world-wide programs to provide to all its subsidiaries insurance coverage for the major risks, using a panel of insurers that satisfy the strictest solvency criteria.

**Credit and financial institutions**

Rhodia invests its short-term liquid assets mainly with banks or financial institutions that have an S&P and MOODY's ratings equal to or greater than A+ and Aa3 (December 31, 2009 ratings).

Interest rate and currency contracts are undertaken with banks or financial institutions with S&P and MOODY's ratings in the Investment Grade category. In addition, most of these transactions as well as those with a maturity of more than one year are undertaken with counterparties that have ratings from these agencies that are equal or greater than A- and A2 (December 31, 2009 ratings).

For further information please refer to Note 26.6 of the financial statements appearing in Chapter 6.4.2 of this Reference Document.

## 5.2.4 OPERATIONAL RISKS

### 5.2.4.1 Risks related to market cycles

*Identification of risks*

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

The fluctuations in prices and demand in the various businesses, which depend on factors that are outside of Rhodia's control, such as the general economic situation, competitive activities, international circumstances and events, changes in the regulations in France, the United States of America, China and other countries, could expose Rhodia to periods of surplus production capacity, price or volume declines and reduced margins.

The world economic crisis has caused a significant drop in demand in several of the markets served by the Group. Moreover, the depletion of inventories implemented by its customers spread to many sectors and particularly affected the Enterprises Polyamide, Silcea and Novecare, primarily during the first half of 2009. At the end of the second quarter, the depletion of inventory by customers of the Group essentially came to a halt in Europe and in the United States and the demand in emerging markets returned to levels comparable to 2008. For the whole of the year, the Enterprises Polyamide, Silcea and Novecare recorded declines in volumes of (7)%, (16)% and (22)% respectively compared to 2008. The Enterprise Energy Services recorded a decline in volume of (17)% compared with 2008, in part due to the drop in industrial activity at the locations Paulinia (Brazil) and Onsan (South Korea) as a result of the world economic crisis. The Enterprises Acetow and Éco Services on the other hand have been able to maintain their level of performance.

*Risk management*

Rhodia's trump card in facing these risks is its strong position in all its businesses world-wide, the diversity of the markets it serves and its balanced geographical presence.

In addition to its businesses located in Europe and North America, the Group has a long history in Latin America and Asia, where it continues to grow, in particular in Brazil and in China, thereby serving the increasing needs of the emerging countries. While demand was affected by the general economic crisis early in the year, it had bounced back in these countries by the end of the second quarter of 2009 to a level comparable to the same period in 2008. Demand has continued to grow and has significantly contributed to the improvement of the results of the Group in the second half of the year.

Lastly, the organization of the Group into Enterprises showed great resilience during the turnaround of the economic situation. Its management system, structured by activity and geographical zone, made it possible to calibrate the operations of the Group more closely to the demand, monitor the economic performance at every step of the way and make decisions rapidly. This effective organization and management system was the determining factor in the ability of the Group to hold onto its margins and improve the operational management of its Enterprises most affected by the crisis, in particular Polyamide and Silcea, and to optimize the cash flow in 2009.

### 5.2.4.2 Competition risks

*Identification of the risks*

While the degree of Rhodia's exposure to competition varies significantly in the markets in which it operates, it faces intense competition in certain markets. The competitive pressure on Rhodia and its products can be expressed as follows: strong price competition, primarily caused by overcapacity, competition from low-cost producers favored by a particular economic situation, and/or consolidation among our competitors or customers. By way of example, in the past the Enterprise Polyamide faced strong competitive pressure in the sector of fibers for carpets and rugs following a slowdown of the construction market in North America. Moreover, the significant drop in demand starting in the fourth quarter of 2008 in certain end-user markets served by the Group, in particular the automotive and construction markets, contributed to a surplus production capacity in certain of Rhodia's businesses and led to fierce price competition.

The emergence of new products and new technologies developed by Rhodia's competitors may also affect its competitive position in these markets.

The main competitors of Rhodia in the various markets in which it operates are listed in Chapter 2.1 of this Reference Document.

### *Risk management*

Rhodia manages this risk based on the following four principal strengths:

- a portfolio of businesses in solid leadership positions;
- a policy of continuous improvements in its industrial performance aimed at operational excellence, offering Rhodia's customers the best products, in the shortest time frame and at the best prices. This policy is based on two programs: World Class Manufacturing (WCM) and Six Sigma. Competitiveness, continuous improvement, reliable facilities, quality products and flexibility are the five pillars of the WCM program, which is spread to the Group's production facilities through the use of appropriate methods and training programs. The Six Sigma program is designed to promote a culture change and performance benchmarking;
- research and development, striving to improve the competitiveness of processes and offering Rhodia's customers innovations that meet their specific needs, particularly in the fields that help strengthen the Group's leadership position. To reach this objective, a committee in charge of the strategic marketing of innovations has been formed in the R&D Department with the mission of identifying the most promising markets, anticipating their needs, focusing research on new products and solutions that can meet these needs, and allocating the resources and skills necessary to ensure success. The general guidelines adopted by this committee in 2008 are shown in Chapter 2.3 of this Reference Document;
- the creation of lasting relationships with certain customers and close cooperation with them to develop new products that meet their needs.

Moreover, the Group has come up with a comprehensive plan for rationalizing its industrial, commercial and research activities. Multi-year programs (2009-2011) for improving competitiveness have been put in place by all Enterprises and Support Functions, making important cost-savings possible in 2009.

Finally, given the surplus production capacity on the polyamide market, the Enterprise proceeded to close its Ceriano (Italy) facility and a production line in Mississauga (Canada) in early 2009.

## 5.2.4.3 Risks related to emission credits

### *Identification of the risk*

The production and sale of emission credits contribute significantly to the results and the cash flows of the Group (see Chapter 2.2.4, Summary of Energy Services activities above). In 2009, the sale of emission credits generated €121 million of recurring EBITDA against €158 million in 2008.

Many factors have the potential to affect these results.

For example, technical or administrative difficulties could affect the ability of the Group to reduce its greenhouse gas emissions and to obtain emission credits in return.

In addition, the market for emission credits is quite volatile. As an example, the price for Certified Emission Reductions (CERs) reached a peak of €26 per ton in the month of July 2008, then declined steadily to bottom out at less than €10 per ton in February 2009. This price was €11.40 at March 15, 2010.

Lastly, this activity also depends on the standards, particularly international standards, which created this market, and on changes in these standards. The results of this activity could also suffer as a result of unfavorable changes in the regulations and local practices, in particular those of a fiscal or environmental nature.

### *Risk management*

In order to minimize these risks, the Group has set up an organization within the Enterprise Energy Services dedicated to the reduction of greenhouse gases. Its specialized teams ensure the development and implementation of greenhouse gas reduction projects both from a technical and an administrative point of view. They are responsible for registering these projects with the proper authorities and for ensuring the regular follow-up on inspections carried out by the entities accredited with the United Nations.

The Rhodia Group has partnered with Société Générale to create Orbeo. This jointly owned subsidiary has become a recognized world-wide player in the field of emission credit trading. It trades primarily the emission credits of the parent companies. It has the benefit of the expertise of Société Générale in managing market risk and has put in place prudential systems aimed at limiting exposure to risk. Orbeo is conceived as an Entreprise d'Investissement and is thereby certified by the Committee of Credit Institutions and Investment Enterprises (CECEI).

Also, Rhodia pursues hedging policies aimed at selling forward most of its emission credits at a predetermined price in order to reduce market volatility. Details on hedging the sale of emission credits can be found in Note 26.5 to the financial statements.

Lastly, Rhodia contracted an insurance policy designed to cover the trading loss risks associated with the CER, which would result from a disaster affecting its production units (coverage on the basis of the Worst-Case Scenario (WCS)).

## 5.2.4.4 Risk of failure of the internal control system

### *Identification of the risk*

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

### *Risk management*

Please refer to Chapter 5.1.2 of this Reference Document.

## 5.2.4.5 Risks related to information systems

### *Identification of the risk*

In the area of information systems, Rhodia is exposed in particular to the risk:

- of non-compliance with the laws or regulations and the risk of fraud or mischief by the manipulation or destruction of sensitive information;
- of the inability to ensure continuity of service with regard to the vital information systems holding operational and strategic information.

The impact could be felt in various fields, in particular in the industrial, financial and intellectual property areas as well as the image Rhodia enjoys world-wide.

### *Risk management*

The Information Systems Department and in particular its dedicated team of data processing specialists, who are independent of the project and operation teams, is responsible for information systems risk management.

Following the rapid changes in the field of information technology (including communications), the special IT team analyzes the vulnerability of the information systems (including communications) periodically or during the audits it undertakes in cooperation with the Internal Audit Department in order to continuously improve the risk control in the data-processing environments.

Since data processing systems are an indispensable part of many processes and data management, the internal Rhodia auditors of the Department and the external ISO auditors systematically audit the quality of the processes and controls of the information systems whenever a renewal request or new certification request is submitted.

A Crisis Management Plan (CMP) modeled after the crisis management plan of the Group (DCC01) was defined in order to ensure the handling of emergencies and the continuity of the businesses of the Group in case of an information system failure.

In 2008 Rhodia, together with U.S. chemical and transportation companies and certain data-processing companies, participated in an exercise called Cyberstorm II that was organized by U.S. Governmental Agencies. The purpose of this exercise was to measure the effectiveness of the procedures in the face of attacks or mischief perpetrated on information systems with effects felt in the industrial, financial and communications areas. This type of exercise will be repeated in 2010.

## 5.2.4.6 Country risks

### *Identification of the risk*

Rhodia is an international group of companies exposed to economic conditions, political risks and specific regulations in the countries in which it operates. In addition to Europe and North America, Rhodia also operates in Latin America and in the Asia-Pacific region, both of them strategic growth areas which represented 17% and 28% respectively of the Group's total sales in 2009. The Group's strategy is to take advantage of development opportunities in growth markets, particularly in China, South Korea and Brazil. The Group has had a presence in some of these areas for a considerable amount of time. This is particularly true for Brazil, where Rhodia has been present for approximately 90 years, and in China, where Rhodia has been operating for some thirty years.

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

### *Risk management*

In order to limit or anticipate these risks to the extent possible, Rhodia has put in place a specific organization for each of the 4 zones in which Rhodia operates. These are managed by Zone Directors who are members of the Executive Committee and rely on Country Representatives in the main countries in which the Group has a significant presence. These persons have the mission of representing and protecting the interests of Rhodia vis-à-vis the public authorities. They are also responsible for assisting the Group's entities present in their zone in order to better anticipate and comply with the particular restrictions associated with the country, the local situation and the local rules and regulations. Additionally, crisis management procedures exist in the event of a crisis in a given country or zone. These procedures are designed so that the necessary measures are taken to protect Rhodia's interests and the interests of its employees. The procedures are more fully described in Chapter 5.1.3 above.

## 5.2.5 LIQUIDITY RISKS

For a more detailed description of the financial market risks described hereafter, please refer to Note 26.7 of the notes to the consolidated financial statements on the management of financial risks and financial derivatives in Chapter 6.4.2 of this Reference Document.

### 5.2.5.1 Rhodia's financial resources

#### *Identification of the risk*

At December 31, 2009, Rhodia had a net financial indebtedness of €1,029 million, compared to €1.311 million at December 31, 2008. This reduction of €282 million is mainly due to the positive Free Cash Flow [29] of €355 million, reduced by acquisitions and other items that affected the level of debt without affecting cash flow (conversions, accounting for the debt portion of the OCEANE convertible notes).

At December 31, 2009, Rhodia had available liquidity of €1,318 million (compared to €1,036 million at December 31, 2008), consisting of €775 million in cash, cash equivalents and other liquid current financial assets and an unused syndicated credit facility of €534 million.

In light of the refinancing transactions carried out in 2006 and 2007, in particular the issuance of €1,100 million of Floating Rate Notes due in 2013 and €595 million in convertible notes (OCEANE) due in 2014, Rhodia believes that its liquidity requirements are met until the maturity of the syndicated credit facility in June 2012.

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

Rhodia is subject to restrictions and compliance with certain financial ratios with regard to its lines of credit and other loans.

The RCF (Revolving Credit Facility) and other outstanding loans, in particular the FRN (Floating Rate Note) bond, which are described in Chapter 6.1.2 Financing and capital resources, contained various covenants as of December 31, 2009 that limit the ability of Rhodia and certain of its subsidiaries to:

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

Furthermore, most of Rhodia's existing financing agreements contain cross-default provisions and/or cross-acceleration clauses, pursuant to which a payment default, payment acceleration or failure to meet a financial obligation could cause a default or acceleration of all or a significant portion of Rhodia's debt.

#### *Risk management*

Rhodia limits its exposure to liquidity risks by pooling the liquidities generated by its subsidiaries and by measuring their level on a regular basis in order to make them available quickly. The excess cash is invested preferably with Rhodia S.A. and in Brazil. The Group uses its cash pooling system to manage and invest the excess available cash in liquid instruments.

Also, maintaining the syndicated credit facility is essential to guarantee the liquidity of the Group until it matures on June 30, 2012. In the uncertain economic environment of 2009, as maintaining this facility was subordinated to observing certain financial ratios (financial covenants) tested semi-annually, Rhodia on April 3, 2009 renegotiated these ratios to allow for more flexibility between the negotiated ratios and the expected ratios. Rhodia has complied with all the applicable covenants as of December 31, 2009 and before.

*(29) The Free Cash Flow is calculated as the difference between, on one hand, the cash flow from operations before the margin call and without non-recurring refinancing expenses and, on the other hand, the acquisition of tangible fixed assets and other non-current assets.*

Lastly, Rhodia regularly monitors the financial markets in order to identify refinancing opportunities for its bonds.

Please refer to Note 24 to the consolidated financial statements appearing in Chapter 6.4.2 of this Reference Document.

## 5.2.5.2 Pension obligations

### *Identification of the risk*

Rhodia has obligations toward its employees and retirees related to pension payments and other end-of-contract benefits in most of the countries in which it operates. In the United States and in the United Kingdom, these obligations result from employment contracts, retirement plans and other employee benefit plans, some of which are accompanied by an obligation to set aside assets in order to finance these benefits. In France, pension payments and supplemental retirement benefits are defined by collective bargaining agreements, internal agreements and French legal provisions. Expenses for the year are financed from current cash flows. In France, there is no legal obligation to make provision for these obligations. As of December 31, 2009, Rhodia's contractual obligations with respect to its retirement plans in France amounted to €980 million.

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

Rhodia can therefore not guarantee that it will not be required to make additional contributions in the future. Such contributions could have a negative impact on Rhodia's financial situation and liquidity. Concerning foreign pension plans, Rhodia estimated that the current value of the payment obligations pursuant to its pension obligations amounted to €1,565 million as of December 31, 2009, (including €152 million related to countries that, like France, do not require companies to set aside separate assets to finance these obligations), and the value of its assets allocated to these plans was estimated at €1,046 million.

### *Risk management*

Rhodia's commitments with respect to pensions and other similar obligations are not fully funded.

In the countries that require that assets be set aside to finance these pension obligations, Rhodia, in cooperation with the representatives of the employees and pensioners, set up investment strategies by asset class aimed at reducing the volatility of the deficit (value of the pension obligations not covered by assets) while at the same time optimizing expected long-term returns. These strategies take into account a level of risk determined by the representatives of the employees and pensioners. In the United States of America and the United Kingdom, the strategy consists of investing part of the funds in long-term assets with a long-term inflation and interest rate sensitivity similar to that of the pension obligations (cover assets). The remainder is invested in short-term assets generating returns. The strategies are based on long-term objectives and their performance is the subject of a regular reviews.

Please refer to Note 27 (Pension and similar benefits) of the notes to the consolidated financial statements in Chapter 6.4.2 below.

## 5.2.5.3 Debt rating

Certain debt instruments are rated by two independent international rating agencies, Moody's Investors Service and Standard & Poor's.

In 2009, Moody's Investors Service maintained its Corporate Family Rating at Ba3 and changed the outlook from stable to negative in May and then back to stable in March 2010. The unsecured senior debt and the OCEANE bond kept their B1 rating.

In May 2009, Standard & Poors issued a BB- rating (stable outlook and then to a positive outlook in February 2010) to Rhodia (Corporate credit rating) and a BB- rating to the long-term borrowings in May 2009. Previously, two BB ratings had been issued.

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

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

## 5.2.6 MARKET RISKS

### 5.2.6.1 Risks related to the financial markets

For a description of financial market risks please refer to Note 26 to the consolidated financial statements on Financial risk and financial instrument risk management described in Chapter 6.4.2 of this Reference Document.

Since Rhodia holds no significant participating interests in other listed companies on the date of this Reference Document (a lawsuit with SEBI is described in Note 32 (Litigations) of the notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document), it is not exposed to any equity risk in that sense. It only uses money market instruments in the context of its current cash management which are not subjected to equity risk.

The pension plan assets are mostly invested in shares of listed companies. The breakdown is given in Note 27 (Pension and similar benefits) of the notes to the consolidated financial statements in Chapter 6.4.2 below. As mentioned in paragraph 5.2.5.2 above, the value of these assets affects the amount necessary for financing the obligations of the Group.

### 5.2.6.2 Risks related to raw materials and energy

#### *Identification of the risks*

Raw materials and energy expenses, excluding packing and shipping costs, amounted to approximately €1.4 billion in 2009. These expenses correspond to the Group's main recurring purchases of raw materials and energy and are broken down as follows:

- 26% for energy;
- 21% for raw materials derived from benzene;
- 17% for raw materials derived from natural gas;
- 11% for raw materials derived from naphtha;
- 25% for other raw materials.

Petrochemical products account for a significant portion of raw material costs, particularly products derived from benzene. Rhodia is therefore indirectly exposed to the volatility of oil prices and/or directly exposed to changes in the price of benzene. Rhodia is also exposed to price fluctuations of other raw materials, particularly natural gas.

Rhodia's ability to maintain its operating margins depends on its ability to pass on increases in the cost of raw materials through price increases.

#### *Risk management*

**Organization and mission of the Purchasing & Procurement Department**

Rhodia's raw materials purchases and procurements are managed by the Purchasing and Procurement Department. This department reports to the World-wide Purchasing & Procurement Director, a member of the Executive Committee. The World-wide Purchasing & Procurement Office defines the policies and procedures implemented by a world-wide network of purchasing agents spread over the four Geographical Zones in which the Group operates (Europe, North America, Latin America and Asia) managed by the Zone Directors.

The mission of the Purchasing & Procurement Department is to make sure that the Enterprises and the Departments have a permanent competitive advantage in terms of the products and services purchased and procured at the best market rates.

**Processes, limits and control of the commitments**

The processes as well as a set of rules and "red lines" published in Management Book (please refer to Chapter 5.1.2.1 – The control environment above) outline the methods and practices in terms of purchasing and procurement.

Purchases of strategic raw materials, which represent more than 80% of the purchasing costs of the Group, are therefore always the subject of contracts. Depending on the value, the contractual commitment is made by the Zone Purchasing Department, the World-wide Purchasing Office or even the Management Committee.

Each contract formalizes the duration of the commitment, the pricing formula and a minimum and maximum supply volume. This flexibility allows the Group to match its purchase orders with its needs. 70% of the raw materials purchases of Rhodia are secured in this way. Moreover, these contracts are increasingly accompanied by an opt-out clause (or hardship clause), facilitating the re-negotiation of the contracts in the event of an unforeseeable occurrence apt to significantly upset the balance of the services set forth in the contract.

Finally, a reporting system makes it possible to strictly monitor the performance and profits generated by the Purchasing Department.

**Management of risks related to the chain of production**

Depending on the minimum and maximum quantities negotiated in the context of the raw materials purchase contracts, the Procurement Managers adjust the orders according to an Industrial and Commercial Plan drawn up by each Enterprise. They also make sure that the products are delivered in the ordered quantity and within the time frame requested by the production sites. They share with the managers of the Purchasing and Industrial Departments the indicators for the needed inventory (Just Needed Inventory – JNI) and benchmarks regarding the quality of the services provided by the suppliers (On Time In Full – OTIF).

In addition, the risk of Rhodia depending too much on its leading vendors is managed by the World-wide Purchasing Office. It ensures a monthly review of the fallback plans designed to minimize the impact resulting from a decrease or interruption of supplies, in particular by identifying approved secondary suppliers. No significant failure has been noted in this respect by the Group over the last few years.

**Management of risks related to the volatility of raw material prices**

The management of risks related to the volatility of the raw material prices requires the ability to anticipate market trends to allow the Enterprises of the Group to quickly adjust their selling prices to the fluctuations of the purchase prices for raw materials. Based on world-wide market surveys, the Purchasing Department prepares an annual forecast of the purchase prices of the key raw materials of the Group, which is brought up to date monthly. This information is shared with the managements and the Financial Directors of the six Enterprises of the Group.

In addition, in 2009 Rhodia revised its hedging system for petrochemical raw materials. The raw materials whose purchase prices are indexed to the price of oil were the subject to a review, the same as the products manufactured by the Group whose selling price formulas explicitly use the underlying raw material costs. An exposure known as "residual" was then calculated and a hedging strategy was implemented which neutralized the fluctuations of oil prices for this residual exposure.

The management of risks related to the volatility of raw material costs has proven to be effective, as testified by the favorable correlation between the fluctuations of the selling prices and the fluctuations of the costs of raw materials and energy over the last five years.

For more information, please refer to Note 26.4 (Management of the risk of fluctuating prices for oil products) of the financial statements appearing in Chapter 6.4.2 of this Reference Document.

**Management of the risks related to the volatility of energy prices**

In the field of energy, the Enterprise Energy Services plays a special and dominant role. In fact, the purpose of this Enterprise is primarily to optimize procurement and the management of the energy resources of the Group.

The energy supply policy is adapted to the geographical area.

By way of example, in Europe the natural gas supply policy consisted in diversifying the portfolio of suppliers, in particular by resorting to overseas producers. The Enterprise Energy Services also developed alternative schemes for routing gas on French territory which enables it to buy gas at the Gas Exchange terminals (virtual points where the shippers can exchange quantities of gas) and thereby have access to supply offers by the financial players active in the commodities area.

The Enterprise Energy Services also prefers long-term commitments in certain areas in order to secure the supplies of the Group and to have sufficient transparency with regard to the purchase conditions.

For example, the Group belongs to the Exeltium consortium, which is composed of large-scale industrial consumers of electricity in France and which has signed a draft-agreement with Électricité de France (EDF) defining the conditions of a long-term industrial and commercial partnership. The individual members of this consortium benefit from long-term electricity purchase agreements at prices based specifically on the capital costs for nuclear energy of EDF. The deliveries by EDF could start in 2010 once the financing of the consortium is finalized.

Finally, the Group also implements hedging policies in order to protect itself against the strong volatility in the energy markets. Please refer to Note 26.4 (Management of the risk of fluctuating prices for oil products) of the notes to the consolidated financial statements in Chapter 6.4.2 below.

## 5.2.6.3 Interest rate risk

Please refer to Note 26.2 (Interest rate risk management) of the Notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

## 5.2.6.4 Currency risk

Please refer to Note 26.3 (Currency risk management) of the Notes to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

# 5.3 Statutory Auditors' report, prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Rhodia S.A.

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*



To the Shareholders,

In our capacity as Statutory Auditors of Rhodia S.A., and in accordance with article L.225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31st, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

### Other information

We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris La Défense, March 11, 2010

The Statutory Auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
|---|---|
| | *Division of KPMG S.A.* |
| Christian Perrier | Denis Marangé |

# 5.4 Risk coverage and insurance

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

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

However, Rhodia cannot guarantee that this coverage:

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

## 5.4.2 INDUSTRIAL RISK COVERAGE POLICY

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

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

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

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

- for the direct retention of liability claims; and
- for the retention assumed at the central level through a consolidated captive reinsurance company that assumes liability for casualty claims.

## 5.4.3 MAIN WORLDWIDE INSURANCE POLICIES

The following description of the principal insurance policies taken out by Rhodia is necessarily partial and incomplete in order to comply with confidentiality requirements and protect Rhodia's competitiveness:

- the Property and Casualty policy absorbs most of the costs (insurance premiums and prevention program). It is supplemented by business interruption coverage not only for standard fire and explosion risks, but also for equipment breakdowns and natural disasters. Coverage amounts are consistent with estimated risks. Most of the industrial sites are currently covered by an umbrella policy with a limit of €400 million per claim. The largest sites have additional coverage of up to €900 million, in line with maximum possible loss assessments;
- liability insurance includes:
  - a Civil Liability program covering both operating and product liability,
  - the Directors and Officers liability program,
  - special environmental coverage.

  Rhodia believes that the amount of its insurance coverage is consistent with market practice;

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

More than 85% of the premiums are for these programs. However, for legal or economic reasons, some countries do not belong to the worldwide programs. In these cases, coverage is provided where necessary by local policies issued either by representatives of leading insurers or, for countries with special status, by first-class local insurers.

The total cost of insurance premiums for the worldwide programs listed above amounted to approximately €18 million in 2008. Benefiting from a decline in the market, Rhodia was able to reduce this amount to less than €15 million in 2009 while improving certain terms. These premiums are paid to insurers and reinsurers independent from the Group.

On January 1, 2010, Rhodia's Property and Casualty policy, on the one hand, and General Civil and Product Liability policy, on the other, were renewed under good conditions, with an improvement in the quality of the coverage.

6

# Financial and Accounting Information

# 6.1 Analysis of 2009 Results

## 6.1.1 NET SALES AND PROFITABILITY

### 6.1.1.1 Management analysis convention

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

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

Rhodia has implemented this measure and tracks its development based on quarterly reports submitted by its various entities. Rhodia uses such measure for its internal analysis requirements. The same management information is used for its financial communication. Within the framework of the comparison of profits from operations during two periods (the "prior" period, for example 2008, and the "current" period, for example, 2009), Rhodia calculates the impact of these changes as follows:

- The impact of changes in the scope of consolidation is calculated (i) in the case of acquisitions, by including in the prior year's data the results generated by the acquired business for the months when the acquired business was present in the current year and (ii) in the case of divestitures, by excluding the results from the prior period of any activity included in the consolidated financial statement that were generated outside of the corresponding period when the asset was held in the current year.
- The impact of fluctuations in exchange rates is calculated by adjusting the prior period's results for fluctuations in exchange rates arising from the conversion into euros of items in the income statement denominated in currencies other than the euro at average exchange rates during the subsequent period.
- The impact of changes in average selling prices is calculated by comparing the current weighted average net unit selling prices for each product in the current period (for example, the euro cost per ton) against the weighted average net unit selling prices in the prior period, multiplied in both cases by volumes sold during the current period.
- The impact of changes in volumes is calculated by comparing quantities shipped in the current period against quantities shipped in the prior period, multiplied in both cases by the weighted average net unit selling price in the prior period.

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

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

| *(in million of euros)* | 2008 | **2009** |
|---|---|---|
| Operating profit | 309 | 160 |
| Other operating expenses | 63 | 62 |
| Other operating income | (36) | (39) |
| Restructuring costs | 40 | 33 |
| Total depreciation(1) | 288 | 271 |
| **RECURRING EBITDA** | **664** | **487** |

*(1) Excluding depreciation recognized in restructuring costs and other operating income and expenses*

- free cash flow is defined as cash from operating activities, excluding non-recurrent refinancing expenses and before margin calls, less the acquisition of tangible fixed assets and other non-current assets.

| *(in million of euros)* | 2008 | **2009** |
|---|---|---|
| **Net cash from operating activities before margin calls** | **319** | **546** |
| Purchases of property, plant and equipment | (241) | (167) |
| Purchases of other non-current assets | (41) | (24) |
| **FREE CASH FLOW** | **37** | **355** |

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



## 6.1.1.2 Net sales

The following table sets forth Rhodia's operating profit for the years ended December 31, 2008 and 2009:

| *(millions of euros)* | 2008 | **2009** | Changes in % |
|---|---|---|---|
| Net sales | 4,763 | 4,031 | (15.4) % |
| Other revenue | 550 | 446 | (18.9) % |
| Cost of sales | (4,382) | (3,684) | 15.9% |
| Administrative and selling expenses | (482) | (504) | (4.6) % |
| Research and Development expenditure | (73) | (73) | 0.0% |
| Restructuring costs | (40) | (33) | 17.5% |
| Other operating income/(expenses) | (27) | (23) | 14.8% |
| Operating profit/(loss) | 309 | 160 | (48.2) % |

### Net sales of Group

Rhodia's 2009 net sales amounted to €4,031 million, compared to €4,763 million in 2008, a decrease of (15.4)%.

Changes in the scope of consolidation were essentially due to the acquisition of the American company McIntyre, whose products serve the cosmetic and detergent markets, and the sale of Rhodia's distribution network in Southeast Asia, India, Australia, and Taiwan to Brenntag, a major distributor of chemical products. The net impact of these changes is an increase of 2.1%.

At a constant structure and exchange rate, net sales decreased (17.7)%. The Group suffered a (12.5)% contraction in volumes compared to 2008. The first half of 2009 was marked by an unprecedented drop in volumes, (27.1)% in the first quarter followed by (20.4)% in the second quarter, linked, on the one hand, to the global crisis that since the end of 2008 affected end user demand in a large number of the Group's markets, particularly automobile, construction and other industrial markets, and, on the other hand, to the massive reduction in inventory on the part of its clients. Polyamide, Silcea and some of Novecare's activities were the segments most affected. However, Novecare's home and personal care activities along with the Enterprises of Acetow and Eco Services, resisted the slowing economy. By the end of the first half, inventory reductions came to an end and demand progressively improved in all regions served by the Group, particularly in fast growing economies, notably in China and Brazil. This gradual recovery translated into a slower decline in volumes in the third quarter, limited to (8.8)%, and a progression of 8.0% in the fourth quarter. In addition, over the year as a whole, the Group effectively managed its selling prices in a deflationary raw material environment. The negative impact tied to selling price adjustments in this deflationary context was thus limited to (6.8)%.

## 6.1.1.3 Operating expenses

### Cost of sales

The cost of sales decreased by €698 million, or (16)%, going from € (4,382) million in 2008 to €(3,684) million in 2009. This appreciable decline in costs, basically a reflection of slowing activity and the decrease in the cost of raw materials and energy, largely offset the effects of consolidation and conversion. Thus, the ratio of cost of sales to net sales and other revenue remained stable year-on-year (82.3% in 2009, compared to 82.5% in 2008).

### Administrative and selling expenses

Administrative and selling expenses rose €22 million, increasing from €(482) million in 2008 to €(504) million in 2009.

### Research and Development expenditure

Research and Development expenditure amounted to €(73) million at the end of 2009, a level comparable to 2008. In addition, these amounts are presented net of the impact of research tax credits totaling €17 million in 2009.

### Restructuring costs

Restructuring costs amounted to €(33) million in 2009, compared to €(40) million in 2008. Restructuring provisions recorded in 2009 relate to structural measures aimed at improving the Group's competitiveness. They primarily correspond to competitiveness improvement plans launched by the Group at its Enterprises Polyamide and Novecare, as well as at its Support Functions and Salicylic businesses.

### Other operating income and expenses

Other operating income and expenses amounted to €(23) million in 2009, compared to €(27) million in 2008.

Net gains/(losses) on disposals had a positive impact of €13 million in 2009, compared to €26 million in 2008. In 2009, gains on disposals resulted primarily from disposals of real estate. In 2008, the net gains/(losses) on disposals included, in particular, the sale of Rhodia's distribution network in Southeast Asia, India, Australia, and Taiwan and its 180 employees to Brenntag, a major distributor of chemical products.

Costs related to the environment totaled €(26) million in 2009, compared to €(34) million in 2008. They correspond to the reevaluation of environmental provisions following developments in applicable regulations, the nature and extent of contamination, remediation techniques, and other available information. Please see Note 28.4 (Environment) in chapter 6.4.2 of this Reference Document.

In 2009, other operating income and expenses amounted to €(10) million, compared to €(19) million in 2008, and included, in particular, an indemnity received for Rhodia's eviction from the Wuxi site (China), appearing in the profit and loss statement as payments, as well as the trading component of Orbeo's business (buying/selling CERs and EUAs), changes in the fair value of derivatives not designated for hedging on operating elements, as well as changes in value of the ineffective portion of derivatives hedging on operations.

See also Note 7 (Other charges and operating items) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

## 6.1.1.4 Operating profit

### Operating profit

Rhodia's operating profit amounted to €160 million in 2009, compared to €309 million in 2008, or a decrease of (48.2)%.

This change comes mainly from a (26.7)% decline in recurring EBITDA, amounting to €487 million as opposed to €664 million in 2008. Thus, the recurring EBITDA margin also decreased to 12.1% in 2009, compared to 13.9% in 2008.

The negative impact of scope, for €(22) million, is essentially due to the sale of Rhodia's distribution network in Southeast Asia, India, Australia, and Taiwan to Brenntag.

The positive foreign exchange effect of €6 million results from fluctuations in exchange rates, mainly due to the appreciation of the dollar against the euro.

The steep decline in volumes between the two periods of reference, having a negative impact of €(288) million, is tied to the crisis, especially in the first half, which affected the automobile, construction, and certain other industrial markets.

In addition, selling price adjustments following the steep decline of raw materials and energy prices had a negative impact of €(332) million, largely neutralized throughout the year by the positive impact of €384 million tied to lower raw materials and energy costs. With the exception of Polyamide in the first half, all of the Group's Enterprises maintained a favorable price dynamic for the year by progressively adjusting their selling prices to those of raw materials and energy, which were lower than the previous year's levels. As for Polyamide, which, during the first half, had to consume its inventories of raw materials acquired at elevated prices in the second half of 2008, its profitability was strongly affected in the first half (negative impact of €(123) million tied to its consumption of expensive raw materials inventories while selling prices had to be adjusted to sharply falling spot market prices for raw materials). Once these expensive inventories had been absorbed, and thanks to demand picking up, however, a favorable price dynamic was reestablished in the second half.

In addition, sales benefited from a positive transactional foreign exchange effect of €76 million, while raw material and energy purchases were impacted by a negative transactional foreign exchange effect of €(31) million, basically due to the appreciation of the US dollar against the Brazilian real and the Korean won.

The rapid deployment of cyclical measures designed to stem the crisis in demand, in addition to the early effects of structural competitiveness improvement plans, allowed the Group to make cuts of €114 million in 2009, in line with its annual target. A significant portion of these savings, however, was offset by wage inflation (an increase of €(26) million), negative effects related to changes in inventory (amounting to €(11) million), and changes in other provisions from one year to the next, such as provisions for bad debts or in connection with variable employee compensation (amounting to €(72) million). Thus, the net change in fixed expenses from one year to the next generated a positive effect of €5 million.

Restructuring costs excluding exceptional depreciation fell €13 million from one year to the next due to large provisions recorded in the annual financial statements at the end of 2008.

The change in other operating income and expenses translated into a positive effect of €27 million, essentially due to gains from disposal of property, plant and equipment recorded in 2009 and lower provisions than those established in 2008 for the revision of environmental costs.

Lastly, depreciation and amortization declined by €13 million compared to 2008, primarily due to property, plant and equipment impairment losses of the Salicylic business booked in 2008.

### 6.1.1.5 Analysis of net sales and operating profit/(loss)

The following table sets forth an analysis of change in net sales in 2009 compared to 2008:

| Change in net sales *(in millions of euros)* | Net sales 2008 | Structure | Exchange rate impact (conversion) | 2008 net sales at constant structure and exchange rate | Volume & mix | Selling price | Exchange rate impact (transaction) | Net sales 2009 | Change in net sales from 2008 to 2009 | Change in net sales from 2008 to 2009 at constant structure and exchange rate |
|---|---|---|---|---|---|---|---|---|---|---|
| **Rhodia** | 4,763 | 99 | 36 | 4,898 | (611) | (332) | 76 | 4,031 | (15.4)% | (17.7)% |
| **Polyamide** | 1,789 | 31 | (40) | 1,780 | (123) | (236) | 55 | 1,476 | (17.5)% | (17.1)% |
| **Novecare** | 971 | 79 | 17 | 1,067 | (237) | (9) | 6 | 827 | (14.8)% | (22.5)% |
| **Silcea** | 746 | 6 | 25 | 777 | (124) | (23) | 5 | 635 | (14.9)% | (18.3)% |
| **Energy Services** | 233 | - | 5 | 238 | (40) | (9) | - | 189 | (18.9)% | (20.6)% |
| **Acetow** | 467 | 36 | 3 | 506 | (1) | 36 | 8 | 549 | 17.6% | 8.5% |
| **Eco Services** | 306 | - | 17 | 323 | (21) | (91) | - | 211 | (31.0)% | (34.7)% |
| **Corporate & other (after elimination of inter-company sales)** | 251 | (53) | 9 | 207 | (65) | - | 2 | 144 | (42.6)% | (30.4)% |

The following table sets forth net contribution by Enterprise to Rhodia's net sales in 2008 and 2009:

| *(in millions of euros)* | 2008 | **2009** |
|---|---|---|
| Rhodia net sales | 4,763 | 4,031 |
| Net contribution to Rhodia's revenue by Enterprise *(as a %)*: | | |
| Polyamide | 38% | 37% |
| Novecare | 20% | 20% |
| Silcea | 16% | 16% |
| Energy Services | 5% | 5% |
| Acetow | 10% | 14% |
| Eco Services | 6% | 5% |
| Corporate & Other (after elimination of inter-company sales) | 5% | 3% |
| **TOTAL** | **100%** | **100%** |

The following table sets forth the contribution by Geographic Zone to total net sales in 2008 and 2009:

| *(in millions of euros)* | 2008 | **2009** |
|---|---|---|
| **Rhodia net sales** | **4,763** | **4,031** |
| Rhodia's net sales by destination (as a %): | | |
| France | 9% | 9% |
| Rest of Europe | 28% | 26% |
| North America | 20% | 20% |
| Latin America | 15% | 17% |
| Asia and other countries | 28% | 28% |
| **TOTAL** | **100%** | **100%** |

The following table sets forth changes in operating profit in 2009 compared to 2008:

| Change in operating profit (ROP) *(in millions of euros)* | ROP December 2008 | Structure | Exchange rate impact (conversion) | ROP at fixed structure and conversion rate December 2008 | Volume & mix-revenue | Price | Foreign exchange /Price | Price raw materials and energy | Foreign exchange /raw materials & energy | Fixed expenses | APCO * | Restructuring excluding amortization | Amortization & depreciation | **ROP December 2009** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rhodia | 309 | (22) | 6 | 293 | (288) | (332) | 76 | 384 | (31) | 5 | 27 | 13 | 13 | 160 |
| Polyamide | 10 | 4 | (3) | 11 | (68) | (236) | 55 | 180 | (28) | (13) | 4 | 17 | (2) | (80) |
| Novecare | 91 | 7 | 2 | 100 | (91) | (9) | 6 | 42 | 1 | 6 | 4 | (7) | 2 | 54 |
| Silcea | 41 | 4 | 2 | 47 | (52) | (23) | 5 | 37 | 3 | 1 | 13 | - | 3 | 34 |
| Energy Services | 195 | (2) | - | 193 | (35) | (9) | - | 6 | - | (7) | (13) | - | - | 135 |
| Acetow | 54 | 3 | - | 57 | (1) | 36 | 8 | 16 | (6) | (7) | - | - | 1 | 104 |
| Éco Services | 58 | - | 4 | 62 | (11) | (91) | - | 95 | - | 1 | - | - | (3) | 53 |
| Corporate & Other | (140) | (38) | 1 | (177) | (30) | - | 2 | 8 | (1) | 24 | 19 | 3 | 12 | (140) |

* *Other operating income and expenses*

*In this section, the impact resulting from transactional fluctuations in exchange rates upon the each Enterprise's operating profit equals the of foreign exchange effects on selling prices and purchases of raw materials.*

## Polyamide

### *Net sales*

Polyamide's net sales totaled €1,476 million in 2009, compared to €1,789 million in 2008, or a decline of (17.5)%. Fluctuations in exchange rates gave rise to a negative exchange rate impact of (2.2)%, which mainly resulted from the depreciation of the Brazilian real and the Korean won against the euro.

At a constant structure and exchange rate, Polyamide's net sales fell (17.1)%. Polyamide's volumes were down (6.9)% compared to 2008 as a result of the world economic crisis and massive inventory de-stocking on the part of its clients, which severely affected demand during the first half in most of its end markets, especially automobiles, and in all geographic regions in which the Enterprise operates. Thus, in the first half, Polyamide volumes declined by (25.6)%. Furthermore, selling prices declined significantly as prices for raw materials and energy took a sudden downturn at the end of 2008, generating a negative effect of (13.3)% compared to the previous year. Nevertheless, starting in the third quarter, Polyamide benefited from gradually recovering volumes, led by improving demand, especially in Asia and Latin America. There was clear improvement of demand on the automobile market, primarily thanks to the tax incentives implemented by numerous countries. Finally, the production capacity adjustments rapidly put into place by polyamide producers restored a satisfactory balance between supply and demand. Thanks to this restructuring of the polyamide market and the gradual recovery of demand, the Enterprise enjoyed a significant evolution of its volumes in the second half, particularly in the fourth quarter, which allowed it to restore a satisfactory selling price dynamic.

### *Operating profit*

Polyamide's operating profit fell to €(80) million in 2009, as compared to €10 million in 2008, or a decline of (900)%.

This change is explained by a (78.2)% decrease in recurring EBITDA, which amounted to €31 million in 2009 as compared to €142 million in 2008. Thus, recurring EBITDA margin resulted at 2.1%, compared to 7.9% in 2008.

Polyamide's profitability in 2009 was affected by a combination of negative factors occurring mainly in the first half. The drop in volumes, which had a negative impact of €(68) million on operating profit in 2009, essentially reflects the massive de-stocking of inventories practiced by the clients of the Enterprise during the first half, added to very weak demand. Furthermore, Polyamide's selling prices fell, with a negative impact of €(236) million over the course of the year as a whole, while the positive effect of a reduction in the price of raw materials was limited to €180 million. This negative balance of €(56) million for 2009 can be attributed entirely to the very unfavorable situation the Enterprise faced in the first half, where the net change in selling prices and the cost for purchased raw materials was a negative €(123) million. Indeed, during this period, Polyamide had to absorb expensive inventory acquired earlier and, because of the crisis in demand and the adjustment of market prices to falling raw materials and energy costs, was unable to recoup the cost of its inventory by its selling prices.

In the second half, having used up the inventories of expensive raw materials, Polyamide benefited fully from lower prices for raw materials and energy. Furthermore, thanks to the gradual recovery of demand over the same period, Polyamide restored a satisfactory dynamic of prices, allowing it to achieve a level of profitability in the fourth quarter that is comparable to that in the fourth quarter of 2007, before the crisis.

In addition, the Enterprise recorded a €27 million positive transactional foreign exchange effect resulting from the weakening of the Brazilian real and the Korean won against the US dollar.

Polyamide recorded an increase in fixed expenses resulting primarily from wage inflation, impacts connected to changes in inventories, and increases in various provisions for bad debts or in connection with variable employee compensation, for example. This increase translates into a negative impact of €(13) million that completely neutralized the savings generated by various competitiveness improvement programs that were launched in 2009. Nevertheless, that increase is compensated by the drop in restructuring costs, which had a positive impact of €17 million.

Other elements explaining the change in Polyamide's operating profit include the positive €4 million change in consolidation structure, a positive €4 million impact tied to the decrease in other revenues and operating expenses, a negative foreign exchange effect of €(3) million, and a €(2) million increase in depreciation and amortization due to accelerated amortization of assets at the sites in Ceriano (Italy) and the production facility in Mississauga (Canada) that were closed definitively in the first half of the year as part of programs to improve the competitiveness of the Enterprise.

## Novecare

### *Net sales*

Novecare's net sales fell (14.8)%, totaling €827 million in 2009, compared to €971 million in 2008.

The 8.1% positive change in the consolidation structure effect primarily resulted from the acquisition, on March 1, 2009, of the American company McIntyre, whose products serve the markets of cosmetics and detergents.

At a constant structure and exchange rate, Novecare's net sales fell (22.5)% compared to 2008, essentially due to a (22.2)% drop in volumes. There was widely contrasting performance by the Enterprise, depending on the segment. Gas industry segments were greatly affected by the slowdown in extraction activity following a decline in the price of natural gas. Furthermore, the agrochemical segment, which had been resilient in the first half, recorded declining activity in the second half due in part to the previous season's high inventories, falling prices in the agricultural sector, and unfavorable climate conditions. As for the coatings and industrial applications segments, they benefited from recovering demand in the second half, once a reduction of inventories had been achieved. Finally, the home and personal care segments showed resilience throughout the entire year.

### *Operating profit*

Novecare's operating profit amounted to €54 million in 2009, as opposed to €91 million in 2008, or a decline of (40.7)%.

This decrease came from a (26.8)% decline in recurring EBITDA, which reached €93 million in 2009, compared to €127 million in 2008. Recurring EBITDA margin thus came to 11.2% in 2009 compared to 13.1% in 2008.

Novecare's declining profitability is explained mainly by its volumes contraction that generated a €(91) million negative effect on operating profit of the Enterprise. More than one third of this negative impact was offset by the ability to maintain a very satisfactory price level despite a sharp drop in prices for raw materials and energy. The negative impact tied to selling price adjustments was in fact limited to €(9) million, while the positive impact resulting from the decrease in prices for raw materials and energy reached €42 million. Novecare's operating profit also benefited from a positive structure effect of €7 million due to acquisition of the McIntyre company.

Exchange rate fluctuations generated a positive transactional foreign exchange effect of €7 million, due primarily to a weakening of the pound sterling against the euro and the US dollar.

Furthermore, rapid implementation of programs to improve its competitiveness and cut costs allowed Novecare to reduce fixed expenses. The €6 million positive effect brought about by these efforts practicaly offset the €(7) million negative impact of restructuring costs.

The other factors accounting for the change in Novecare's operating profit can be attributed to the €4 million positive impact generated by other operating revenues and expenses, the €2 million positive impact tied to a decrease in depreciation and amortization, and, finally, the €2 million positive foreign exchange effect due to the appreciation of the US dollar against the euro.

## Silcea

### *Net sales*

With €635 million in net sales in 2009, Silcea recorded a (14.9)% decline from €746 million in 2008.

Fluctuations in exchange rates, primarily resulting from the appreciation of the US dollar, the yen and the Chinese yuan against the euro, had a positive impact of 3.4%.

At a constant structure and exchange rate, Silcea's net sales showed a decline of (18.3)% due to slower activity in the Enterprise's three segments (silica, rare earths, and diphenols). Thus, there was a (16)% decline in volumes compared to 2008. The first half saw a brutal contraction of demand tied to the world crisis in the automotive industry, the electronics market, and the markets of other industrial sectors where inventory de-stocking practices were widespread and combined to very low end demand. During this period, volumes fell (31.7)%. However, beginning in the third quarter, volumes gradually improved in all of Silcea's segments, driven by recovering demand in emerging countries, especially in Asia, where it has a solid industrial and commercial base. Furthermore, the silica and rare earths segments also benefited from an improved dynamic on the automobile market, based on temporary fiscal support measures enacted in numerous countries.

### *Operating profit*

Silcea's operating profits fell (17.1)% to €34 million in 2009, as compared to €41 million in 2008.

This change resulted from a decline of (20.8)% in recurring EBITDA, which amounted to €84 million in 2009 compared to €106 million in 2008. Thus, the recurring EBITDA margin went from 14.2% in 2008 to 13.2% in 2009.

Falling volumes recorded a negative effect of €(52) million. For the year, Silcea maintained a good selling price level despite falling prices for raw materials and energy. In fact, the negative impact related to the adjustment of its selling prices was €(23) million, while the declining costs of raw materials and energy had a positive impact of €37 million. In addition, the Enterprise recorded a positive transactional foreign exchange effect of €8 million resulting from the appreciation of the US dollar against the euro and, to a lesser degree, the depreciation of the Korean won against the dollar and the appreciation of the yen against the dollar and the euro.

Other operating revenues and expenses generated a positive effect of €13 million, as provisions relating to the revision of study costs for the future ANDRA (*Agence Nationale pour la Gestion des Déchets Radifères* – French National Agency for the Management of Radioactive Waste) storage center were lower than in 2008.

Other factors explaining the change in Silcea's operating profit include the positive consolidation structure effect of €4 million, a positive impact of €3 million related to the decrease in depreciation and amortization, a positive foreign exchange effect of €2 million, and a decrease in fixed expenses of €1 million generated by the implementation of cyclical and structural measures to cut costs.

## Energy Services

### *Net sales*

In 2009, Energy Service's net sales amounted to €189 million, down by (18.9)% from 2008. This resulted mainly from lower sales volume of $CO_2$ emissions credits (CERs [30]), with a large share of production hedged forward.

Fluctuations in the foreign exchange rates, mainly arising from the appreciation of the yen against the euro, had a positive impact of 2.1%.

At a constant structure and exchange rate, Energy Services' net sales showed a decline of (20.6)%.

### *Operating profit*

Energy Services' operating profit fell (30.8)%, going from €195 million in 2008 to €135 million in 2009. This decline is mainly attributable to lower production and sales of CERs.

It resulted from a decrease of (22.5)% in recurring EBITDA that fell to €165 million in 2009, compared to €213 million in 2008.

The economic crisis having affected the Group's adipic acid production volumes, the volumes of CERs produced consequently fell in 2009. In addition, due to a longer administrative process for the attribution of CERs by the UNFCCC (United Nations Framework Convention on Climate Change), sale of the last set of carbon credits, expected to take place in 2009, had to be postponed until the first quarter of 2010. These two factors account for most of the €(35) million negative volume impact on the Enterprise's operating profits. Notwithstanding the decline in spot market prices for CERs and its great volatility over the course of the year, Energy Services' long term hedge coverage strategy limited the negative impact of its selling prices decline to €(9) million.

The rise in fixed costs generated a negative effect of €(7) million, arising from the implementation of development initiatives and studies in the area of *cleantechs*. Thus, in July 2009 the Enterprise announced its intention to obtain participation of the Econcern group in pilot projects for the production of biogas.

The €(13) million negative effect reported in other operating revenues and expenses reflects the operating profits from the Orbeo joint venture's trading activity, consolidated at a 50% level in the Group's financial statements.

Lastly, the Enterprise recorded a negative consolidation effect of €(2) million.

## Acetow

### *Net sales*

Acetow's activity level remained stable in 2009 compared to 2008, even in the context of the world economic recession. In addition, the Enterprise successfully pursued its price policy thanks to the high quality of its goods and services. The Enterprise's net sales increased 17.6% to €549 million in 2009, compared to €467 million in 2008.

*(30) CERs are Certified Emission Reduction units. They include Certified Emission Reductions (CER) and Emission Reduction Units (UER).*

The Enterprise recorded a positive consolidation structure effect of 7.7% by integrating the residual activities of the former Enterprise Organics, which was liquidated after the sale of aliphatic isocyanates business in 2008.

At constant structure and exchange rates, Acetow's sales increased 8.5% mainly due to significant price increases, which had a positive impact of 7.1%.

### *Operating profit*

Acetow's operating profit increased strongly, amounting to €104 million in 2009, compared to €54 million in 2008, or an improvement of 92.6%.

This change reflects 58.3% growth in recurring EBITDA, which reached €133 million in 2009, compared to €84 million in 2008. The recurring EBITDA margin was thus 24.2% in 2009, up from 18.0% in 2008.

Due to the high quality of its goods and services, the Enterprise was successful in pursuing its policy of price increases, which generated a positive effect of €36 million. Furthermore, reductions in the cost of raw materials and actions deployed since 2008 as part of a plan to improve the Enterprise's competitiveness contributed to a decline in its variable costs, which had a positive impact of €16 million. The amount saved in fixed costs resulting from this plan was in turn neutralized by wage inflation, thereby explaining the negative change of €(7) million.

In addition, Acetow recorded a positive consolidation structure effect of €3 million as well as a positive transactional foreign exchange effect of €2 million. Lastly, the slight decline in volumes, which had a negative effect amounting to €(1) million, was offset by the positive effect of €1 million tied to the decrease in depreciation and amortization.

## Eco services

### *Net sales*

Eco Services' net sales fell (31.0)%, reaching €211 million in 2009, compared to €306 million in 2008.

Eco Services operates exclusively in the United States. Fluctuation in exchange rates, resulting from the appreciation of the US dollar against the euro, had a positive impact of 5.6%.

At a constant structure and exchange rate, Eco Services' sales fell (34.7)%. Volumes reduced, generating a negative impact of (6.5)% on net sales. In addition, the Enterprise recorded a (28.2)% decline in its selling prices after indexing its selling prices to sharply falling prices of raw materials and energy.

### *Operating profit*

Eco Services' operating profit fell (8.6)% to €53 million in 2009, compared to €58 million in 2008.

This decline resulted by a slight (2.8)% deterioration in recurring EBITDA, which fell to €70 million in 2009 as opposed to €72 million in 2008. However, the recurring EBITDA margin increased, going from 23.5% in 2008 to 33.2% in 2009, due to a mechanical effect caused by a reduction in selling prices somewhat below the reduction in costs for raw materials and energy.

In fact, Eco Services' variable costs decreased because of a steep drop in prices of raw materials and energy. This decline had a positive effect of €95 million that more than made up for the negative effect of €(91) million resulting from the adjustment of selling prices.

In addition, a slowdown in demand, particularly for virgin sulfuric acid, generated a decline in volumes, having a negative impact of €(11) million.

Fluctuation in exchange rates, as a result of the appreciation of the US dollar against the euro, had a positive impact of €4 million.

Lastly, fixed costs generated a positive effect of €1 million and an increase in depreciation and amortization had a negative impact of €(3) million.

## Corporate & other

### *Net sales*

Net sales of Corporate & Other amounted to €144 million in 2009, down (42.6)%. It is made up mainly of the Salicylic activities.

At constant structure and exchange rates, sales of Corporate & Other fell (30.4)% mainly due to a decline in volumes due to the suspension of certain Salicylic activities and falling demand in the other remaining Salicylic and Fluoridation activities.

### *Operating profit*

Corporate & Other operating profit consisted of an expense of €(140) million in 2009, the same as in 2008.

Year-on-year, operating profits experienced a negative consolidation structure effect of €(38) million primarily from gains recorded in 2008 from the divestment of Trading activities in Asia, as well as from the effects of the transfer of certain residual activities of the former Organics Enterprise to other Group Enterprises following the divestiture of Isocyanates activity in 2008.

Recurring EBITDA was €(89) million negative in 2009, compared to an expense of €(80) million in 2008.

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

The decline in amortizations, amounting to €12 million, stems from impairment losses of property, plant and equipment in Salicylic activity recorded in the 2008 financial statements.

In addition, the completion of restructuring measures in activities related to Corporate services and functions brought restructuring costs down by €3 million.

The change in other operating revenues and expenses represents a positive impact of €19 million and stems primarily from capital gains from the disposal of property, plant and equipment in 2009.

## 6.1.1.6 Other income statement items

| (in millions of euros) | 2008 | 2009 | Changes in % |
|---|---|---|---|
| **Operating profit/(loss)** | **309** | **160** | **(48.2) %** |
| Profit/(loss) from financial items | (178) | (190) | |
| Share of profit/(loss) of associates | (1) | - | |
| Income tax benefit/(expense) | (55) | (71) | |
| Profit/(loss) from continuing operations | 75 | (101) | |
| Profit/(loss) from discontinued operations | 32 | (31) | |
| Net profit/(loss) for the period | 107 | (132) | |
| **Attributable to equity holders of Rhodia S.A.** | **105** | **(132)** | **(225.7) %** |
| Attributable to minority interests | 2 | - | |

### Profit/(loss) from financial items

Profit/(loss) from financial items amounted to €(190) million at December 31, 2009 compared to €(178) million for the year ended December 31, 2008. This change mainly corresponds to a decease in non-recurring gains at the time of the early redemption of some high yield notes (€3 million in 2009 as opposed to €16 million in 2008).

Recurring interest expenses totaled €(117) million in 2009 as compared to €(135) million in 2008, or a decease of €18 million. This decrease was due to both reduced borrowings and lower interest rates.

### Profit/(loss) of associates

Profit/(loss) of associates showed a zero value in 2009.

### Income tax benefit/(expense)

For the year ended December 31, 2009, the Group recorded an income tax expense of €(71) million, compared to €(55) million in 2008. This increase mainly stems from the impact of tax provisions. Excluding these extraordinary elements, this tax expense largely equivalent to the tax recorded by US, German, and Asian entities.

For the French and British tax businesses, the Company has not changed its estimate of the likelihood of recovering deferred tax assets. Hence, their deferred tax assets were recognized up to the amount of deferred tax liabilities so that the deferred tax position of the French and British tax groups shows a zero value.

### Assets held for sale and discontinued operations

See Note 10 (Assets held for sale and discontinued operations) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

### Minority interests

The share of income corresponding to minority interests at the end of 2009 showed a zero value, compared to €2 million at the end of December 2008.

### Income attributable to Rhodia's equity holders

The loss attributable to Rhodia's equity holders totaled €(132) million as of December 31, 2009, compared to earnings of €105 million on December 31, 2008.

## 6.1.2 FINANCIAL STRUCTURE

### 6.1.2.1 Analysis of consolidated balance sheet

#### Operating capital

The operating capital requirement was €411 million as of December 31, 2009, compared to €562 million on December 31, 2008. The average quarterly ratio of operating capital requirement to net sales and other operating revenues during 2009 was 9.6%, compared to 12.3% in 2008, a result achieved thanks to improved *supply chain* (31) management and customer accounts.

#### Net consolidated debt

Gross borrowings, defined as the sum of current and non-current loans and borrowings, amounted to €1,820 million as of December 31, 2009, compared to €1,831 million on December 31, 2008. This decrease is mainly due to the anticipated redemption of FRN for €32 million.

Cash and cash equivalents and other current financial assets climbed from €520 million on December 31, 2008 to €791 million on December 31, 2009.

As a result, the net consolidated debt (defined as the sum of current and non-current loans and borrowings minus cash and cash equivalents and other current financial assets) declined to €1,029 million on December 31, 2009, compared to €1,311 million on December 31, 2008.

#### Pensions and related benefits

Rhodia's obligations were evaluated and entered in the balance sheet on December 31, 2009 in accordance with the amended IAS 19 – Employee benefits.

Retirement obligations consist of the payment of pensions, pension supplements, and indemnifications payable upon retirement.

Other benefits awarded to employees mainly consist of bonuses based on seniority for employees in France, the United States, and the United Kingdom.

Obligations appearing as liabilities on the balance sheet totaled €1,553 million on December 31, 2009, compared to €1,248 million on December 31, 2008.

A detailed description of the analysis of pension obligations and related benefits can be found in Note 27 (Pensions and related benefits) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

#### Provisions

Provisions classified as current and non-current liabilities amounted to €530 million on December 31, 2009, up from €416 million on December 31, 2008.

A breakdown of these provisions by type follows:

- restructuring provision covering personnel costs and costs related to site suspensions;
- environmental provision. Rhodia evaluates its environmental liabilities and how they will be treated at regular intervals. The provision is calculated based on updated future cash flow;
- other provisions for risks and expenses.

A detailed description of the analysis of provisions by their type can be found in Note 28.3 to the consolidated financial statements in chapter 6.4.2 of this Reference Document with regard to restructuring and in Note 28.4 and 28.5 with regard to the environmental and other provisions respectively.

#### Other non-current liabilities

Other non-current liabilities amounted to €36 million on December 31, 2009, as opposed to €33 million on December 31, 2008.

#### Shareholders' equity

Shareholders equity totaled €(719) million on December 31, 2009, compared to €(356) million on December 31, 2008.

This change in shareholders' equity is mainly due to application of the option offered by the amendment to IAS 19, i.e. the actuarial spreads affecting commitments or assets relative to post-employment benefits and caused by the effect of experience and/or changes in actuarial assumptions directly recorded in the balance sheet as shareholders' equity. A detailed description of the analysis of pension obligations and related benefits can be found in Note 27 (Pensions and related benefits) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

On December 31, 2009, Rhodia's share capital was €1,213,044,816, comprising 101,087,068 shares with a par value of €12 each.

After granting bonus shares to the beneficiaries of plans 2007, the number of treasury shares was 1,121,784 as of December 31, 2009.

*(31) Supply Chain includes supply, production and logistics.*

## 6.1.2.2 Consolidated cash flow

This section shows an analysis of consolidated cash flows as of December 31, 2009, compared to December 31, 2008.

| *(in millions of euros)* | December 31, 2008 | **December 31, 2009** |
|---|---|---|
| Consolidated Cash Flow | | |
| *Net profit/(loss)* | *105* | *(132)* |
| **Net cash flow from operations before change in operating capital requirement** | **375** | **238** |
| Change in operating capital requirement | (56) | 308 |
| Margin calls | - | (9) |
| **Net cash from operating activities** | **319** | **537** |
| Net cash used by investing activities | (82) | (322) |
| Net cash used by financing activities | (129) | (55) |
| Incidence of exchange rate fluctuations | (31) | 39 |
| **Fluctuation of cash and cash equivalents** | **77** | **199** |

### Net cash from operating activities

Cash generated by operating activities totaled €537 million in 2009, compared to €319 million in 2008.

This change resulted in part from the decrease in net cash from operating activities before the change in operating capital requirement that fell from €375 million in 2008 to €238 million in 2009, offset in large measure by the positive change in operating capital requirement (defined as the change in clients and other accounts receivable, plus change in inventories, minus change in suppliers and other accounts payable, plus change in other current assets and liabilities).

As of December 31, 2008, the change of operating capital requirement amounted to a cash utilization of €(56) million, while at the end of December 2009, the change of operating capital requirement for the period generated a positive cash flow of €308 million, thanks to the effectiveness of measures taken by the Group.

### Net cash used by investing activities

Net cash used by investing activities amounted to utilization of €322 million in 2009, compared to a cash utilization of €82 million in 2008.

The main factors explaining this €240 million increase in utilization of resources are:

On one hand:

- a €74 million reduction in acquisitions of property, plant and equipment and a €17 million decrease in acquisitions of other non-current assets.

And, on the other hand, there were:

- a decrease of €198 million in proceeds from the disposal of assets, which amounted to €11 million in 2009 for sales of various properties, down from €209 million in 2008. Specifically, Rhodia finalized the sale of its distribution network in Southeast Asia, India, Australia, and Taiwan to Brenntag, and also its Isocyanates business to Perstorp in 2008;
- the utilization of €76 million, specifically for acquisition of the McIntyre company, which produces specialty surfactants; and
- an increase in net financial investments of €57 million, €65 million of which were invested in certificates of deposit in order to improve the profitability of cash investments.

### Net cash used by financing activities

Net cash used by refinancing represented a cash utilization of €(55) million in 2009, compared to €(129) million in 2008. This net reduction in consumption was related to not distributing dividends in 2009 on 2008 earnings and lower loan repayments compared to 2008.

## 6.1.2.3 Financing arrangements and cash resources

### Rhodia's financing arrangements

Taking into account the refinancing arrangements made in 2006 and finalized over the course of 2007, specifically the taking up of *Floating Rate Notes* for €1,100 million, maturing in 2013 and a €595 million convertible bond (OCEANE), maturing in 2014, Rhodia feels its cash needs will be satisfied until the syndicated line of credit matures in June 2012.

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

For further details, please refer to Note 24 (Loans and borrowings) and Note 26.7 (Liquidity risk) to the consolidated financial statements in chapter 6.4.2 of this Reference Document, and to chapter 5.2.5 of this Reference Document relating to financial risks.

## Syndicated credit line

In March 2007, Rhodia entered into a syndicated multicurrency Revolving Credit Facility with a limited number of lending banks for €600 million (Multicurrency Revolving Credit and Guaranty Facility or "RCF") maturing on June 30, 2012. The interest rate applied to the borrowed sums corresponds to the bank discount rate according to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio. This credit line can be used in the form of bank loans and/or guarantees. In 2009, it was used only for bank guarantees.

For further details, please refer to Note 24.4 (Comments on the financing arrangements) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

## High Yield Notes and OCEANE

After engaging in refinancing in 2006 and 2007, Rhodia's bond debt as of December 31, 2009 consisted primarily of:

- a *High Yield* notes (*Floating Rate Notes*) issued for a nominal amount of €1,100 million at 3-month Euribor + 2.75% rates, maturing on October 15, 2013. In December 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of €33 million, thus reducing the principal amount of the notes to €1,067 million. The redemption price was €17 million. In 2009, Rhodia continued its redemption activity for a nominal amount of €32 million, thus reducing the principal amount to €1,035 million. The redemption price was €29 million;
- bonds that can be converted or exchanged for new or existing shares (OCEANE) for a nominal amount of €595 million, maturing on January 1, 2014 and bearing interest at 0.5% per annum. OCEANE bonds carry a 13.22% redemption premium and a buyback option that may be exercised by Rhodia under certain conditions.

## Asset securitization programs

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

In fact, certain companies in the Group sell the uncollected trade receivables in the frame of multi-year asset securitization agreements entered into with various financial institutions or in the frame of contracts to sell receivables. The sales are executed, either with a right of recourse, or before ad hoc entities controlled substantially by Rhodia, preserving the inherent property risks and benefits of the sold asset. Consequently, the receivables can still be recorded on the balance sheet.

Two securitization programs were implemented in 2005, one in Europe, maturing in 2010, and the other in North America. In 2009, Rhodia instituted a supplemental securitization program in Asia.

For more information, please refer to Note 24.4 (Comments on the financing arrangements) to the consolidated financial statements in chapter 6.4.2 of this Reference Document.

## Unconfirmed financial arrangements of Rhodia and its subsidiaries

Rhodia and some of its subsidiaries, including its unconsolidated subsidiaries, entered into unconfirmed loans, overdraft authorizations, and letters of credit with various financial institutions. Most of these arrangements are for allowing working capital to be financed so that administrative and operating requirements will be covered. These sources of financing do not mature on specific dates, and lenders generally have the right to terminate them at relatively short notice.

The total of all unconfirmed credit lines and overdraft authorizations of the consolidated subsidiaries came to €52 million as of December 31, 2009.

## Off-balance sheet commitments and contractual obligations

Note 31 to the consolidated financial statements, appearing in chapter 6.4.2, shows an overview itemizing off-balance sheet commitments and contractual obligations.

When the "RCF" Multi-currency Revolving Syndicated Credit Facility was implemented in March 2007, Rhodia S.A. provided collateral security made up of a pledge of the securities of one of its subsidiaries of another subsidiary's secured loan. As of December 31, 2009, these sureties covered most of the utilization of the RCF, which at that time amounted to €57 million.

## Cash resources

Rhodia had €691 million in cash and cash equivalents as of December 31, 2009, compared to €492 million on December 31, 2008.

Rhodia also had €84 million in other liquid current financial assets as of December 31, 2009.

The Rhodia Group also had an unused syndicated credit line for €543 million.

The Group's cash resources as of December 31, 2009 were thus €1,318 million, compared to €1,036 million on December 31, 2008.

# 6.2 Analysis of Rhodia S.A.'s Results

## 6.2.1 COMPANY FINANCIAL POSITION AND RESULTS

### 6.2.1.1 Financial position and annual financial statements

During the period, Rhodia S.A. continued its activities as Group holding company, including:

- management of its portfolio of equity investments;
- centralization and management of the Group's financing and cash position, including management of its exposure to market risks.

However, as the parent company, it also provides services to support, advise, coordinate and manage Rhodia's subsidiaries.

The annual financial statements for the year ended December 31, 2009 showed a net loss of €(120) million and total assets of €4,550 million.

These financial statements were prepared in accordance with accounting rules and principles applicable in France.

Significant events during the year ended December 31, 2009 were as follows:

- in 2009, Rhodia updated its equity investment portfolio valuation by relying, in certain cases, on estimates made by external appraisers. The valuation work gave rise to the recognition of impairment losses totaling €(72) million, reflecting the change in retirement obligations in certain subsidiaries;
- the Rhodia S.A. financial statements are presented in accordance with the going concern and consistency principles.

### 6.2.1.2 Principal balance sheet changes

#### Non-current assets

The gross value of Equity investments increased by €276 million, corresponding primarily to the subscription to the capital increase performed by Rhodia Holding Ltd.

The valuation of the Rhodia S.A.'s security portfolio as of December 31, 2009 had the following consequences:

- charges to provisions for impairment in the amount of €(271) million, mainly reflecting the negative impact of changes in retirement obligations in the United Kingdom;
- reversals of provisions for impairment, mainly involving Rhodia Holding Inc. and Rhodia Brazil Ltda for respectively €62 million and €78 million, particularly due to the decrease of their indebtedness in 2009, and Rhodia Deutschland, for which the calculation of value in use by an expert in 2009 generated a reversal of €61 million.

Charges and reversals are determined using the value in use of the equity investments calculated as follows:

- the value in use of operating entities mainly takes into account the weighting of two criteria:
  - the share of consolidated equity held,
  - the share of value in use. This is determined using a market multiple applied to a standard EBITDA, less the entity's net indebtedness;

  On a case-by-case basis, external valuations are carried out, mainly based on the discounted future cash flows of the subsidiary, including the gains arising from the Group tax consolidation.
- for non-operating or immaterial entities, the value in use is determined based on the share of equity held, calculated using the accounting principles applied by Rhodia for the preparation of its consolidated financial statements.

Loans to equity investments decreased by €1,462 million, due to the offsetting of Rhodianyl receivables and payables for €733 million and the repayment by Rhodia Holding Ltd of its €273 million debt with Rhodia S.A, made possible by the increase in capital for €270 million subscribed to by Rhodia S.A.

#### Current assets

Current assets decreased on the whole by €765 million. This overall decrease was the result of the following main changes:

- the net value of Other receivables decreased by 1,108 million, from €1,203 million as of December 31, 2008 to €95 million as of December 31, 2009, primarily due to the payment of the share in the 2008 profits of Rhodia Participations S.N.C for €1,057 million. In 2009, Rhodia Participations S.N.C reported a loss (Rhodia S.A.'s share recognized in other liabilities);

- cash advances to subsidiaries increased by €98 million, from €402 million as of December 31, 2008 to €500 million as of December 31, 2009. This heading includes Rhodia's advances to its subsidiaries as part of the Group cash pooling arrangement;
- marketable securities rose by €352 million partly due to the purchase of open-ended investment funds (SICAV), money-market funds (FCP) and bank deposits. Marketable securities comprise open-ended investment funds and money-market funds for €224 million, bank deposits, deposit certificates and associated interest for €171 million, negotiable medium-term notes of €53 million, treasury shares for €8 million and treasury stock purchase options for €2 million. Treasury shares were bought back in 2008 to cover the bonus share allotment plans already decided;
- cash and short-term investments decreased by €107 million between 2008 and 2009. This item comprises certificates of deposit in the amount of €1 million and bank account balances in the amount of €1 million.

## Deferred charges

Deferred charges totaled €5 million as of December 31, 2009 and relate to bond issuance costs that are to be spread forward.

Unrealized foreign exchange losses decreased from €192 million as of December 31, 2008 to €8 million as of December 31, 2009.

## Shareholders' Equity

Shareholders' equity decreased from €1,749 million as of December 31, 2008 to €1,629 million as of December 31, 2009. This decrease was solely attributable to the net loss of €(120) million recorded in 2009.

The 2008 net profit of €359 million was appropriated as follows: €18 million to the legal reserve and €341 million to other reserves.

## Provisions

Provisions for contingencies and losses totaled €326 million as of December 31, 2009, down €56 million compared to the previous year. This decrease was primarily attributable to the following charges and reversals:

- as of December 31, 2009, the revaluation of foreign currency-denominated receivables and payables, and foreign exchange derivative instruments resulted in an unrealized foreign exchange gain, compared to a €109 million unrealized loss as of December 31, 2008. The change in the foreign exchange position was mainly attributable to the repayment of the pound sterling loan by Rhodia Holding Ltd;
- net charges to provisions for subsidiary-related contingencies in the amount of €(30) million. The charges for the year mainly involve Rhodia Chimie due to the negative impact of changes in retirement obligations;
- net charge, net of reversals, to the provision for retirement obligations in the amount of €(11) million, due to the changes in French labor regulations and the increase in discount rates;
- net charges to provisions for contingencies in the amount of €(12) million. These charges mainly concern the financial risk (redemption premium) of the OCEANE bonds issued in 2007 for €(12) million.

## Borrowings

Borrowings declined by €19 million, primarily due to:

- the partial early redemption of floating-rate notes maturing in 2013 for a nominal amount of €32 million;
- bank overdrafts at the 2009 year-end for €24 million;
- the €11 million decrease in accrued interest on floating-rate notes as of December 31, 2009, compared to 2008.

Other borrowings decreased by €1,224 million due to the net decline in borrowings from Group companies, and particularly the offsetting of the Rhodia Participations S.N.C loan and Rhodia S.A.'s share in its 2008 profits (€1,057 million).

Other liabilities decreased by €762 million compared to 2008. This heading includes cash advances from subsidiaries as part of the Group cash pooling system and Rhodia S.A.'s share in the 2009 losses of Rhodia Participations S.N.C.

## Unrealized foreign exchange gains

Unrealized foreign exchange gains decreased from €36 million as of December 31, 2008 to €8 million as of December 31, 2009.

## Trade payable settlement periods

Trade payables as of December 31, 2009 break down by settlement period as follows:

| *(in millions of euros)* | Less than 30 days | Between 31 and 60 days | Total |
|---|---|---|---|
| *Trade payables as of 12/31/2009* | *2* | *1* | *3* |

### 6.2.1.3 Calculation of profit or loss

Net loss in 2009 totaled €(120) million, compared to a profit of €359 million in 2008.

#### Net financial items

Net financial items totaled €(105) million and break down as follows:

- dividends received from equity investments in the amount of €3 million;
- net interest income in 2009 totaling €35 million;
- charges (net of reversals) to provisions for impairment of equity investments in the amount of €(61) million and charges (net of reversals) to provisions for subsidiary-related contingencies in the amount of €(5) million;
- net foreign exchange gain of €5 million;
- other net financial expenses of €(82) million. This heading mainly includes the share of Rhodia S.A. in the 2009 losses of Rhodianyl S.N.C. and Rhodia Participations S.N.C. for a total of €(73) million. Rhodia Participations' loss was impacted by additional provisions in the amount of €(59) million for the securities of its subsidiaries, particularly Rhodia Services. Finally, Rhodianyl changed its legal structure from SNC to SAS during the year, so only the loss incurred before the change was recorded in Rhodia S.A. accounts.

#### Operating profit/(loss)

Operating losses totaling €(30) million mainly include:

- personnel costs of €(15) million, excluding retirement; these costs were partially rebilled as administrative services to equity affiliates in the amount of €8 million;
- net retirement commitments and similar expenses for €(11) million;
- other operating expenses in the amount of €(11) million, mainly corresponding to administrative services for €(4) million and fees for €(5) million.

#### Net exceptional items

The net exceptional loss in 2009 totaled €(10) million and mainly relates to:

- capital losses arising from the sale of subsidiaries' securities in the amount of €(6) million, with no material impact on net loss as the corresponding provisions for contingencies were reversed to net financial items;
- expenses relating to provisions for environmental contingencies in the amount of €(2) million;
- expenses relating to various projects in the amount of €(2) million.

#### Income taxes

The 2009 income tax gain of €25 million primarily corresponds to the tax consolidation gain for €50 million and a provision for contingencies in the amount of €(25) million, relating to the revaluation of tax contingencies at consolidation level.

### 6.2.1.4 Cash flow

Cash increased by €158 million to reach €360 million as of December 31, 2009. This increase was attributable to:

- net cash from operating activities of €70 million;
- net cash from investing activities of €423 million;
- net cash used in financing activities of €(335) million.

The main cash flows in 2009 are:

- the subscription to the capital increase of Rhodia Holding Ltd and the repayment by this subsidiary of its loan with Rhodia S.A. These were the main sources of net cash arising from investing and financing activities in 2009;
- the repayment by Rhodia Finance of a portion of its debt with Rhodia S.A. for €288 million.

## 6.2.2 APPROPRIATION OF THE LOSS FOR FISCAL YEAR 2009

It will be proposed at the Shareholders' General Meeting to appropriate the 2009 net loss as follows:

| Sources *(in euros)* | |
|---|---|
| Net loss for the year | (119,489,041.88) |
| Other distributable reserves | 464,332,447.31 |
| i.e. a distributable amount of: | 344,843,405.43 |

To be appropriated as follows:

| Uses *(in euros)* | |
|---|---|
| Legal reserve (5% of net profit) | 0 |
| Dividend* | 25,271,767.00 |
| Other reserves | 319,571,638.43 |

** This amount will be adjusted according to the number of treasury shares remaining on the date of dividend payment.*



## 6.2.3 DIVIDEND DISTRIBUTION POLICY

Over the course of the last five years, net paid dividends, taxes pre-paid to the tax authorities (tax credits) and overall income have been in the following amounts:

| Year corresponding to the dividend payment | Net dividend per share *(in euros)* |
|---|---|
| 2004 | 0 |
| 2005 | 0 |
| 2006 | 0 |
| 2007 | 0.25 |
| 2008 | 0 |

The economic recession that began the end of 2008, general uncertainty and a gross erosion in demand starting in the fourth quarter of 2008 resulted in little foreseeability in the beginning of 2009. In this very unfavorable environment, the suspension of the payment of the dividend during the 2008 financial year has been approved by the General Meeting of Shareholders of May 20, 2009.

Financial discipline and cash generation were the two priorities of the Group in 2009, which resulted in the implementation of short-term measures and programs to improve competitiveness that permitted Rhodia to adjust rapidly to its cost base in an environment of weak demand. In addition, thanks to continuous improvement efforts of the *supply chain* [32], the Group reduced its Working Capital throughout the year. Rhodia also generated a record level of Free Cash Flow in 2009, which permitted it to reduce its debt from by 22% compared to the end of 2008.

Considering the progress accomplished by Rhodia in such a difficult environment, the return of operational profitability to its pre-crisis level in the second half and its assets to take advantage of the best economic conditions in 2010, the Board of Directors will propose the payment of a dividend in the amount of €0.25 per share at the General Meeting of Shareholders to be held on April 28, 2010.

*(32) Supply chain includes supply, production and logistics.*

# 6.3 Subsequent Events, Trends and 2010 Outlook

## 6.3.1 SUBSEQUENT EVENTS

There are no subsequent events to report since the close of the fiscal year.

## 6.3.2 TRENDS

### Maintaining operational discipline in a still uncertain environment

Taking account of the uncertainties remaining in Europe, Rhodia will continue to pursue its competitiveness improvement plans in 2010. The Group achieved gross [34] savings of €114 million on its fixed costs in 2009 and expects to realize €130 million in gross fixed cost savings in 2010 compared to its 2008 cost base. In addition, the upgrade of *supply chain* [33] processes should allow sustainable optimized working capital requirements and improved reactivity to demand changes. By maintaining strict operational discipline, Rhodia will enhance its ability to face a potential further economical downturn.

### Leveraging growth in Asia and Latin America

In 2009, Net Sales in emerging countries (Latin America and Asia-Pacific) represented 45% of the Group's Net Sales. During the recession that hit Europe and North America, exposure to these fast growing regions was a core strength for the Group. Rhodia will keep capitalizing on its long-standing presence by tailoring products to local needs (for example, innovative fibers and yarns in Brazil), increasing capacity (for example, new silica and surfactant plants in China, new surfactant unit in India) and strengthening innovation (20% of the 2009 patent applications were issued in these regions).

### Capitalizing on sustainable development focused innovation

Rhodia is developing an ambitious portfolio of breakthrough projects responding to environmental challenges. These represent an important growth potential in coming years. Rhodia has organized its R&D around three main goals: preserving scarce natural resources, conceiving materials of the future to help customers reduce their environmental footprint and producing more efficiently to fight climate change.

In addition, Rhodia has announced a partnership in North America with the University of Pennsylvania and the French National Center for Scientific Research (CNRS). This tripartite collaboration will focus on the field of "soft condensed matter" for application in consumer products and industrial formulations, such as body wash, shampoo, paints, lubricants and printable electronics.

### Trends by Enterprise

- **Polyamide** should continue to benefit from a sustained demand momentum and favorable pricing in the first six months. The Enterprise will have to manage effectively the maintenance turnarounds planned in the first and second quarters of 2010 in its intermediates lines (Adiponitrile, Adipic Acid) in order to minimize production capacity impacts.
- **Novecare's** Home & Personal Care segment should benefit from the launch of innovative solutions as well as developments in Asia in the next few months. Agrochemicals and industrial applications should recover to 2008 levels. Oilfield chemicals should also see some improvement while remaining below pre-crisis levels. Overall, Novecare should capitalize on its innovation capacity to leverage growth.
- Looking ahead, **Silcea** should continue to benefit from sustained demand momentum from the auto-emission control and low-energy tire markets. Overall, the Enterprise expects to grow volumes and increase margins.
- **Energy Services** expects to generate around 14 million tons of CERs in 2010, of which 40% are already hedged at €14.7 per ton. The Enterprise should continue to deliver a solid performance.
- The tow market is expected to experience a slight temporary imbalance between offer and demand. In this context, **Acetow** is determined to further enhance its cost competitiveness.
- **Eco Services**' volumes should stay below pre-crisis levels. In the first quarter, volumes are expected to remain weak due to the low driving season in North America. The Enterprise will emphasize the optimization of its supply chain [33] and its cost structure.

*(33) Supply Chain includes supply, production and logistics.*
*(34) Primarily before salary increases, variations in stock and other non-recurring elements.*

## 6.3.3 2010 OUTLOOK

This chapter contains forward-looking statements that reflect management's plans, estimates and beliefs. Actual results may differ significantly from those previously stated. Please refer to chapter 5.2 above on main risk factors.

In 2010, economic conditions are expected to improve. World PIB should progress thanks to the dynamique of emerging countries, while growth in Europe remains uncertain, particularly in the second half.

In this context and considering the increase in raw material and energy costs, Rhodia will continue to concentrate on operational discipline and the generation of cash. The Group is confident of its ability to take advantage of the growth dynamique in emerging countries, by capitalising on its solid presence in those regions.

Under current conditions, the Group expects in 2010 to improve significantly its profitability with a recurring EBITDA at least 35% higher than its 2009 level.

## 6.3.4 ASSUMPTIONS RELATED TO FORWARD-LOOKING STATEMENTS



The forecasts contained in this chapter are for the year 2010. They are built on the following key assumptions:

Macroeconomic assumptions:

- an increase of 3.9% [35] in world GDP;
- an average exchange rate for 2010 of 1.45 USD for 1 euro and 1.80 Brazilian reals for 1 US dollar;
- price increases in strategic raw materials compared to 2009;
- assumption that the price of a barrel of oil is 75 US dollars.

Internal assumptions:

- maintenance of the Group's ability to manage sales prices in a satisfactory manner within the context of rising raw materials and energy costs;
- an increase in sales volumes for the full year 2010 compared to 2009, reflecting demand in the first half of 2010 that is similar to that of the second half of 2009 and a downturn in demand in the second half of 2010, particularly in Europe where growth remains uncertain;
- production capacity for intermediate products (Adiponitrile and Adipic Acid) in the Polyamide segment that is affected by maintenance turnarounds in the first and second quarters of 2010;
- a target of reducing gross[36] fixed costs by 130 million euros in 2010 compared to the cost base of 2008;
- a projected production of 14 million tons of CER in 2010, of which 40% is already covered at an average price of €14.70 per ton;
- a constant scope of consolidation compared to December 31, 2009.

*(35) Source: International Monetary Fund (IMF).*
*(36) Primarily before salary increases, variations in stock and other non-recurring elements.*

## 6.3.5 REPORT OF STATUTORY AUDITORS ON FORECAST INCLUDED IN REFERENCE DOCUMENT 2009, FILED WITH THE AUTORITÉ DES MARCHES FINANCIERS ON MARCH 22, 2010

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Chairman and Chief Executive Officer,

In our capacity as Statutory Auditors and in compliance with EU Regulation N° 809/2004, we hereby report on the consolidated profit forecasts of Rhodia S.A., which is disclosed as a recurring EBITDA for the 2010 year and included in section 6.3 of the Reference Document 2009 filed with the *Autorité des Marchés Financiers* on March 22, 2010.

These forecasts and underlying significant assumptions were prepared under your responsibility, in accordance with the EU Regulation N° 809/2004 and the relevant CESR guidance.

It is our responsibility to express our conclusion, pursuant to Appendix 1, paragraph 13.2 of the EU Regulation N° 809/2004, as to the proper compilation of forecasts.

We have performed those procedures which we considered necessary in accordance with professional guidance issued by the national auditing body *(Compagnie nationale des commissaires aux comptes)*. Our work consisted in an assessment of the preparation process for the forecasts, as well as the procedures implemented to ensure that the accounting methods applied are consistent with those used for the preparation of the historical financial information of Rhodia S.A. We also gathered all the relevant information and explanations that we deemed necessary to obtain reasonable assurance that the forecasts have been properly compiled on the basis stated.

It should be noted that, given the uncertain nature of forecasts, the actual figures are likely to be significantly different from those forecast and that we do not express a conclusion on the achievability of these figures.

### We conclude that:

- The forecasts have been properly compiled on the basis stated;
- The accounting methods applied in the preparation of these forecasts are consistent with the accounting principles adopted by Rhodia S.A. for the preparation of its consolidated financial statements as of December 31, 2009.

This report is issued for the sole purpose of the filing of the Reference Document 2009 with the *Autorité des Marchés Financiers* and, if applicable, of a public offering, in France and any other EU country realized on the basis of a prospectus including the Reference Document, registered with the French Stock Exchange regulatory body (AMF). It may not be used in any other context.

Neuilly-sur-Seine and Paris La Défense, March 17, 2010

The statutory auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
| --- | --- |
| | *Division of KPMG S.A.* |
| Christian Perrier | Denis Marangé |

# 6.4 Financial Statements

## 6.4.1 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

*This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.*

*This report also includes information relating to the specific verification of information given in the Group's management report.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*



To the Shareholders

In compliance with the assignment entrusted to us by your General Shareholder's Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Rhodia SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code *(code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

At each reporting date, the Group assesses whether there are any indications of impairment of property, plant and equipment and intangible assets in accordance with the methods described in Note 2.9 to the financial statements and performs, where applicable for tangible assets or systematically for goodwill and indefinite life assets, impairment tests. We examined the methods used to implement these impairment tests as well as the projected cash flows and the assumptions used, and verified that Notes 2.9 and 5.1 to the consolidated financial statements provide appropriate disclosures.

Notes 2.17 and 27 to the consolidated financial statements describe the methods used by the Group to assess and recognize its retirement and other long-term employee benefit obligations. As part of our assessment of the accounting estimates used to prepare the consolidated financial statements, and considering the complexity of the procedure involving specialist techniques, our work consisted in verifying that the main retirement and other long-term employee benefit obligations were assessed by independent actuaries, examining the data used to perform this assessment as well as the underlying assumptions, and verifying that notes to the consolidated financial statements provide appropriate disclosures.

The Group recognizes provisions for environmental risks in accordance with the methods described in the notes to the consolidated financial statements (Notes 2.19, 28.1, 28.2, and 28.4). Moreover, Note 28.4 to the consolidated financial statements describes contingent liabilities that are not covered by provisions at December 31, 2009. Based on the information available, our work consisted in analyzing the procedures put in place by management to identify, classify and measure environmental risks, examining the information and assumptions underlying the estimates used, and verifying that the notes to the consolidated financial statements provide appropriate disclosures.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

## III - Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Neuilly-sur-Seine and Paris La Défense, March 11, 2010

The statutory auditors

PricewaterhouseCoopers Audit

Christian Perrier

KPMG Audit

*Division of KPMG S.A.*

Denis Marangé

## 6.4.2 CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

### A. CONSOLIDATED INCOME STATEMENTS

| | | For the year ended December 31, | |
|---|---|---|---|
| *(in millions of euros)* | Note | **2009** | 2008 |
| **Net sales** | 3 | **4,031** | **4,763** |
| Other revenue | 3 | 446 | 550 |
| Cost of sales | | (3,684) | (4,382) |
| Administrative and selling expenses | | (504) | (482) |
| Research and development expenditure | | (73) | (73) |
| Restructuring costs | 6 | (33) | (40) |
| Other operating income | 7 | 39 | 36 |
| Other operating expenses | 7 | (62) | (63) |
| **Operating profit** | 3 | **160** | **309** |
| Finance income | 8 | 87 | 138 |
| Finance costs | 8 | (287) | (313) |
| Foreign exchange gains/(losses) | 8 | 10 | (3) |
| Share of profit/(loss) of associates | 15 | - | (1) |
| **Profit/(loss) before income tax** | | **(30)** | **130** |
| Income tax expense | 9 | (71) | (55) |
| Profit/(loss) from continuing operations | | (101) | 75 |
| Profit/(loss) from discontinued operations | 10 | (31) | 32 |
| **Net profit/(loss) for the period** | | **(132)** | **107** |
| Attributable to: | | | |
| Equity holders of Rhodia S.A. | | (132) | 105 |
| Minority interests | | - | 2 |
| **Earnings per share** *(in euros)* | | | |
| **Continuing and discontinued operations** | 11 | | |
| • Basic | | (1.32) | 1.05 |
| • Diluted | | (1.32) | 1.04 |
| **Continuing operations** | 11 | | |
| • Basic | | (1.01) | 0.73 |
| • Diluted | | (1.01) | 0.72 |

### B. CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

| *(in millions of euros)* | Note | **2009** | 2008 |
|---|---|---|---|
| Net profit/(loss) for the period | | (132) | 107 |
| Currency translation differences and other movements | | 47 | 26 |
| Gains/(losses) arising from cash flow hedges of commodities | 26 | 24 | 27 |
| Gains/(losses) arising from cash flow hedges of interest rates | 26 | (11) | (24) |
| Gains/(losses) arising from cash flow hedges of foreign currency portfolios | 26 | 43 | (54) |
| Deferred tax on cash flow hedge recognized in equity | | (9) | 3 |
| Actuarial gains/(losses) arising from retirement benefits and similar obligations | 27 | (328) | (65) |
| Deferred tax on actuarial gains/(losses) | | 1 | 22 |
| Net income/(expense) directly recognized in equity | | (233) | (65) |
| **Total recognized income/(expense) for the period** | | **(365)** | **42** |
| Attributable to: | | | |
| Equity holders of Rhodia S.A. | | (365) | 39 |
| Minority interests | | - | 3 |

## C. CONSOLIDATED BALANCE SHEETS

### ASSETS

| *(in millions of euros)* | Note | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|---|
| Property, plant and equipment | 12 | 1,458 | 1,501 |
| Goodwill | 13 | 215 | 197 |
| Other intangible assets | 14 | 193 | 181 |
| Investments in associates | 15 | 12 | 13 |
| Other non-current financial assets | 17 | 118 | 92 |
| Deferred tax assets | 18 | 170 | 171 |
| Non-current assets | | 2,166 | 2,155 |
| Inventories | 19 | 475 | 666 |
| Income tax receivable | | 26 | 12 |
| Trade and other receivables | 20 | 692 | 821 |
| Derivative financial instruments | 26 | 113 | 148 |
| Other current financial assets | 21 | 100 | 28 |
| Cash and cash equivalents | 22 | 691 | 492 |
| Assets classified as held for sale | 10 | 3 | 2 |
| Current assets | | 2,100 | 2,169 |
| **TOTAL ASSETS** | | **4,266** | **4,324** |



### EQUITY/(DEFICIT) AND LIABILITIES

| *(in millions of euros)* | Note | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|---|
| Share capital | | 1,213 | 1,213 |
| Additional paid-in capital | | 138 | 138 |
| Other reserves | | 213 | 86 |
| Deficit | | (2,299) | (1,812) |
| *Equity deficit attributable to equity holders of Rhodia S.A.* | | *(735)* | *(375)* |
| Minority interests | | 16 | 19 |
| Total equity deficit | | (719) | (356) |
| Borrowings | 24 | 1,655 | 1,612 |
| Retirement benefits and similar obligations | 27 | 1,459 | 1,155 |
| Provisions | 28 | 370 | 279 |
| Deferred tax liabilities | 18 | 28 | 38 |
| Other non-current liabilities | | 36 | 33 |
| Non-current liabilities | | 3,548 | 3,117 |
| Borrowings | 24 | 165 | 219 |
| Derivative financial instruments | 26 | 115 | 123 |
| Retirement benefits and similar obligations | 27 | 94 | 93 |
| Provisions | 28 | 160 | 137 |
| Income tax payable | | 16 | 19 |
| Trade and other payables | 29 | 887 | 972 |
| Current liabilities | | 1,437 | 1,563 |
| **TOTAL EQUITY/(DEFICIT) AND LIABILITIES** | | **4,266** | **4,324** |

## D. CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(in millions of euros)* | For the year ended December 31 **2009** | 2008 |
|---|---|---|
| **Net profit/(loss) for the period attributable to equity holders of Rhodia S.A.** | **(132)** | **105** |
| *Adjustments for:* | | |
| Minority interests | - | 2 |
| Depreciation, amortization and impairment of non-current assets | 284 | 299 |
| Net increase/(decrease) in provisions | 41 | (29) |
| Impairment of non-current financial assets | (3) | 1 |
| Share of profit/(loss) of associates | - | 1 |
| Other income and expense | 36 | 28 |
| Gain/(loss) on disposal of non-current assets | (12) | (65) |
| Deferred tax expense/(income) | (5) | 4 |
| Foreign exchange losses | 29 | 29 |
| **Net cash flow from operating activities before changes in working capital** | **238** | **375** |
| *Changes in working capital* | | |
| • (Increase)/decrease in inventories | 231 | (149) |
| • (Increase)/decrease in trade and other receivables | 89 | 134 |
| • Increase/(decrease) in trade and other payables | (134) | (7) |
| • Increase/(decrease) in other current assets and liabilities | 122 | (34) |
| **Net cash from operating activities before margin calls** | **546** | **319** |
| Margin calls (1) | (9) | - |
| **Net cash from operating activities** | **537** | **319** |
| Purchases of property, plant and equipment | (167) | (241) |
| Purchases of other non-current assets | (24) | (41) |
| Proceeds on disposals of entities, net of cash transferred, and non-current assets | 11 | 209 |
| Purchases of entities, net of cash acquired | (76) | - |
| (Purchases)/repayments of loans and financial investments | (66) | (9) |
| **Net cash used by investing activities** | **(322)** | **(82)** |
| Treasury share purchase costs | (2) | (14) |
| Dividends paid to minority interests | (4) | (27) |
| New non-current borrowings, net of costs | 55 | 23 |
| Repayments of non-current borrowings, net of costs | (80) | (53) |
| Net increase/(decrease) in current borrowings | (24) | (58) |
| **Net cash used by financing activities** | **(55)** | **(129)** |
| **Effect of foreign exchange rate changes** | **39** | **(31)** |
| **Net increase/(decrease) in cash and cash equivalents** | **199** | **77** |
| Cash and cash equivalents at the beginning of the year | 492 | 415 |
| Cash and cash equivalents at the end of the year | 691 | 492 |

*(1) The margin call agreements are standardized credit risk reduction contracts, which are concluded with the clearing house of an organized market or bilaterally by private contract with a counterpart*

Interest and income tax paid are presented in Note 22.2.

## E. STATEMENT OF CHANGES IN EQUITY

| *(in millions of euros)* | Share capital | Additional paid-in capital | Other reserves: Hedge reserve | Other reserves: Translation reserve | Other reserves: Legal reserve | Other reserves: Treasury shares | Accumulated deficit | Total | Minority interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2009 | 1,213 | 138 | (49) | 109 | 40 | (14) | (1,812) | (375) | 19 | (356) |
| Appropriation of earnings | - | - | - | - | 18 | - | (18) | - | - | **-** |
| Dividends | - | - | - | - | - | - | - | - | (1) | **(1)** |
| Total recognized income/ (expense) | - | - | 56 | 47 | - | - | (468) | (365) | - | **(365)** |
| Other movements (1) | - | - | - | - | - | 6 | (1) | 5 | (2) | **3** |
| At December 31, 2009 | 1,213 | 138 | 7 | 156 | 58 | (8) | (2,299) | (735) | 16 | (719) |

*(1) Including free shares for €6 million (see Note 34).*

| *(in millions of euros)* | Share capital | Additional paid-in capital | Other reserves: Hedge reserve | Other reserves: Translation reserve | Other reserves: Legal reserve | Other reserves: Treasury shares | Accumulated deficit | Total | Minority interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2008 | 1,204 | 147 | 2 | 84 | 37 | - | (1,863) | (389) | 21 | (368) |
| Appropriation of earnings | - | - | - | - | 3 | - | (3) | - | - | **-** |
| Share capital increase | 9 | (9) | - | - | - | - | - | - | - | **-** |
| Dividends | - | - | - | - | - | - | (25) | (25) | (5) | **(30)** |
| Total recognized income/ (expense) | - | - | (51) | 25 | - | - | 65 | 39 | 3 | **42** |
| Other movements (1) | - | - | - | - | - | (14) | 14 | - | - | **-** |
| At December 31, 2008 | 1,213 | 138 | (49) | 109 | 40 | (14) | (1,812) | (375) | 19 | (356) |

*(1) Including free shares for €14 million*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 THE GROUP AND ITS BUSINESS

Rhodia S.A. and its subsidiaries ("Rhodia" or the "Group") produce, market and develop chemicals. Rhodia is the partner of major players in the automotive, tire, electronics, perfume, health & beauty and home care markets.

Rhodia has offices worldwide and specifically in Europe, the United States, Brazil and Asia.

Rhodia S.A. is a public limited company registered and domiciled in France. Its registered office is located at Paris–La Défense.

The company is listed on Euronext Paris.

These consolidated financial statements were approved on February 23, 2010 by the Board of Directors.

## NOTE 2 PRINCIPAL ACCOUNTING METHODS

### 2.1 Accounting standards

The Group's consolidated financial statements for the year ended December 31, 2009 are prepared in accordance with IFRS (International Financial Reporting Standards), as adopted by the European Union and applicable as from December 31, 2009.

The IFRS adopted by the European Union can be found on the website of the European Commission at the following address: htpp://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission

These consolidated financial statements are also consistent with the IFRS issued by the IASB (International Accounting Standards Board) and applicable as from December 31, 2009.

### 2.2 Basis of preparation for the consolidated financial statements

The consolidated financial statements are presented in millions of euros, unless otherwise indicated, which is the functional and presentation currency of the parent company. Amounts are rounded up to the nearest million.

The Group's consolidated financial statements were prepared on a historical cost basis, with the exception of derivatives and financial assets held for trading or classified as available for sale, which are measured at fair value.

Non-current assets and groups of assets held for sale are measured at the lower of their net carrying amount and fair value, less costs to sell.

The preparation of the financial statements requires the use of estimates and the formulation of judgments and assumptions that have an impact on the application of accounting methods and the amounts shown in the financial statements. The areas for which the estimates and assumptions are material with regard to the consolidated financial statements are presented in the following notes:

- Note 5: Depreciation and impairment;
- Note 13: Goodwill;
- Note 14: Other intangible assets;
- Note 18: Deferred tax assets and liabilities;
- Note 24: Borrowings;
- Note 26: Risk management and derivatives;
- Note 27: Retirement benefits and similar obligations;
- Note 28: Provisions;
- Note 32: Litigation;
- Note 34: Share-based payment.

The accounting methods outlined below have been consistently applied to all the periods presented in the consolidated financial statements. Pursuant to Article 28.1 of EC regulation no. 809/2004 of April 29, 2004, the consolidated financial statements for the year ended December 31, 2007 will be incorporated by reference into the 2009 Reference Document filed by Rhodia with the AMF. Hence, the financial statements for the year ended December 31, 2009 do not present any comparative data for fiscal year 2007.

**Standards, interpretations and amendments applicable as from 2009**

IFRS 8 *Operating segments*, which has replaced IAS 14 *Segment reporting*, has been adopted since January 1, 2009. Its adoption did not lead to a review of the presentation of segment reporting by Enterprise. Insofar as current segment reporting reflects the Group's internal reporting, the adoption of this standard had no impact on the financial statements.

The purpose of the amendment to IAS 1 *Presentation of financial statements*, adopted since January 1, 2009, is to facilitate the analysis and comparison of the information provided in the financial statements for readers. Insofar as Rhodia has adopted the amendment to IAS 19 *Employee benefits* since 2005 and presents a statement of recognized income and expense, the adoption of this amendment had no material impact on the consolidated financial statements.

The amendments to IFRS 7 *Financial instruments: disclosures*, adopted since January 1, 2009, introduce a three-level hierarchy for fair value measurement disclosures and recommend additional disclosures on liquidity risk.

No other standards, interpretations and amendments to standards adopted by the European Union and applicable as from 2009 had an impact on the consolidated financial statements.

**Standards, interpretations and amendments to standards already published, but not yet applicable in 2009**

According to the Group, the other standards, interpretations and amendments already adopted by the European Union but not yet applicable to the year ended December 31, 2009 have no impact on the consolidated financial statements.

## 2.3 Consolidation principles

**Subsidiaries**

Subsidiaries are those companies over which Rhodia exercises control directly or indirectly, i.e. it has the power to govern the financial and operating policies so as to obtain benefits from their activities. Rhodia is presumed to exercise control when it acquires, directly or indirectly, more than 50% of voting rights. To assess this control, potential voting rights that are immediately exercisable or convertible held by Rhodia and its subsidiaries are taken into consideration.

Special purpose entities that are, in substance, controlled by Rhodia and in which the Group does not have an equity investment are considered as subsidiaries. Rhodia may, under trade receivable securitization programs, use special purpose entities such as dedicated mutual funds.

**Joint ventures**

The companies over which Rhodia exercises a joint control in accordance with contractual arrangements are proportionately consolidated. The consolidated financial statements include the Group's share in the assets, liabilities, income and expenses of these companies.

**Associates**

Associates are those companies over which Rhodia exercises significant influence, but not control, with generally an investment representing between 20% and 50% of voting rights. They are initially recognized at cost and are then accounted for using the equity method.

The Group's share in the profit or loss of the associate is reflected in the income statement. When a change is recognized directly in the equity of the associate, the Group recognizes its share directly in its equity.

Subsidiaries, joint ventures and associates are included in the financial statements as from the date of obtaining control or significant influence. They are excluded from the financial statements as from the date of losing control or significant influence. Any investments in a joint venture or associate meeting the criteria as "held for sale" in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* are classified as non-current assets held for sale (see Note 2.26).

In the event of impairment, the Group determines the recoverable amount of its net investment in the associate and recognizes an impairment loss should its equity carrying value exceed such amount.

**Transactions eliminated in the consolidated financial statements**

Transactions between subsidiaries are fully eliminated. Transactions with joint ventures are eliminated to the extent of the investment reflected in the consolidated financial statements.

Unrealized gains arising from intra-Group transactions are eliminated in the same way as unrealized losses unless they represent an impairment loss. Unrealized gains and losses arising from transactions between the Group and its joint ventures or associates are eliminated in proportion to the Group's investment in these entities.

## 2.4 Translation of the transactions and financial statements of foreign companies

**Translation of foreign currency transactions**

The functional currency of the Group's entities is generally the local currency. Foreign currency transactions are translated in their functional currency using the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated at the closing rate. The corresponding exchange differences are recognized in finance income or costs.

The exchange differences relating to loans and borrowings with a foreign subsidiary, which, in substance, form part of the net investment in the subsidiary, are recognized directly in equity, until the disposal of the net investment when they are recognized in profit or loss.

**Translation of the financial statements of foreign entities**

The financial statements of the Group's foreign entities, whose functional currency is not the euro, are translated as follows:

- assets and liabilities (including goodwill and fair value adjustments on the date of acquisition) are translated at the official closing rates;
- income and expenses are translated at the average rate for the period which, excluding major exchange rate fluctuations, is considered as similar to the exchange rates at the date of the transactions;
- all resulting exchange differences are recognized directly in equity.

In 2009, the economy of Venezuela became hyper-inflationary. Insofar as the Group's investments and activities in this country are insignificant, the accounting practices for hyperinflationary economies set forth in IAS 29 were not adopted as of December 31, 2009. Furthermore, the recent devaluation of Venezuela's national currency will have no significant impacts for the Group.

## 2.5 Greenhouse gas emission allowances and Certified Emission Reductions

With respect to the mechanism set up by the European Union to encourage manufacturers to reduce their greenhouse gas emissions, Rhodia was granted carbon dioxide ($CO_2$) emission allowances for some of its installations. Rhodia is also involved in Clean Development Mechanism (CDM) and Joint Implementation (JI) projects placed under the authority of the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. Under these projects, Rhodia has deployed facilities in order to reduce greenhouse gas emissions at the relevant sites in return for Certified Emission Reductions (CER) or Emission Reduction Units (ERU).

**Treatment of European Union Allowances (EUA)**

These allowances are granted each year under the national allocation plans with an initial trading period of three years beginning January 1, 2005, and the second trading period of 5 years beginning January 1, 2008. During the second period, the allowances are delivered free of charge and are valid over the entire trading period if not used. Allowances may be freely traded upon allocation and may be purchased or sold, especially if too few or too many allowances are allocated with respect to actual emissions.

In the absence of specific IFRS guidance, Rhodia recognizes emission allowances using the following method:

- initial recognition: the allocated emission allowances, measured at market value at January 1, are recognized as other intangible assets in consideration of a government grant recognized in liabilities;
- subsequent recognition: the grant is recognized in the income statement on a straight-line basis over the year (in the absence of seasonal discharges). In addition, a liability corresponding to the allowances to be surrendered is recognized for the actual gas emissions, with the related expense being recognized in the income statement. This liability is measured at the initial value of allowances allocated or purchased and, where necessary, at market value up to the number of allowances missing at closing date over the number of allowances to be surrendered. Excess allowances maintained in assets are tested for impairment annually and more frequently should there be indications of impairment;
- allowances surrendered for the emissions for the period: at the effective date of surrender, the intangible asset and the corresponding liability are derecognized;
- sales of allowances: the gains or losses arising on the sale of allowances are recognized in the income statement under cost of sales.

**Treatment of Certified Emission Reductions (CER)**

Under the CDM projects, Rhodia has deployed facilities in order to reduce the greenhouse gas emissions at its Onsan (Korea) and Paulinia (Brazil) sites. Upon verification by independent experts, should these emissions fall below the benchmark levels set by the UNFCCC, Rhodia receives Certified Emission Rights (CER) which are freely transferable. As part of the development of Rhodia Energy Services and to organize the sale of the CERs arising from the two projects, Rhodia has entered into a partnership with Société Générale Energie, a Société Générale subsidiary, comprising a joint venture, Orbeo.

Allocated CERs are recognized in inventories at the lower of cost and net realizable value. The cost of allocated CERs mainly corresponds to the amortization of gas emission reduction units.

The CER sales realized between participants in CDM projects and in organized markets are recognized in net sales upon delivery of the CERs, i.e. when they are recorded in the account of the transferee in the UNFCCC register.

In order to manage exposure to future CER price fluctuations, Rhodia has set up forward CER sales contracts, with or without guarantee of delivery. Based on their characteristics, when these contracts represent derivatives within the meaning of IAS 39 *Financial Instruments*: recognition and measurement, they are recognized and measured according to the rules described in Note 2.16. Otherwise, they represent off-balance sheet commitments.

**Treatment of Orbeo's activities**

In addition to selling CERs on behalf of the two shareholders, the Orbeo joint venture is involved in developing CO2 instrument trading, arbitrage and hedging activities. The net income or expense from these activities is recorded, for Rhodia's share (50%), after elimination of intra-Group transactions:

- in net sales or cost of sales for the "industrial" component, where Orbeo sells the CERs generated by Rhodia;
- in "other operating income" or "other operating expenses" for the "trading" component, where Orbeo purchases/sells CERs and EUAs.

The margin calls relating to the derivative instruments contracted by Orbeo are recognized in Other current financial assets in respect of guarantee deposits paid, and in Borrowings in respect of guarantee deposits received.

Cash flow movements arising from these margin calls have been separated in the Statements of Cash Flows under Net cash flow from operating activities.

## 2.6 Property, plant and equipment

### Initial recognition

The property, plant and equipment owned by Rhodia are recognized as assets at acquisition cost when the following criteria are satisfied:

- it is probable that the future economic benefits associated with the asset will flow to Rhodia;
- the cost of the asset can be reliably measured.

Items of property, plant and equipment are carried on the balance sheet at cost less accumulated depreciation and impairment. The cost of an item of property, plant and equipment comprises its purchase or production price and any costs directly attributable to the location and condition necessary for its operation, including, where necessary, the interim interest accrued during the construction period.

The components of an item of property, plant and equipment with different useful lives are recognized separately.

Items of property, plant and equipment are derecognized from the balance sheet on disposal or discontinuation. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognized in profit or loss for the period of derecognition.

### Subsequent expenditure

Subsequent expenditure incurred for the replacement of a component of an item of property, plant and equipment is only recognized as an asset when it satisfies the general criteria mentioned above.

The carrying amount of replaced items is derecognized.

Repair and maintenance costs are recognized in the income statement as incurred.

On account of its industrial activity, Rhodia incurs expenditure for major repairs over several years for most of its sites. The purpose of this expenditure is to maintain the proper working order of certain installations without altering their useful life. This expenditure is considered as a specific component of the item of property, plant and equipment and is amortized over the period during which the economic benefits flow, i.e. the period between the major repairs.

### Depreciation

Land is not depreciated. Other items of property, plant and equipment are depreciated using the straight-line method over the estimated useful life. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 10 – 40 years |
| Plant and equipment: | |
| Machinery and equipment | 5 – 15 years |
| Other equipment | 3 – 15 years |
| Vehicles | 4 – 20 years |
| Furniture | 10 – 15 years |

The residual values and useful lives are reviewed and, where necessary, adjusted annually or when there are permanent changes in operating conditions.

### Dismantling costs

Dismantling and restoration costs are included in the initial cost of an item of property, plant and equipment if the Group has a legal or constructive obligation to dismantle or restore.

Generally, Rhodia does not have any current, legal or constructive obligation to dismantle and/or restore its operating sites in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, as such obligation is only likely to arise upon the discontinuation of a site's activities. To date, Rhodia has not therefore set aside any provisions for dismantling costs or recognized the components relating to the dismantling of its operating installations.

However, the costs of dismantling discontinued sites or installations are provided when there is a legal obligation (due to a request or injunction from the relevant authorities), or there is no technical alternative to dismantling to ensure the safety compliance of the discontinued sites or installations.

### Property, plant and equipment acquired under finance leases

Leases, including those falling within the scope of IFRIC 4 *Determining whether an arrangement contains a lease* are considered as finance leases if they transfer substantially to Rhodia all the risks and rewards inherent to the ownership of the leased assets with the characteristics of an acquisition. An asset acquired by Group under a finance lease is recognized at fair value at the lease inception date, or if lower, the present value of the minimum lease payments. The corresponding debt is recognized in borrowings. The recognized asset is depreciated using the method described above.

### Government grants

Government grants which cover totally or partially the cost of an item of property, plant and equipment are deducted from the acquisition cost and transferred on a systematic basis to the income statement over the useful life of the assets.

## 2.7 Goodwill and business combinations

The purchase method is used to recognize the acquisition of subsidiaries, joint ventures and investments in associates. Goodwill is the excess of the cost of an acquisition over the Group's share of the fair values of the entity's net identifiable assets at the acquisition date. The acquisition cost corresponds to the fair values of the assets given, liabilities incurred or assumed and equity instruments issued on the date of exchange, plus any costs directly attributable to the acquisition. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the date of acquisition, irrespective of the extent of any minority interest. If the fair value of the Group's interest in the net assets of the acquired subsidiary exceeds the cost of the acquisition, the difference is recognized directly in profit or loss. The identification and measurement of acquired assets and liabilities are finalized within a period of one year as from the acquisition date.

Goodwill arising from the acquisition of an investment in an associate is included in the carrying amount of the investment.

Goodwill is not amortized. Goodwill is tested for impairment annually or more frequently when events or changes in circumstances indicate a possible impairment (see Note 2.9).

## 2.8 Other intangible assets

**Research and development**

Research expenditure is expensed as incurred.

Development expenditure arising from the application of research findings to a plan or design for the production of new or substantially improved products and processes is recognized as an intangible asset when the Group can demonstrate:

- its intention and financial and technical ability to complete the development of the asset;
- how the intangible asset will generate probable future economic benefits for the Group; and
- the cost of the asset can be reliably measured.

Capitalized expenditure comprises employee expenses, the cost of materials and services directly attributed to the projects, and an appropriate share of overheads including, and where necessary, the interim interest accrued. It is amortized once the relevant products are sold or the relevant industrial processes are used over the estimated term of the economic benefits expected to flow from the project. The expenditure is tested for impairment if there is indication of a loss in value and annually for projects in the course of development (see Note 2.9).

Development expenditure which does not satisfy the above conditions is expensed as incurred.

**Other intangible assets**

Other intangible assets are carried at cost in the balance sheet including, where necessary, the interim interest accrued during the development period, less accumulated depreciation and impairment losses. They mainly concern patents, trademarks and software.

The expenditure incurred by the Group for the development of software intended for its own use is capitalized when the economic benefits expected to flow from the use of the software over one year exceeds its cost.

Subsequent expenditure on intangible assets is capitalized only if it increases the future economic benefits associated with the specific asset. Other expenditure is expensed as incurred.

Intangible assets with finite useful lives are amortized using the straight-line method over their expected period of use. Amortization methods and useful lives are reviewed periodically. The estimated useful lives are as follows:

- patents and trademarks: 25 years on average;
- software: 3 to 5 years;
- development expenditure: 5 to 15 years.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if there is an indication of a loss in value (see Note 2.9).



## 2.9 Impairment of property, plant and equipment, goodwill and other intangible assets

Impairment is tested annually and more frequently if there are indications of a loss in value for goodwill, intangible assets in the course of development and other intangible assets with indefinite useful lives, and only if there is an indication of a loss in value for items of property, plant and equipment and intangible assets with finite useful lives.

To test impairment, assets are grouped in cash-generating units (CGUs), in accordance with IAS 36 *Impairment of assets*. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill is tested for groups of CGUs that benefit from the synergies resulting from the business combinations that gave rise to the goodwill.

These tests consist in comparing the carrying amount of the assets with their recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from a CGU or group of CGUs. The discount rate used reflects the current market assessments of the time value of money and the risks specific to the asset, CGUs or groups of CGUs tested. In absence of a rate specific to the asset tested, the rate used is calculated using the average cost of capital.

The discount rates are post-tax rates applied to post-tax cash flows. Their use results in the calculation of recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows, as required by IAS 36.

An impairment loss is recognized in the income statement where the carrying amount of a CGU or group of CGUs exceeds its recoverable amount. The impairment loss is first recognized for the goodwill allocated to the CGU or groups of CGUs tested and then to the other assets of the CGU or group of CGUs on a pro rata basis to their carrying amount.

This allocation should not reduce the carrying amount of an individual asset below the higher of its fair value, value in use or zero.

Impairment losses recognized for goodwill cannot be reversed, contrary to the impairment of property, plant and equipment and other intangible assets. For the reversal of an impairment loss, the carrying amount of the asset should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. After recognition of an impairment loss or a reversal of an impairment loss, the subsequent depreciation (amortization) charge is calculated to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## 2.10 Non-derivative financial assets

### Initial recognition

Purchases and sales of financial assets are recognized at the date of transaction on which Rhodia is committed to the purchase or sale of the assets.

A financial asset is derecognized once the Group's contractual rights to receive the future cash flows from the asset have expired or the Group has transferred the financial asset to a third party without retaining control or substantially all the risks and rewards.

At initial recognition, the financial assets are carried in the balance sheet at fair value plus the transaction costs directly attributable to the acquisition or issue of the asset (except for the class of financial assets measured at fair value through profit or loss for which such transaction costs are recognized in profit or loss).

A financial asset is classified as current when the cash flows expected to flow from the instrument mature within one year.

### Subsequent recognition

At initial recognition, Rhodia classifies financial assets into one of the four categories provided in IAS 39 *Financial Instruments: recognition and measurement* according to the purpose of the acquisition. This classification determines the method for measuring financial assets at subsequent balance sheet dates: amortized cost or fair value.

Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

For instruments quoted in an active market, the fair value corresponds to a market price. For instruments that are not quoted in an active market, the fair value is determined using valuation techniques including reference to recent arm's length market transactions or transactions involving instruments which are substantially the same, or discounted cash flow analysis including, to a maximum extent, assumptions consistent with observable market data. However, if the fair value of an equity instrument cannot be reasonably estimated, it is measured at cost.

### Financial assets at fair value through profit or loss

These are financial assets classified as held for trading that the Group has acquired principally for the purpose of selling in the near term. They are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

Financial assets at fair value through profit or loss include cash and cash equivalents.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. They are measured at amortized cost.

This category includes operating receivables, deposits and guarantees and loans. These assets are classified in the balance sheet as non-current financial assets or other current financial assets if the repayment schedule is less than one year (at origination) and the asset does not meet the definition of a cash equivalent. Operating receivables are classified in the balance sheet as trade and other receivables.

### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that Rhodia has the positive intention and ability to hold to maturity. They are measured at amortized cost.

### Available-for-sale financial assets

These are non-derivative financial assets that are designated as available for sale or not classified under another category. They are measured at fair value, with subsequent changes in fair value recognized directly in equity.

This category includes, among others, non-consolidated investments.

**Impairment of financial assets (excluding financial assets at fair value through profit or loss)**

A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and such events have a negative impact on the estimated future cash flows of the financial asset or group of financial assets.

The impairment loss of a financial asset measured at amortized cost is equal to the difference between the carrying amount and the estimated future cash flows, discounted at the initial effective interest rate. The impairment of an available-for-sale financial asset is calculated with reference to its current fair value.

An impairment test is performed, on an individual basis, for each material financial asset. Other assets are tested as groups of financial assets with similar credit risk characteristics.

Impairment losses are recognized in profit or loss. With respect to available-for-sale assets, in the event of an impairment loss, the cumulative negative changes in fair value previously recognized in equity are transferred to profit or loss.

The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognized in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognized directly in equity. Impairment losses relating to assets recognized at cost cannot be reversed.

## 2.11 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined by using the weighted average cost or first-in, first-out (FIFO) method. Inventories having a similar nature are measured using the same cost formula.

Finished goods and work-in-progress are measured at the cost of production which takes into account, in addition to the cost of raw materials and supplies, the costs incurred in bringing the inventories to their present location and condition and an allocation of overheads excluding administrative overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2.12 Non-current assets and liabilities held for sale

Non-current assets (or groups of assets and liabilities) held for sale are classified separately in the balance sheet under Assets held for sale and Liabilities associated with assets held for sale and are measured at the lower of net carrying amount and fair value less costs to sell.

They are no longer depreciated (amortized) when classified in this category.

## 2.13 Current and deferred tax

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. It also includes the adjustments in current tax for previous periods.

Deferred taxes are calculated by tax entity using the balance sheet liability method on the temporary differences between the carrying amount of assets and liabilities and their tax base. The following items do not give rise to the recognition of deferred tax: (i) the initial recognition of goodwill, (ii) the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit and, (iii) temporary differences associated with investments in subsidiaries and interests in joint ventures insofar as they will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities is based on how the Group expects to recover or settle the carrying amount of the assets and liabilities, by using, under the liability method, tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized or maintained in assets only where it is probable that the tax entity will have future taxable income to which the asset can be allocated.

Deferred tax assets and liabilities are offset for each tax entity when permitted by law.

## 2.14. Cash and cash equivalents

Cash and cash equivalents comprise cash funds, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## 2.15. Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at the fair value of the amount required to settle the associated obligation, net of related costs. Subsequently (insofar as they are not designated as liabilities at fair value through profit or loss), these financial liabilities are recognized at amortized cost using the effective interest rate method (as defined in Note 2.10).

This heading also includes the “debt” component of compound financial instruments. The compound financial instruments issued by the Group comprise bonds convertible or exchangeable for new or existing shares (OCEANE). An OCEANE is a compound financial instrument which grants the bondholder the option to convert and/or exchange a bond for a fixed number of Rhodia shares. On initial recognition, the total fair value of the compound instrument is allocated between its “debt” and “equity” components. The fair value of the “debt” component is calculated by discounting future flows at the interest rate obtained by Rhodia for a similar bond with no conversion or exchange option. The “equity” component corresponds to the difference between the total fair value of the compound instrument and the fair value of the “debt” component. The value allocated to the conversion option remains the same over the term of the bond. The “debt” component is subsequently measured at amortized cost using the effective interest rate method. Issue costs are allocated proportionately to the "debt" and "equity" components.

In the balance sheet, non-derivative financial liabilities are classified under "Borrowings" and "Trade and other payables" (with the distinction made between the current and non-current portions).

## 2.16 Risk management and derivatives

The Group uses derivatives (interest rate swaps and options, currency futures, commodity options and swaps and energy purchase and sale contracts) to hedge its exposure to foreign exchange, interest rate and commodity risk arising from its operating, financing and investing activities. Derivatives are initially recognized at fair value and subsequently remeasured at fair value on each balance sheet date. Changes in fair value are recognized in the income statement under financial income or expenses for derivative financial instruments hedging financial items, and under other operating income or expenses for instruments hedging operating items, except in certain cases when hedge accounting is applicable:

- cash flow hedge: the change in the value of the effective portion of the derivative is recognized directly in equity. It is reclassified to profit or loss under a heading corresponding to the hedged item when the item is recognized in profit or loss or the Group no longer expects the hedged transaction to be realized. The change in the value of the ineffective portion of the derivative is recognized directly in financial income or expenses for hedges of financial items, and in other operating income or other operating expenses for hedges of operating items. When the expected transaction gives rise to the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedging instrument previously recognized in equity are included in the initial measurement of the asset or liability;
- fair value hedge: the change in the fair value of the derivative is recognized in profit or loss under the same heading as the change in fair value of the hedged item for the portion attributable to the hedged risk;
- hedge for a net investment in a foreign entity: the changes in the fair value of the hedging instrument are recognized in equity for the effective portion of the hedging relationship, while the changes in fair value relating to the ineffective portion of the hedge are recognized in profit or loss from financial items. Upon disposal of the net investment in the foreign entity, all changes in fair value of the hedging instrument previously recognized in equity are transferred to the income statement under the same heading as the disposal gains or losses.

## 2.17 Provisions for retirement obligations and other long-term employee benefits

The Group's employees are offered various post-employment and other long-term employee benefits as a result of legislation applicable in certain countries and the contractual agreements entered into by the Group with its employees. These benefits are classified under defined benefit or defined contribution plans.

**a. Defined contribution plans**

Defined contribution plans involve the payment of contributions to a separate entity, thus releasing the employer from any subsequent obligation, as the entity is responsible for paying the amounts due to the employee. Once the contributions have been paid, no liability is shown in the Rhodia financial statements.

**b. Defined benefit plans**

Defined benefit plans concern all plans other than defined contribution plans. Rhodia is required to provide for the benefits to be paid to active employees and pay those for former employees. Actuarial and/or investment risks fall, in substance, upon the Group.

These plans mainly concern:

- retirement benefits: pension plans, termination benefits, other retirement obligations and supplemental benefits;
- other long-term employee benefits: long-service benefits granted to employees according to their seniority in the Group;
- other employee benefits: post-employment medical care, included in "Other related benefits" in the balance sheet.

Taking into account projected final salaries (projected credit unit method) on an individual basis, post-employment benefits are measured by applying a method using assumptions involving the discount rate, expected long-term return on plan assets specific to each country, life expectancy, turnover, wages, annuity revaluation, medical cost inflation and discounting of sums payable. The assumptions specific to each plan take into account the local economic and demographic contexts.

The amount recorded under retirement obligations and other long-term employee benefits corresponds to the difference between the present value of future obligations and the fair value of the plan assets intended to hedge them, less, where necessary, any unamortized past service cost (except regarding other long-term employee benefits for which the past service cost is immediately recognized in profit or loss). If this calculation gives rise to a net commitment, an obligation is recorded in liabilities. If the measurement of the net obligation gives rise to a surplus for the Group, the asset recognized for this surplus is limited to the net total of any unrecognized past service cost and the present value of any future plan refunds or any reduction in future contributions to the plan.

Rhodia has adopted the option offered by the amendment to IAS 19. Hence, the actuarial gains and losses on obligations or assets relating to post-employment benefits arising from experience adjustments and/or changes in actuarial assumptions are recognized directly in equity for the period in which they occur in consideration of the increase or decrease in the obligation. They are disclosed in the consolidated statement of income and expenses for the period.

The actuarial gains and losses relating to other long-term benefits such as long service awards are fully recognized in profit or loss for the period in which they occur.

The interest expenses arising from the reverse discounting of retirement benefits and similar obligations and the financial income from the expected return on plan assets are recognized in profit or loss from financial items.

The amendment or introduction of a new post-employment or other long-term benefit plan may increase the present value of the defined benefit obligation for services rendered in previous periods, otherwise known as past service cost. This past service cost is recognized in profit or loss on a straight-line basis over the average period until the corresponding benefits are vested by employees. The benefits vested upon adoption or amendment of the plan are immediately recognized in profit or loss.

Regulatory amendments without any compensation for beneficiaries are accounted for in actuarial gains and losses and not past service cost.

The actuarial calculations of retirement obligations and other long-term benefits are performed by independent actuaries.

## 2.18 Share-based payment

Rhodia has set up various compensation plans for employees offering free shares, preferential stock subscription and stock purchase and subscription options.

The fair value of services rendered by employees in consideration for the granting of shares or options represents an expense. This expense is recognized on a straight-line basis in the income statement over the vesting periods relating to these shares or options with the recognition of a corresponding adjustment in equity.

The fair value of services rendered is measured in reference to the fair value of the shares or options on the grant date. Where appropriate, the cost of the non-transferability of shares by the holder, determined using observable market data on the grant date and the specific market characteristics of the Rhodia share, is taken into account.

At each balance sheet date, the Group re-estimates the number of shares or options likely to be vested. The impact of the revised estimates is recognized in profit or loss against a corresponding adjustment in equity.

## 2.19 Provisions

A provision is recognized when Rhodia has a legal or constructive obligation as a result of a past event, which can be reliably measured, and whose settlement is expected to result in an outflow of economic resources for Rhodia.

Provisions are discounted in order to take into account market assessments of the time value of money using risk free rates net of inflation and specific to the relevant geographical areas. The impact of interest rate fluctuations and changes to estimated future cash flows is recognized in other operating expenses in the income statement. The interest expense (reverse discounting) is recognized in finance costs in the income statement.

**Environmental liabilities**

Rhodia periodically analyzes all its environmental risks and the corresponding provisions. Rhodia measures these provisions to the best of its knowledge of applicable regulations, the nature and extent of the pollution, clean-up techniques and other available information.

**Restructuring**

Restructuring comprises all measures designed to permanently adapt structures, production and employees to economic changes. A provision for restructuring is recognized when the Group has approved a detailed formal plan and has either started to implement the plan, or announced its main features to the public.

## 2.20 Net sales and Other revenue

Net sales and other revenue are measured at the fair value of the consideration received or receivable, net of returns, rebates and trade benefits granted and sales tax.

Net sales comprise the sales of goods (goods and goods for resale) and value-added services corresponding to Rhodia's know-how.

Other revenue primarily includes commodity and utility trading transactions and other revenue deemed as incidental by the Group (e.g. temporary contracts following the sale of businesses).

Net sales and other revenue are recognized when all the following conditions have been satisfied:

(i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods or, with respect to the rendering of services, the stage of completion can be measured reliably;

(ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the future economic benefits associated with the transaction will flow to the entity; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 2.21 Restructuring costs

Restructuring costs include severance pay, compensation for the early termination of operating leases and all exit costs arising from restructurings, including impairment losses recognized on discontinued assets due to the closure of a site or operation. They are recognized net of reductions in employee benefits already accrued, in case of loss of these benefits by employees.

## 2.22 Other operating income and other operating expenses

Other operating income (other operating expenses) mainly comprise:

- the gains and losses on disposal of non-current assets where they do not relate to operations sold or for sale which are disclosed under Profit or loss from discontinued operations in the income statement;
- in addition to "Orbeo's trading activities" (see Note 2.5 "Treatment of Orbeo's activities"), positive (negative) changes in fair value of derivative instruments not designated for the hedging of operating items, and positive (negative) changes in fair value corresponding to the ineffective portion of the derivative for hedges of operating items;
- other material operating income (operating expenses) resulting from unusual events and likely to distort the analysis and comparability of the Group's performance.

## 2.23 Operating profit or loss

Operating profit or loss corresponds to all income and expenses not arising from financing activities, associates, discontinued operations and income tax.

## 2.24 Finance income and costs

Finance costs comprise the interest on borrowings calculated using the effective interest rate method, the systematic amortization of transaction costs relating to credit lines, borrowing prepayment or credit line cancellation costs and the cost of the reverse discounting of non-current non-financial liabilities.

Finance income comprises the expected return on plan assets, cash income and dividends.

Net foreign exchange gains or losses and the changes in fair value of derivatives are presented respectively in finance income or costs, with the exception of changes in fair value of derivatives which are recognized on the same line item as the hedged transaction.

All interest on borrowings is recognized in finance costs as incurred, with the exception of interest arising from the acquisition, construction and production of an eligible intangible asset or item of property, plant and equipment that is capitalized in the cost of the asset in accordance with the alternative treatment authorized by IAS 23 *Borrowing Costs*.

## 2.25 Income tax expense

Tax expense or tax income for the period includes current tax and deferred tax. Tax is recognized in profit or loss unless it relates to items that are directly recognized in equity, in which case tax is recognized in equity.

## 2.26 Discontinued operations

A discontinued operation is a component of Rhodia that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. An operation is classified as discontinued at the time of its sale or beforehand if the operation satisfies the criteria for classification as held for sale.

The net profit or loss from operations sold or for sale and, where necessary, disposal gains or losses and impairment losses subsequent to the measurement of assets at fair value less costs to sell, are disclosed in the income statement under "Profit or loss from discontinued operations".

When a component of the operation is classified in discontinued operations, the comparative income statements are restated as if the component had been classified in discontinued operations at the beginning of each previous comparative period.

## 2.27 Earnings per share

Basic earnings per share is calculated by dividing net profit or loss attributable to Rhodia shareholders by the weighted average number of ordinary shares outstanding during the period, after deduction of the shares owned by Rhodia.

Diluted earnings per share is calculated by taking into account all existing dilutive instruments and the value of the goods or services receivable for each stock purchase or subscription option.

Rhodia also discloses basic and diluted earnings per share for continued and discontinued operations.

### 2.28 Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available. The Rhodia Group's chief operating decision maker is the Chairman and Chief Executive Officer.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### NOTE 3 SEGMENT INFORMATION

The following information concerns continuing operations, except for the capital expenditure (acquisitions of intangible assets and property, plant and equipment) in line with the cash flow statement.

Rhodia Group is organized into the following 6 operating segments, whose structure is unchanged since December 31, 2008.

## 3.1 Information by operating segment

Inter-segment transactions are performed under normal market conditions.

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other (2)** | **Group** |
|---|---|---|---|---|---|---|---|---|
| For the year ended December 31, 2009 | | | | | | | | |
| Net sales | 1,476 | 827 | 635 | 189 | 549 | 211 | 170 | **4,057** |
| Other revenue | 108 | 14 | 6 | 453 | 12 | 4 | 39 | **636** |
| Inter-company sales - Net sales | (18) | (2) | (2) | - | - | - | (4) | **(26)** |
| Inter-company sales – Other revenue | (17) | (5) | (2) | (155) | (3) | - | (8) | **(190)** |
| External net sales | 1,458 | 825 | 633 | 189 | 549 | 211 | 166 | 4,031 |
| External other revenue | 91 | 9 | 4 | 298 | 9 | 4 | 31 | **446** |
| Operating profit/(loss) | (80) | 54 | 34 | 135 | 104 | 53 | (140) | 160 |
| Profit/(loss) from financial items | - | - | - | - | - | - | - | **(190)** |
| Income tax expense | - | - | - | - | - | - | - | **(71)** |
| Profit/(loss) from continuing operations | - | - | - | - | - | - | - | (101) |
| Recurring EBITDA (1) | 31 | 93 | 84 | 165 | 133 | 70 | (89) | 487 |

*(1) Recurring EBITDA: Operating profit or loss before net depreciation and impairment, restructuring costs and other operating income and expenses.*

*(2) Corporate and Other" mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemicals industry. "Other revenue" is generated from incidental businesses not directly related to the other companies and mainly comprises internal and third-party industrial service sales. In addition to the net profit from these activities, operating profit comprises the expenses of the Group's Corporate functions and departments, other operating income and expenses relating to the environment and disposal gains and losses (see Note 7).*

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other (2)** | **Group** |
|---|---|---|---|---|---|---|---|---|
| For the year ended December 31, 2008 | | | | | | | | |
| Net sales | 1,789 | 971 | 746 | 233 | 467 | 306 | 303 | **4,815** |
| Other revenue | 138 | 17 | 7 | 662 | 6 | 7 | 63 | **900** |
| Inter-company sales - Net sales | (39) | (4) | (2) | - | - | - | (7) | **(52)** |
| Inter-company sales – Other revenue | (18) | (7) | (2) | (304) | (3) | (1) | (15) | **(350)** |
| External net sales | 1,750 | 967 | 744 | 233 | 467 | 306 | 296 | 4,763 |
| External other revenue | 120 | 10 | 5 | 358 | 3 | 6 | 48 | **550** |
| Operating profit/(loss) | 10 | 91 | 41 | 195 | 54 | 58 | (140) | 309 |
| Share of profit of associates | (1) | - | - | - | - | - | - | **(1)** |
| Profit/(loss) from financial items | - | - | - | - | - | - | - | **(178)** |
| Income tax expense | - | - | - | - | - | - | - | **(55)** |
| Profit/(loss) from continuing operations | - | - | - | - | - | - | - | 75 |
| Recurring EBITDA (1) | 142 | 127 | 106 | 213 | 84 | 72 | (80) | 664 |

*(1) Recurring EBITDA: Operating profit or loss before net depreciation and impairment, restructuring costs and other operating income and expenses.*

*(2) "Corporate and Other" mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemicals industry. "Other revenue" is generated from incidental businesses not directly related to the other companies and mainly comprises internal and third-party industrial service sales. In addition to the net profit from these activities, operating profit comprises the expenses of the Group's Corporate functions and departments, other operating income and expenses relating to the environment and disposal gains and losses (see Note 7).*

The analysis by operating segment of capital employed is as follows:

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other**(1) | **Group** |
|---|---|---|---|---|---|---|---|---|
| For the year ended 31 December, 2009 | | | | | | | | |
| Property, plant, equipment, Other intangible assets and Goodwill | 628 | 369 | 317 | 61 | 151 | 172 | 168 | **1,866** |
| Inventories | 193 | 80 | 85 | 17 | 68 | 7 | 25 | **475** |
| Trade receivables and advances | 227 | 87 | 88 | 38 | 56 | 12 | 26 | **534** |
| Trade payables and advances | (227) | (82) | (70) | (77) | (46) | (17) | (79) | **(598)** |
| Other | (16) | (1) | - | 3 | - | - | 19 | **5** |
| Capital employed | 805 | 453 | 420 | 42 | 229 | 174 | 159 | 2,282 |

*(1) "Corporate and Other" mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemicals industry.*

| *(in millions of euros)* | **Polyamide** | **Novecare** | **Silcea** | **Energy Services** | **Acetow** | **Eco Services** | **Corporate and Other**(1) | **Group** |
|---|---|---|---|---|---|---|---|---|
| For the year ended 31 December, 2008 | | | | | | | | |
| Property, plant, equipment, Other intangible assets and Goodwill | 638 | 320 | 327 | 57 | 159 | 177 | 201 | **1,879** |
| Inventories | 310 | 108 | 119 | 10 | 66 | 13 | 40 | **666** |
| Trade receivables and advances | 215 | 99 | 86 | 63 | 55 | 19 | 54 | **591** |
| Trade payables and advances | (253) | (74) | (70) | (90) | (39) | (28) | (141) | **(695)** |
| Other | (15) | (1) | - | - | - | - | 19 | **3** |
| Capital employed | 895 | 452 | 462 | 40 | 241 | 181 | 173 | 2,444 |

*(1) "Corporate and Other" mainly corresponds to the Salicylics businesses and the Trading activity, involving the purchase and resale by the Group's international sales network of products from the Group's other segments or third-party partners in the chemicals industry.*

Capital expenditure (acquisitions of intangible assets and property, plant and equipment) by operating segment breaks down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Polyamide | 62 | 104 |
| Novecare | 21 | 32 |
| Silcea | 38 | 43 |
| Energy Services | 11 | 10 |
| Acetow | 19 | 20 |
| Eco Services | 20 | 21 |
| Corporate and Other | 20 | 52 |
| **TOTAL** | **191** | **282** |

### 3.2. Information by geographical area

Total net sales and other revenue by geographical area break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| France | 695 | 882 |
| Rest of Europe | 1,139 | 1,410 |
| North America | 801 | 982 |
| *Of which United States* | *765* | *930* |
| Latin America | 693 | 741 |
| *Of which Brazil* | *549* | *610* |
| Asia and other countries | 1,149 | 1,298 |
| *Of which China* | *312* | *328* |
| **TOTAL** | **4,477** | **5,313** |

Net sales by geographical area are determined according to the customer's geographical location.

Non-current assets based on their geographical location break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| France | 699 | 739 |
| Rest of Europe | 268 | 267 |
| North America | 474 | 494 |
| *Of which United States* | *471* | *488* |
| Latin America | 407 | 330 |
| *Of which Brazil* | *398* | *320* |
| Asia and other countries | 318 | 325 |
| *Of which China* | *153* | *157* |
| **TOTAL** | **2,166** | **2,155** |

## NOTE 4 EMPLOYEE EXPENSES

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Wages | (520) | (567) |
| Social security contributions | (128) | (144) |
| Expenses for defined contribution plans | (54) | (57) |
| Other employee expenses | (45) | (25) |
| Retirement benefits and similar obligations | (83) | (75) |
| Share-based payments | (6) | (15) |
| **TOTAL** | **(836)** | **(883)** |

Other employee expenses mainly include training costs and lay-off compensation.

The heading "Share-based payments" includes the expenses relating to the free shares and stock purchase and subscription option plans (see Note 34).

## NOTE 5 DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

The depreciation and impairment included in operating expenses concern the following assets:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Property, plant and equipment – depreciation | (247) | (242) |
| Development expenditure – depreciation | (9) | (6) |
| Other intangible assets – depreciation | (26) | (28) |
| Property, plant and equipment – impairment | (1) | (10) |
| Other intangible assets – impairment | - | (4) |
| Development expenditure – impairment | (1) | (5) |
| Total excluding items recognized in profit or loss from discontinued operations | (284) | (295) |
| Depreciation of items recognized in profit or loss from discontinued operations | - | (4) |
| **Total depreciation and impairment** | **(284)** | **(299)** |

The depreciation and impairment included in operating expenses and presented by function in the income statement break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Cost of sales | (223) | (237) |
| Administrative and selling expenses | (34) | (40) |
| Research and development expenditure | (14) | (12) |
| Restructuring costs | (11) | (4) |
| Other operating income and expense | (2) | (2) |
| Total continuing operations | (284) | (295) |
| Discontinued operations | - | (4) |
| **Total depreciation and impairment** | **(284)** | **(299)** |



### 5.1 Impairment test assumptions

In accordance with the methodology adopted by the Group for the implementation of impairment tests (see Note 2.9) and in the absence of fair value observable in an organized market, the recoverable amount of cash-generating units (CGUs) or groups of CGUs corresponds to their value in use, which is defined as equal to the sum of net cash flows from the latest forecasts for each CGU or group of CGUs and determined using the following methods:

- 5-year business plan prepared by management based on growth and profitability assumptions, taking into account past performances, forecast changes in the economic environment and expected market development;
- consideration of a terminal value determined by capitalizing a standard cash flow obtained by extrapolating the most recent cash flow of the explicit business plan period, affected by a long-term growth rate deemed appropriate for the activity and the location of the assets;
- discounting of expected cash flows at a rate determined using the weighted average capital cost formula.

The main assumptions used in 2009 for annual impairment tests on goodwill and tests on other intangible assets and property, plant and equipment on account of indications of impairment are as follows:

**Discount rate**

For the weighted average cost of capital, the market parameters were determined using a sample of 8 companies from the chemicals industry.

Considering these parameters and a market risk premium of 5% (versus 4.79% in 2008), the weighted average cost of capital used to discount future cash flows was set at 8% as in 2008.

**Long-term growth rate**

The long-term growth rates used for the main CGUs or group of CGUs, unchanged since 2008, are as follows:

| | 2009 |
|---|---|
| Polyamide | 2.0% |
| Novecare | 1.7% |
| Silica (Silcea) | 3.0% |
| Diphenols (Silcea) | 2.0% |
| Electronics & Catalysis (Silcea) | 2.0% |
| Eco services | 2.0% |
| Acetow | 2.0% |
| Salicylics (Corporate & Other) | 1.5% |

## 5.2 Depreciation and impairment by operating segment

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate & Other | Group |
|---|---|---|---|---|---|---|---|---|
| For the year ended December 31, 2009 | | | | | | | | |
| Impairment | - | (1) | - | - | - | - | (1) | **(2)** |
| Depreciation | (104) | (36) | (43) | (11) | (29) | (17) | (42) | **(282)** |
| **Total depreciation and impairment** | **(104)** | **(37)** | **(43)** | **(11)** | **(29)** | **(17)** | **(43)** | **(284)** |

| *(in millions of euros)* | Polyamide | Novecare | Silcea | Energy Services | Acetow | Eco Services | Corporate & Other | Group |
|---|---|---|---|---|---|---|---|---|
| For the year ended December 31, 2008 | | | | | | | | |
| Impairment | - | (5) | (2) | - | - | - | (12) | **(19)** |
| Depreciation | (103) | (32) | (42) | (11) | (29) | (14) | (42) | **(273)** |
| **Total depreciation and impairment** | **(103)** | **(37)** | **(44)** | **(11)** | **(29)** | **(14)** | **(54)** | **(292)** |

The impairment tests conducted in 2009 led to the recognition of an impairment loss in the amount of €(2) million (€(19) million in 2008) for assets, including €(1) million for property, plant and equipment (compared to €(10) million in 2008) mainly relating to assets which were no longer used or assets for disposal and €(1) million for intangible assets (compared to €(9) million in 2008) relating to research and development expenditure incurred on projects which were abandoned.

The impairment losses recognized in profit or loss from discontinued operations are analyzed in Note 10.1.

The impairment tests performed at December 31, 2009 did not lead to any impairment of goodwill, as the recoverable amounts of the groups of CGUs were significantly higher than their carrying amounts.

The sensitivity analysis carried out on the main assumptions (discount rate, long-term growth rate) did not change the result of the impairment tests.

## NOTE 6 RESTRUCTURING COSTS

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| New plans | (24) | (30) |
| Re-estimated costs of previous plans | 2 | (5) |
| Depreciation and impairment of non-current assets | (11) | (4) |
| Impairment of current assets | - | (1) |
| **TOTAL** | **(33)** | **(40)** |

A description of restructuring plans is provided in Note 28.3.

Restructuring costs by operating segment break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Polyamide | (14) | (26) |
| Novecare | (7) | - |
| Silcea | (1) | (1) |
| Acetow | - | (1) |
| Corporate and Other | (11) | (12) |
| **TOTAL** | **(33)** | **(40)** |



## NOTE 7 OTHER OPERATING INCOME AND EXPENSES

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Net gains/losses) on disposals of non-current assets | 13 | 26 |
| Other operating income | 26 | 10 |
| Total other operating income | 39 | 36 |
| Environmental expenses | (26) | (34) |
| Other operating expenses | (36) | (29) |
| **Total other operating expenses** | **(62)** | **(63)** |

In 2009, the disposal gains mainly concern the disposals of real-estate assets.

In 2008, the net disposal gains or losses mainly include the disposal of Rhodia's distribution network, covering South-East Asia, India, Australia and Taiwan, with 180 employees, to Brenntag, a major player in chemical product distribution.

In 2009, other operating income includes the compensation received following the eviction of Rhodia from the Wuxi site planned in 2011. Any expenses incurred due to this eviction were recorded in other operating expenses. This compensation was granted by the Wuxi municipality in 2008 and is paid to Rhodia according to pre-defined timetable until the eviction date. It is recorded in profit or loss as and when the payments are received.

In parallel, other operating expenses comprise, as in 2008, the "trading" component of Orbeo's activity (CER and EUA purchases/sales), changes in fair value of derivatives that do not qualify as hedges for operating items, and changes in fair value corresponding to the ineffective portion of the derivative for hedges covering operating items.

Environmental expenses are analyzed in Note 28.4.

## NOTE 8 PROFIT/(LOSS) FROM FINANCIAL ITEMS

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| *Gross interest expense on borrowings* | *(117)* | *(135)* |
| *Income from cash equivalents* | *12* | *20* |
| *Gains/(losses) from interest rate derivatives* | *(1)* | *(1)* |
| *Income/(expenses) on financial transactions* | *(18)* | *(3)* |
| *Discounting effects* | *(143)* | *(149)* |
| *Expected return on pension plan assets* | *67* | *87* |
| *Foreign exchange gains/(losses)* | *10* | *(3)* |
| *Proceeds from disposal of available-for-sale financial assets* | *-* | *3* |
| *Other* | *-* | *3* |
| ***Profit/(loss) from financial items*** | ***(190)*** | ***(178)*** |
| *Of which:* | | |
| *Finance costs* | *(287)* | *(313)* |
| *Finance income* | *87* | *138* |
| *Foreign exchange gains/(losses)* | *10* | *(3)* |

No major refinancing operations occurred in 2009.

The discounting effects mainly comprise the finance cost relating to retirement benefits and similar obligations (see Note 27).

### 8.1 Gross interest expense on borrowings

This heading corresponds to the gross interest expense on borrowings measured at amortized cost, including the interest on interest rate derivatives eligible for cash flow hedge accounting (see Note 26.2).

The decrease in recurring interest expense arises from the reduction in both bank loans and interest rates.

### 8.2 Income/(expenses) on financial transactions

These costs mainly correspond to the financial expenses on current transactions and the borrowing expenses not calculated using the amortized cost method.

In 2009, income included a net capital gain of €3 million relating to the partial redemption of Floating Rate Notes (€15 million in 2008) in the nominal amount of €32 million (€33 million in 2008) (see Note 24.4).

In 2009, Rhodia renegotiated the financial covenants of its syndicated credit facility ("RCF"). The charges linked to this operation were capitalized and will be amortized until the credit line expires in 2012. Following the renegotiation, the costs capitalized during the implementation of the syndicated credit facility in 2007 gave rise to accelerated amortization in the amount of €(4) million (see Note 24.4).

## NOTE 9 INCOME TAX

The tax expense for 2009 breaks down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Current income tax expense | (76) | (49) |
| Deferred tax income/(expense) | 5 | (6) |
| **Tax expense for the year** | **(71)** | **(55)** |

The reconciliation between the theoretical tax expense at the statutory tax rate in France and the actual tax expense after reclassification of discontinued operations is as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Profit/(loss) before income tax | (30) | 130 |
| Statutory tax rate in France | 34.43% | 34.43% |
| Theoretical tax income/(expense) at the statutory rate in France | 10 | (45) |
| Tax rate difference between France and other countries | 7 | 1 |
| Utilization of previously unrecognized deferred tax assets | 3 | - |
| Withholding tax | (3) | (4) |
| Other taxes | (38) | 3 |
| Unrecognized deferred tax assets | (48) | (7) |
| Permanent differences | (2) | (3) |
| Tax expense | (71) | (55) |
| Effective tax rate | (236.7%) | 42.3% |



The tax expense essentially corresponds to the income tax reported by US, German and Asian entities.

Other taxes mainly comprise tax reassessments and tax risks (see Note 28.5).

Management has not modified its estimate of the probability of recovering the deferred tax assets relating to the French and British tax groups. Hence, their deferred tax assets were recognized up to the amount of deferred tax liabilities so that the deferred tax position of the French and British tax groups show a nil value.

## NOTE 10 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

### 10.1 Profit/(loss) from discontinued operations

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Net sales | - | 206 |
| Other revenue | 1 | 7 |
| Net operating expenses | (29) | (218) |
| Net finance costs | (3) | (2) |
| Profit/(loss) from discontinued operations before tax and gains/(losses) on disposals | (31) | (7) |
| Gains/(losses) on disposals | - | 41 |
| Tax effect | - | (2) |
| Profit/(loss) from discontinued operations | (31) | 32 |

The loss from discontinued operations for the year ended December 31, 2009 is attributable to the disposals made prior to 2009, and the unfavorable developments in the Innophos litigation (see Note 32).

The gains and losses on disposals in 2008 mainly concern the Isocyanates businesses sold in September 2008.

### 10.2 Assets held for sale and associated liabilities

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Property, plant and equipment | 1 | 1 |
| Other non-current assets | - | 1 |
| Trade and other receivables | 2 | - |
| **Assets held for sale** | **3** | **2** |

## NOTE 11 EARNINGS PER SHARE

The average number of outstanding shares prior to and after dilution is determined as follows:

| *(in number of shares)* | **2009** | 2008 |
|---|---|---|
| Number of shares outstanding at January 1, | 99,294,931 | 100,367,831 |
| Shares issued in connection with the exercise of options (see Note 34) | - | 1,111 |
| Shares issued in connection with the January 15, 2008 capital increase | - | 718,126 |
| Movements in treasury shares | 670,353 | (1,792,137) |
| Number of shares issued at December 31, | 99,965,284 | 99,294,931 |
| **Weighted average number of shares outstanding at December 31, before dilution** | **99,888,021** | **100,722,391** |
| Granting of free shares | 785,924 | 752,986 |
| Issue of stock subscription warrants | - | 17,932 |
| **Weighted average number of shares outstanding at December 31, after dilution** | **100,673,945** | **101,493,309** |

To calculate the average number of outstanding shares after dilution, the potential shares relating to the convertible bonds issued in April 2007 were not taken into account as they are not dilutive.

Basic and diluted earnings per share are determined as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Profit/(loss) from continuing operations for the period attributable to equity holders of Rhodia S.A. | (101) | 73 |
| Profit/(loss) from discontinued operations for the period attributable to equity holders of Rhodia S.A. | (31) | 32 |
| Profit/(loss) for the period attributable to equity holders of Rhodia S.A. | (132) | 105 |
| **Earnings per share** *(in euros)* | | |
| Basic earnings per share of continuing operations | (1.01) | 0.73 |
| Diluted earnings per share of continuing operations | (1.01) | 0.72 |
| Basic earnings per share of discontinued operations | (0.31) | 0.32 |
| Diluted earnings per share of discontinued operations | (0.31) | 0.32 |
| **Basic earnings per share** | **(1.32)** | **1.05** |
| **Diluted earnings per share** | **(1.32)** | **1.04** |

# NOTES TO THE CONSOLIDATED BALANCE SHEET

The movements presented in the notes to the consolidated balance sheet include those which impacted assets and liabilities held for sale until their classification under separate headings in the balance sheet. The net flows subsequent to this classification are presented in "Other movements".

## NOTE 12 PROPERTY, PLANT AND EQUIPMENT

| *(in millions of euros)* | **Land** | **Buildings** | **Machinery and equipment** | **PPE under construction** | **Total** |
|---|---|---|---|---|---|
| Year ended December 31, 2009 | | | | | |
| At January 1, 2009 | 102 | 228 | 1,050 | 121 | **1,501** |
| Additions and assets under construction (1) | 1 | 9 | 130 | (3) | **137** |
| Disposals and retirements | (1) | (2) | - | - | **(3)** |
| Depreciation | (3) | (34) | (210) | - | **(247)** |
| Impairment | - | - | (1) | - | **(1)** |
| Changes in consolidation scope (2) | 3 | 4 | 8 | 2 | **17** |
| Currency translation differences and other movements (3) | - | 9 | 40 | 5 | **54** |
| At December 31, 2009 | 102 | 214 | 1,017 | 125 | **1,458** |
| Gross value | 135 | 770 | 4,100 | 125 | **5,130** |
| Accumulated depreciation and impairment | (33) | (556) | (3,083) | - | **(3,672)** |
| **Net carrying amount at December 31, 2009** | **102** | **214** | **1,017** | **125** | **1,458** |

*(1) Assets under construction represent €130 million in 2009.*
*(2) The changes in consolidation scope mainly correspond to the acquisition of McIntyre Group Ltd, a manufacturer of specialty surfactants with facilities in the United States and Europe.*
*(3) The foreign exchange gain generated in 2009 totaled €58 million.*

| *(in millions of euros)* | **Land** | **Buildings** | **Machinery and equipment** | **PPE under construction** | **Total** |
|---|---|---|---|---|---|
| Year ended December 31, 2008 | | | | | |
| At January 1, 2008 | 108 | 255 | 1,172 | 151 | **1,686** |
| Additions and assets under construction (1) | 1 | 28 | 217 | (3) | **243** |
| Disposals and retirements | - | (1) | (2) | - | **(3)** |
| Depreciation | (1) | (34) | (210) | - | **(245)** |
| Impairment | - | - | (10) | - | **(10)** |
| Changes in consolidation scope (2) | - | (14) | (74) | (17) | **(105)** |
| Currency translation differences and other movements (3) | (6) | (6) | (43) | (10) | **(65)** |
| At December 31, 2008 | 102 | 228 | 1,050 | 121 | **1,501** |
| Gross value | 133 | 762 | 3,949 | 121 | **4,965** |
| Accumulated depreciation and impairment | (31) | (534) | (2,899) | - | **(3,464)** |
| **Net carrying amount at December 31, 2008** | **102** | **228** | **1,050** | **121** | **1,501** |

*(1) Assets under construction represent €231 million in 2008.*
*(2) The changes in consolidation scope mainly include the impact arising from the disposal of the Isocyanates business to Perstorp of Pont de Claix (France) in the amount of €(98) million and Freeport (USA) in the amount of €(7) million.*
*(3) The foreign exchange loss generated in 2008 totaled €(61) million.*

The impairment losses recognized in 2008 and 2009 are detailed in Note 5 for assets in continuing use and in Note 10 for assets classified as held for sale.

Finance-leased assets break down as follows:

| *(in millions of euros)* | **Land and Buildings** | **Machinery and equipment** | **Total** |
|---|---|---|---|
| At December 31, 2009 | | | |
| Gross value | 5 | 26 | **31** |
| Depreciation | (4) | (18) | **(22)** |
| **Total finance-leased assets** | **1** | **8** | **9** |
| At December 31, 2008 | | | |
| Gross value | 5 | 23 | **28** |
| Depreciation | (4) | (14) | **(18)** |
| **Total finance-leased assets** | **1** | **9** | **10** |

## NOTE 13 GOODWILL

### 13.1 Segment allocation

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Polyamide | 8 | 8 |
| Novecare | 132 | 113 |
| Silcea | 37 | 37 |
| Acetow | 3 | 3 |
| Eco services | 34 | 35 |
| Corporate & Other | 1 | 1 |
| **TOTAL** | **215** | **197** |

The goodwill generated through the acquisition of the McIntyre Group in the United States was allocated to Novecare (see Note 13.2).

### 13.2 Movements during the year

| *(in millions of euros)* | **Gross** | **Impairment** | **Net** |
|---|---|---|---|
| At January 1, 2008 | 228 | (21) | 207 |
| Disposals | (2) | - | (2) |
| Currency translation differences | (9) | 1 | (8) |
| At December 31, 2008 | 217 | (20) | 197 |
| Acquisitions | 22 | - | 22 |
| Currency translation differences | (4) | - | (4) |
| At December 31, 2009 | 235 | (20) | 215 |

No impairment was recognized in 2008 and 2009 considering the results of the tests performed using the methodology described in Note 5.

On February 27, 2009, Rhodia purchased 100% of McIntyre Group Ltd, a global manufacturer of specialty surfactants. Based near Chicago and employing around 200 people, it has manufacturing facilities in the United States (Illinois) and Europe (UK), complemented by a global distribution network.

The purchase price was allocated as follows:

| *(in millions of euros)* | **At December 31, 2009** |
|---|---|
| Cost of the business combination (A): | 74 |
| Net assets acquired at fair value (B): | 52 |
| Property, plant and equipment | 17 |
| Inventories and work-in-progress | 10 |
| Acquired trademarks | 6 |
| Acquired technologies | 6 |
| Customer relationships | 16 |
| Other assets and liabilities | (3) |
| GOODWILL (A) – (B) | 22 |

The goodwill is attributable to McIntyre's market profitability and the synergies expected from its consolidation in the Group.

The net profit generated by McIntyre since February 27, 2009 amounts to €6 million.



## NOTE 14 OTHER INTANGIBLE ASSETS

| *(in millions of euros)* | **Trademarks and patents** | **Software** | **Development costs** | **Other (4)** | **Total** |
|---|---|---|---|---|---|
| Year ended December 31, 2009 | | | | | |
| At January 1, 2009 | 18 | 53 | 64 | 46 | **181** |
| Additions and assets under construction (1) | 1 | 7 | 17 | - | **25** |
| Impairment | - | - | (1) | - | **(1)** |
| Depreciation | (4) | (20) | (9) | (2) | **(35)** |
| Changes in consolidation scope (2) | 12 | - | - | 16 | **28** |
| Currency translation differences and other movements (3) | - | - | 1 | (6) | **(5)** |
| At December 31, 2009 | 27 | 40 | 72 | 54 | **193** |
| Gross value | 64 | 206 | 93 | 84 | **447** |
| Depreciation and impairment | (37) | (166) | (21) | (30) | **(254)** |
| **Net carrying amount at December 31, 2009** | **27** | **40** | **72** | **54** | **193** |

*(1) Assets under construction represent €7 million in 2009*

*(2) The changes in consolidation scope mainly correspond to the acquisition of McIntyre Group Ltd, a manufacturer of specialty surfactants with facilities in the United States and Europe.*

*(3) Other movements include greenhouse gas emissions for €(4) million.*

*(4) Including €13 million at the 2009 year-end relating to greenhouse gas emission allowances to be surrendered.*

| *(in millions of euros)* | **Trademarks and patents** | **Software** | **Development costs** | **Other [(4)]** | **Total** |
|---|---|---|---|---|---|
| Year ended December 31, 2008 | | | | | |
| At January 1, 2008 | 17 | 46 | 60 | 60 | 183 |
| Additions and assets under construction [(1)] | 4 | 31 | 21 | (15) | 41 |
| Impairment | (4) | - | (5) | - | (9) |
| Depreciation | (3) | (21) | (4) | (5) | (33) |
| Changes in consolidation scope [(2)] | - | - | (7) | - | (7) |
| Currency translation differences and other movements [(3)] | 4 | (3) | (1) | 6 | 6 |
| At December 31, 2008 | 18 | 53 | 64 | 46 | 181 |
| Gross value | 54 | 232 | 79 | 75 | 440 |
| Depreciation and impairment | (36) | (179) | (15) | (29) | (259) |
| **Net carrying amount at December 31, 2008** | **18** | **53** | **64** | **46** | **181** |

*(1) Assets under construction (mostly acquired externally) represent €53 million in 2008*
*(2) The changes in consolidation scope mainly include the impact arising from the disposal of the Isocyanates business to Perstorp of Pont de Claix (France).*
*(3) Other movements include greenhouse gas emissions for €7 million.*
*(4) Including €25 million at the 2008 year-end relating to greenhouse gas emission allowances to be surrendered.*

## NOTE 15 INVESTMENTS IN ASSOCIATES

Investments in associates break down as follows:

| | **Investments in associates** | | **Share of profit/(loss) of associates** | |
|---|---|---|---|---|
| *(in millions of euros)* | **2009** | 2008 | **2009** | 2008 |
| GIE Osiris | 9 | 9 | - | - |
| GIE Chimie Salindres | 2 | 2 | - | - |
| Energostil | - | 1 | - | (1) |
| Qingdao Dongyue Rhodia Chemical Co Ltd | 1 | 1 | - | - |
| **TOTAL** | **12** | **13** | **-** | **(1)** |

The aggregate financial data relating to the main associates is shown below:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Total assets | 83 | 97 |
| Total liabilities | 53 | 64 |
| Net sales | 37 | 40 |
| **Net profit** | **(2)** | **(3)** |

## NOTE 16 INVESTMENTS IN JOINT VENTURES

The share of assets, liabilities and profit (or loss) of the main joint ventures are shown below:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Non-current assets | 174 | 196 |
| Current assets | 247 | 239 |
| **Total assets** | **421** | **435** |
| Non-current liabilities | 82 | 98 |
| Current liabilities | 252 | 238 |
| Equity | 87 | 99 |
| **Total liabilities & equity** | **421** | **435** |
| **Net sales** | **355** | **527** |
| Other revenue | 25 | 49 |
| Operating profit | 18 | 39 |
| **Profit for the period** | **6** | **22** |



## NOTE 17 NON-CURRENT FINANCIAL ASSETS

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| **Loans and receivables** | | |
| Gross value | 142 | 115 |
| Impairment | (35) | (33) |
| **Net value** | **107** | **82** |
| **Available-for-sale financial assets** | **10** | **9** |
| **Retirement benefit surplus** | **1** | **1** |
| **TOTAL** | **118** | **92** |

Non-current assets classified as loans and receivables break down as follows:

- at December 31, 2009: loans in the amount of €28 million, deposits and guarantees in the amount of €14 million and receivables in the amount of €65 million;
- at December 31, 2008: loans in the amount of €21 million, deposits and guarantees in the amount of €16 million and receivables in the amount of €45 million.

Available-for-sale financial assets comprise insignificant investments in non-consolidated companies of less than €2 million.

## NOTE 18 DEFERRED TAX ASSETS AND LIABILITIES

The deferred taxes recognized as non-current assets or liabilities break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| **Deferred tax assets** | **170** | **171** |
| Less than one year | 22 | 17 |
| More than one year | 148 | 154 |
| **Deferred tax liabilities** | **(28)** | **(38)** |
| Less than one year | (11) | (12) |
| More than one year | (17) | (26) |

The deferred taxes shown on the face of the balance sheet arise from:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Differences between carrying and tax amounts of: | | | | | | |
| • assets | 12 | 7 | (82) | (68) | (70) | (61) |
| • retirement obligations | 52 | 53 | - | - | 52 | 53 |
| • provisions | 94 | 84 | (10) | (6) | 84 | 78 |
| • derivatives | - | 4 | (9) | (4) | (9) | - |
| • other items | 22 | 26 | (27) | (35) | (5) | (9) |
| Tax loss carryforwards and tax credits | 90 | 72 | - | - | 90 | 72 |
| **Deferred taxes** | **270** | **246** | **(128)** | **(113)** | **142** | **133** |
| Netting effect | (100) | (75) | 100 | 75 | - | - |
| **Net deferred taxes** | **170** | **171** | **(28)** | **(38)** | **142** | **133** |

At December 31, 2009, unrecognized deferred tax assets amount to €1,466 million and break down as follows:

- €936 million in tax loss carryforwards (€869 million at December 31, 2008), of which €865 million in losses that may be carried forward indefinitely in respect of French and British tax consolidation groups;
- €75 million in non-ordinary tax losses that may only be offset against disposals of assets;
- €455 million generated by the differences in carrying and tax amounts of assets and liabilities.

At each period-end, Rhodia determines whether each tax entity is likely to generate taxable profits against which its deferred tax assets may be offset or to benefit from unrecognized available tax credits. To assess this probability, Rhodia considers in particular current and past results of the tax entities as well as projected taxable profits. In the event of recent losses not relating to non-recurring items, Rhodia considers whether the entities are presumed not to have future taxable profits available to reverse such tax assets or credits. This analysis led the Group not to recognize net deferred tax assets for the French and British tax groups.

Movements in net deferred taxes recognized in the balance sheet break down as follows:

| | Maturity | |
|---|---|---|
| *(in millions of euros)* | Less than one year | More than one year |
| At January 1, 2008 | 5 | 113 |
| Recognition in equity | (10) | 35 |
| Recognition in profit or loss | 15 | (19) |
| Currency translation differences and other movements | (5) | (1) |
| At December 31, 2008 | 5 | 128 |
| Recognition in equity | - | (8) |
| Recognition in profit or loss | 3 | 2 |
| Currency translation differences and other movements | 3 | 9 |
| At December 31, 2009 | 11 | 131 |

The breakdown of deferred taxes recognized in profit or loss is presented in Note 9 "Income tax", and Note 10.1 "Profit/(loss) from discontinued operations."

The movements in deferred taxes recognized directly in equity concern actuarial gains and losses relating to retirement benefits and on cash flow hedges recognized in equity (Refer to the "Consolidated Statements of Recognized Income and Expense").



## NOTE 19 INVENTORIES

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Raw materials | 230 | 280 |
| Work-in-progress | 41 | 55 |
| Finished goods | 234 | 365 |
| Gross carrying amount | 505 | 700 |
| Impairment | (30) | (34) |
| **Net carrying amount** | **475** | **666** |

## NOTE 20 TRADE AND OTHER RECEIVABLES

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Trade receivables | 511 | 502 |
| Other trade receivables | 80 | 138 |
| Gross trade receivables | 591 | 640 |
| Impairment | (53) | (49) |
| Net trade receivables | 538 | 591 |
| Employees and social security | 3 | 2 |
| State and local authorities | 109 | 183 |
| Other receivables | 65 | 71 |
| Impairment | (23) | (26) |
| Total other receivables | 154 | 230 |
| **Total Trade and other receivables** | **692** | **821** |

## NOTE 21 OTHER CURRENT FINANCIAL ASSETS

| (in millions of euros) | 2009 | 2008 |
|---|---|---|
| Financial assets at fair value through profit or loss | 16 | 18 |
| Loans and receivables | 5 | 4 |
| Available-for-sale financial assets | 79 | 6 |
| **TOTAL** | **100** | **28** |

Other current financial assets primarily include short-term investments with an initial maturity of more than 3 months.

In order to optimize its cash investments, Rhodia has invested deposits of €65 million with an initial maturity of more than 3 months.

## NOTE 22 CASH AND CASH EQUIVALENTS

### 22.1 Analysis by type

| (in millions of euros) | At December 31, 2009 | At December 31, 2008 |
|---|---|---|
| Cash in banks | 122 | 122 |
| Cash equivalents | 569 | 370 |
| **TOTAL** | **691** | **492** |

Cash and cash equivalents mainly include monetary notes, SICAV mutual funds and certificates of deposit with an initial maturity of less than 3 months.

### 22.2 Consolidated statement of cash flows

In 2009, discontinued operations contribute to net cash from operating activities in the amount of €(5) million. They do not contribute to net cash used by both investing and financing activities.

In 2008, discontinued operations contributed to net cash from operating activities in the amount of €(5) million and net cash used by investing activities in the amount of €(15) million. They did not contribute to net cash used by financing activities.

In 2008, cash received from the disposal of non-current assets arose mainly from the disposal of the Isocyanates business and Rhodia's distribution network in South-East Asia, India, Australia and Taiwan.

The cash and cash equivalents of acquired entities amount to €2 million in 2009, while those of sold entities or entities held for sale totaled €(1) million in 2008.

Paid interest costs, net of interest received (including impact of interest rate hedging), totaled €78 million in 2009 and €82 million in 2008.

Income taxes paid totaled €54 million in 2009 and €47 million in 2008.

## NOTE 23 EQUITY

### 23.1 Share capital and additional paid-in capital

At December 31, 2009, Rhodia's share capital totaled €1,213,044,816, comprising 101,087,068 shares with a par value of €12 each.

### 23.2 Dividends

No dividends were paid to the shareholders of Rhodia S.A. during the year ended December 31, 2009.

### 23.3 Translation reserve

The €47 million movement in the translation reserve for the year ended December 31, 2009 is primarily attributable to the appreciation of the Brazilian real.

### 23.4 Treasury shares

Following the allotment of free shares to the beneficiaries of the 2007 A and B plans and the 2007 2+2 plan, there were a total of 1,121,784 treasury shares at December 31, 2009.

Under the May 20, 2009 plan described below, the Group acquired 1,010,000 stock purchase options maturing in May 20, 2011 for a strike price of €5.62.

### 23.5 Other movements

On March 16, 2009, the Rhodia Board of Directors approved new free share allotment plans for 173 beneficiaries (2 x 381,200 shares) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries (see Note 34).

On May 20, 2009, the Rhodia Board of Directors approved a stock purchase option plan for 41 beneficiaries (1,010,000 options) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries (see Note 34).



## NOTE 24 BORROWINGS

### 24.1 Breakdown of borrowings by type

| | At December 31, 2009 | | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | **Amount at amortized cost (1)** | **Redemption value (2)** | **Amount at fair value (3)** | **Maturity** | **Effective rates before hedging (4) - (5)** |
| 2004 USD senior notes | 4 | 4 | 4 | 06/01/2010 | 10.25% |
| 2004 EUR senior notes | 1 | 1 | 1 | 06/01/2010 | 10.50% |
| Bilateral credit facilities | 91 | 91 | 91 | 2010 | 4% - 9% |
| Securitization of receivables | 41 | 41 | 41 | 2010 | 3.62% |
| Other debts | 12 | 12 | 12 | 2010 | < 7% |
| Accrued interest payable | 16 | 16 | 16 | - | - |
| **Sub-total short term** | **165** | **165** | **165** | | |
| 2006 EUR senior notes | 1,021 | 1,035 | 966 | 10/15/2013 | Euribor 3M + 2.75% |
| OCEANE | 538 | 595 | 528 | 01/01/2014 | 6.29% |
| Other EUR notes | 15 | 15 | 15 | 12/31/2011 | Euribor 6M + 1.60% |
| Bilateral credit facilities | 69 | 69 | 69 | 2011-2014 | 4% - 9% |
| Finance lease debts | 5 | 5 | 5 | 2012-2019 | 3.56% - 11.25% |
| Other debts | 7 | 7 | 7 | 2011-2018 | < 7% |
| **Sub-total long term** | **1,655** | **1,726** | **1,590** | | |
| **TOTAL** | **1,820** | **1,891** | **1,755** | | |

*(1) The amortized cost of the OCEANE is determined after separate recognition in equity of the share conversion option for €124 million.*
*(2) The amount shown for the OCEANE corresponds to the principal excluding the 13.22% redemption premium.*
*(3) Senior notes and the OCEANE are measured on the last day of the year. The redemption price was adopted for other borrowings.*
*(4 Effective interest rate before impact of hedges.*
*(5) Libor/Euribor are mainly 1, 3 or 6 months.*

| | At December 31, 2008 | | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | Amount at amortized cost (1) | Redemption value (2) | Amount at fair value (3) | Maturity | Effective rates before hedging (4) - (5) |
| Bilateral credit facilities | 141 | 141 | 141 | 2009 | Euribor + 0.9%/ Euribor + 2.5%/ 7% |
| Securitization of receivables | 37 | 37 | 37 | 2009 | 4.30% - 4.59% |
| Finance lease debts | 4 | 4 | 4 | 2009 | 3.10% - 3.96% |
| Other debts | 10 | 10 | 10 | 2009 | < 6% |
| Accrued interest payable | 27 | 27 | 27 | - | - |
| **Sub-total short term** | **219** | **219** | **219** | | |
| 2006 EUR senior notes | 1,048 | 1,067 | 536 | 10/15/2013 | Euribor 3M + 2.75% |
| OCEANE | 509 | 595 | 304 | 01/01/2014 | 6.29% |
| 2004 USD senior notes | 4 | 4 | 4 | 06/01/2010 | 10.25% |
| 2004 EUR senior notes | 1 | 1 | 1 | 06/01/2010 | 10.5% |
| Other notes | 16 | 16 | 16 | 12/31/2011 | Euribor 6M + 1.60% |
| Bilateral credit facilities | 21 | 21 | 21 | 2010-2012 | 5.07% - 6.7% |
| Finance lease debts | 4 | 4 | 4 | 2010-2014 | 3.10% - 3.96% |
| Other debts | 9 | 9 | 9 | 2010-2015 | < 6% |
| **Sub-total long term** | **1,612** | **1,717** | **895** | | |
| **TOTAL** | **1,831** | **1,936** | **1,114** | | |

*(1) The amortized cost of the OCEANE is determined after separate recognition in equity of the share conversion option for €124 million.*
*(2) The amount shown for the OCEANE corresponds to the principal excluding the 13.22% redemption premium.*
*(3) Senior notes and the OCEANE are measured on the last day of the year. The redemption price was adopted for other borrowings.*
*(4) Effective interest rate before impact of hedges.*
*(5) Libor/Euribor are mainly 1, 3 or 6 months.*

## 24.2 Analysis of borrowings by maturity

| | **At December 31, 2009** | | | | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **2011** | **2012** | **2013** | **2014** | **After 2014** | **Total** |
| 2006 EUR senior notes | - | - | 1,021 | - | - | 1,021 |
| OCEANE | - | - | - | 538 | - | 538 |
| Other EUR notes | 15 | - | - | - | - | 15 |
| Bilateral credit facilities | 56 | 7 | - | 6 | - | 69 |
| Finance lease debts | - | 1 | 2 | 1 | 1 | 5 |
| Other debts | 1 | 1 | - | - | 5 | 7 |
| **Sub-total long term** | **72** | **9** | **1,023** | **545** | **6** | **1,655** |

| (in millions of euros) | At December 31, 2008<br>2010 | 2011 | 2012 | 2013 | After 2013 | Total |
|---|---|---|---|---|---|---|
| 2006 EUR senior notes | - | - | - | 1,048 | - | 1,048 |
| OCEANE | - | - | - | - | 509 | 509 |
| 2004 USD senior notes | 4 | - | - | - | - | 4 |
| 2004 EUR senior notes | 1 | - | - | - | - | 1 |
| Other EUR notes | - | 16 | - | - | - | 16 |
| Bilateral credit facilities | 7 | 8 | 6 | - | - | 21 |
| Finance lease debts | 1 | - | 1 | 1 | 1 | 4 |
| Other debts | 1 | 1 | 1 | 1 | 5 | 9 |
| **Sub-total long term** | **14** | **25** | **8** | **1,050** | **515** | **1,612** |

## 24.3 Analysis of borrowings by currency

| (in millions of euros) | 2009 | 2008 |
|---|---|---|
| Euro | 1,632 | 1,652 |
| US Dollar | 71 | 71 |
| Chinese yuan | 56 | 56 |
| Brazilian real | 56 | 22 |
| Korean won | - | 17 |
| Other | 5 | 13 |
| **Total borrowings** | **1,820** | **1,831** |

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## 24.4 Comments on the financing arrangements

### Floating Rate Notes

Floating Rate Notes were issued for a nominal amount of €1,100 million at 3-month Euribor + 2.75%, maturing on October 15, 2013. In 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of €33 million, thus reducing the principal amount of the notes to €1,067 million. The redemption price was €17 million.

In 2009, Rhodia continued with the early redemption of another portion of these bonds for a nominal amount of €32 million, thus reducing the principal amount of the notes to €1,035 million at December 31, 2009. The redemption price was €29 million.

### OCEANE

On April 27, 2007, OCEANE bonds (bonds that can be converted or exchanged for new or existing shares), maturing on January 1, 2014 and bearing interest at 0.5%, were issued for a nominal amount of €595 million. The issue price amounted to €48.1 per bond. OCEANE bond holders may, at any time, exercise their conversion option on a 1.02 for 1 basis. OCEANE bonds carry a 13.22% redemption premium and a buyback option that may be exercised by Rhodia under certain conditions. The debt and equity components were measured upon issue of the bonds. The debt component was measured at amortized cost using a market interest rate for an equivalent non-convertible bond.

### Syndicated credit line

On March 30, 2007, Rhodia entered into a multi-currency syndicated credit facility for €600 million (″Multicurrency Revolving Credit and Guaranty Facility″ or ″RCF″) maturing on June 30, 2012.

The interest rate applied to the borrowed sums corresponds to the bank discount rate according to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio (“leverage”). In addition, Rhodia pays a commitment fee corresponding to 45% of the applicable margin depending on its level. The syndicated credit facility is usable in the form of bank loans and/or guarantees.

Rhodia has given collateral security in connection with the implementation of this syndicated credit line. Such collateral security is made up of a pledge of the securities of one of its subsidiaries and a pledge of a secured loan of another of its subsidiaries.

The RCF includes early repayment clauses, including a change of control of Rhodia or the adoption of a break-up or liquidation plan for the Company.

Moreover, the RCF includes mandatory repayment and partial cancellation clauses, notably in the case of asset disposals beyond certain thresholds provided for in the agreement, and under certain conditions, notably in respect of the application of proceeds from disposals.

The continuation of the RCF syndicated credit facility is subject to the compliance with certain financial ratios ("covenants") by Rhodia which are tested on a half-yearly basis. In order to guarantee its liquidity until maturity on June 30, 2012, Rhodia re-negotiated these covenants on April 3, 2009 as follows:

| | Consolidated net debt/Adjusted recurring EBITDA | Recurring EBITDA/Net financial expenses |
|---|---|---|
| 12/31/2009 | 4.75 :1.0 | 2.50 :1.0 |
| 06/30/2010 | 3.75 :1.0 | 3.10 :1.0 |
| 12/31/2010 | 3.50 :1.0 | 3.40 :1.0 |
| 06/30/2011 | 3.00 :1.0 | 4.00 :1.0 |
| 12/31/2011 | 3.00 :1.0 | 4.00 :1.0 |

The aggregates used to calculate the ratios as defined in the syndicated credit line are as follows:

- Consolidated net indebtness: aggregate of non-current and current borrowings and guarantees given to third parties with respect to financial indebtedness of unconsolidated subsidiaries minus the aggregate of cash and cash equivalents and other current financial assets;
- Recurring EBITDA: operating profit or loss pior to depreciation and impairment, restructuring costs and other operating income and expenses;
- Adjusted recurring EBITDA: the Group's recurring EBITDA plus recurring EBITDA of non-consolidated entities whose borrowings are secured by the Group, pro rata to the percentage interest held by the Group;
- Net financial expenses: interest on non-current and current borrowings, after capitalization of interest expense related to the financing of certain assets and incorporated in the purchase cost of such assets, minus interest income on cash and cash equivalents and other current financial assets.

At and prior to December 31, 2009, Rhodia has complied with all applicable financial covenants.

In 2009, the RCF syndicated credit facility was only drawn down for bank guarantees. The amount not drawn down at December 31, 2009 was €543 million.

**Asset securitization programs**

Rhodia has another financing source involving disposal of some of its uncollected receivables, in connection with two securitization programs in Europe and North America, and a sales of receivables program in Asia.

At December 31, 2009, the financing available under these securitization programs amounted to €160 million for the Pan-European program, $100 million for the North American program and $12 million for the Asian program.

These securitization programs do not comprise covenants based on Rhodia's financial performance, which if not met would trigger early repayment. However, the securitization programs contain a cross-accelerated repayment clause in the event of early repayment being demanded under the RCF facility or any other Rhodia S.A. financing arrangement in an amount in excess of $35 million for the North American program and €10 million for the pan-European program.

As part of the renewal of the European securitization program in February 2010, the cross-accelerated repayment clause limit was raised to €35 million.

At December 31, 2009, the financing provided by the securitization programs amounts to €41 million.

## NOTE 25 FAIR VALUE OF FINANCIAL INSTRUMENTS AND ACCOUNTING CATEGORIES

| At December 31, 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets/liabilities at fair value through profit or loss | | | | | | | |
| *(in millions of euros)* | Trading | Fair value option | Available-for-sale assets | Loans and receivables | Liabilities at amortized cost | Hedging derivatives | Total net carrying amount | Fair value |
| **Financial assets** | **62** | **707** | **89** | **650** | **-** | **51** | **1,559** | **1,559** |
| **Non-current financial assets** [(1)] | **-** | **-** | **10** | **107** | **-** | **-** | **117** | **117** |
| Other current financial assets | - | 16 | 79 | 5 | - | - | **100** | 100 |
| Trade receivables | - | - | - | 538 | - | - | **538** | 538 |
| Derivative financial instruments | 62 | - | - | - | - | 51 | **113** | 113 |
| Cash and cash equivalents | - | 691 | - | - | - | - | **691** | 691 |
| **Current financial assets** | **62** | **707** | **79** | **543** | **-** | **51** | **1,442** | **1,442** |
| **Financial liabilities** | **74** | **-** | **-** | **-** | **2,440** | **41** | **2,555** | **2,491** |
| Borrowings | - | - | - | - | 1,655 | - | **1,655** | 1,591 |
| **Non-current financial liabilities** | **-** | **-** | **-** | **-** | **1,655** | **-** | **1,655** | **1,591** |
| Borrowings | - | - | - | - | 165 | | **165** | 165 |
| Derivative financial instruments | 74 | - | - | - | - | 41 | **115** | 115 |
| Trade payables | - | - | - | - | 620 | - | **620** | 620 |
| **Current financial liabilities** | **74** | **-** | **-** | **-** | **785** | **41** | **900** | **900** |

*(1) Excluding pension surplus in the amount of €1 million*

The table below analyses financial instruments carried at fair value, by valuation method. The different level have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| At December 31, 2009 | | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial Assets** | **852** | **35** | **22** | **909** |
| Non-current financial assets | - | - | 10 | **10** |
| Other current financial assets | 95 | - | - | **95** |
| Derivative financial instruments | 66 | 35 | 12 | **113** |
| Cash and cash equivalents | 691 | - | - | **691** |
| **Financial Liabilities** | **39** | **58** | **18** | **115** |
| Derivative financial instruments | 39 | 58 | 18 | **115** |

| | At December 31, 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets/liabilities at fair value through profit or loss | | | | | | | Fair value of which | |
| *(in millions of euros)* | Trading | Fair value option | Available-for-sale assets | Loans and receivables | Liabilities at amortized cost | Hedging derivatives | **Total net carrying amount** | Model | Quote |
| Financial assets | 110 | 510 | 15 | 677 | - | 38 | **1,350** | 831 | 519 |
| Non-current financial assets (1) | - | - | 9 | 82 | - | - | **91** | 91 | - |
| Other current financial assets | - | 18 | 6 | 4 | - | - | **28** | 4 | 24 |
| Trade receivables | - | - | - | 591 | - | - | **591** | 591 | - |
| Derivative financial instruments | 110 | - | - | - | - | 38 | **148** | 145 | 3 |
| Cash and cash equivalents | - | 492 | - | - | - | - | **492** | - | 492 |
| Current financial assets | 110 | 510 | 6 | 595 | - | 38 | **1,259** | 740 | 519 |
| Financial liabilities | 46 | - | - | - | 2,572 | 77 | **2,695** | 1,133 | 845 |
| Borrowings | - | - | - | - | 1,612 | - | **1,612** | 50 | 845 |
| Non-current financial liabilities | - | - | - | - | 1,612 | - | **1,612** | 50 | 845 |
| Borrowings | - | - | - | - | 219 | - | **219** | 219 | - |
| Derivative financial instruments | 46 | - | - | - | - | 77 | **123** | 123 | - |
| Trade payables | - | - | - | - | 741 | - | **741** | 741 | - |
| Current financial liabilities | 46 | - | - | - | 960 | 77 | **1,083** | 1,083 | - |

*(1) Excluding pension surplus in the amount of €1 million*

The best indication of the fair value of a contract is the price which would be agreed to between a willing seller and buyer in an arm's length transaction. At the trade date, it is generally the transaction price. Subsequently, the measurement of the contract should be based on observable market data which provide the most reliable indication of the fair value of a financial instrument.

The fair value of derivatives is determined as follows:

- Interest rate swaps are measured by discounting contractual flows;
- Options are measured based on valuation models (such as Black & Scholes) using quotes published on active markets and/or by obtaining quotations from third party financial institutions;
- Forward exchange contracts are measured by discounting net future cash flows;
- Carbon derivatives (CER and EUA) and commodity-based derivatives are measured as follows:
  - Products traded on organized markets (futures): use of market quotes;
  - Products traded over-the-counter (swaps, forwards): discounting of future flows;
  - Optional products: use of mathematical models.

The fair value of the notes corresponds to the most recent market quote. For other borrowings, the redemption price was adopted.

The fair value of trade payables and trade receivables corresponds to their carrying amount. The discounting of cash flows arising from "Trade payables" and "Trade receivables" had an immaterial impact on fair value due to the short settlement periods applied.

## NOTE 26 FINANCIAL RISK MANAGEMENT AND DERIVATIVES

Rhodia is exposed to market risks as a result of its business and financial transactions. This exposure is mainly related to fluctuations in exchange and interest rates, commodity and carbon instrument prices.

### 26.1 Derivative financial instruments

At December 31, 2009, Rhodia held derivatives, some of which are designated as cash flow hedges, as well as non-hedging derivatives. Derivatives are recognized in the balance sheet at their fair value in the following amounts:

| | | **At December 31, 2009** | | At December 31, 2008 | |
|---|---|---|---|---|---|
| *(in millions of euros)* | Notes | **Current assets** | **Current liabilities** | Current assets | Current liabilities |
| Interest rate instruments | 26.2 | - | 29 | 1 | 11 |
| Foreign exchange instruments | 26.3 | 35 | 29 | 89 | 70 |
| Oil-based commodities instruments | 26.4 | - | 10 | 6 | 14 |
| Carbon instruments | 26.5 | 78 | 47 | 52 | 28 |
| **TOTAL** | | **113** | **115** | **148** | **123** |



### 26.2. Interest rate risk management

Rhodia's exposure to interest rate risk mainly relates to its net indebtedness and to interest rate derivatives portfolio.

The Group monitors its exposure to interest rate risk on a monthly basis and specifically hedges the main floating-rate borrowings using interest rate swaps or caps.

#### Management of fixed and floating rates

The breakdown of net debt as defined by the Group between fixed and floating rates, and excluding its derivative portfolio, is as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Floating rate | 1,204 | 1,208 |
| Fixed rate | 600 | 596 |
| Borrowings excluding accrued interest payable | 1,804 | 1,804 |
| Cash and cash equivalents | (691) | (492) |
| Other current financial assets | (100) | (28) |
| Accrued interest payable | 16 | 27 |
| **Net indebtedness** | **1,029** | **1,311** |

In order to hedge interest rate increases on its floating-rate debt, Rhodia purchased caps and interest rate swaps for which the residual amount at December 31, 2009 was €1,035 million. These derivatives were recognized under cash flow hedge accounting.

The breakdown of the Group's debt between fixed and floating rates, taking into account its hedging derivatives, is as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Floating rate | 183 | 160 |
| Capped floating rate | 300 | 350 |
| Fixed rate | 1,321 | 1,294 |
| **Borrowings excluding accrued interest payable** | **1,804** | **1,804** |

At December 31, 2009, the average rate of the fixed-rate debt was around 6.1%, compared to 6.5% at December 31, 2008.

### Analysis of interest rate sensitivity

Interest rate sensitivity for floating-rate instruments was analyzed taking into account all the variable cash flows of non-derivative and derivative instruments. The analysis is performed assuming that the amounts of debt and financial instruments shown in the balance sheet at December 31, 2009 and 2008 remain constant during the year. For the purposes of this analysis, all the other variables, particularly exchange rates, are considered to be constant.

An interest rate fluctuation by 100 basis points at the year-end would result in an increase (decrease) in equity and profit or loss (prior to the tax impact) by the amounts shown in the table below.

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Net profit/(loss) | | Hedging reserves * | | Net profit/(loss) | | Hedging reserves * | |
| *in millions of euros (excluding taxes)* | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| Floating-rate debt | (12) | 12 | - | - | (12) | 12 | - | - |
| Derivatives designated as cash flow hedges | 9 | (6) | 20 | (21) | 7 | (7) | 14 | (13) |
| Cash equivalents | 6 | (6) | - | - | 5 | (5) | - | - |
| **TOTAL** | **3** | **-** | **20** | **(21)** | **-** | **-** | **14** | **(13)** |

* *corresponds to the change in fair value of derivatives designated as cash flow hedges following a sudden fluctuation in interest rates.*

### Analysis of interest rate hedges

#### Derivatives designated as cash flow hedges

At December 31, 2009, interest rate swaps and options (caps) hedge the floating-rate bonds issued in October 2006. The notional amounts of these contracts and their fair value are detailed in the table below:

| *(in millions of euros)* | | 2009 | | | | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| Currency EUR | | < 1 year | 1 to 5 years | > 5 years | Total | Fair Value | Nominal Value | Fair Value |
| *Interest* rate swaps | Lender Floating rate | - | 735 | - | 735 | (27) | 717 | (11) |
| Cap | Purchase | - | 300 | - | 300 | (1) | 350 | 1 |
| **TOTAL** | | **-** | **1,035** | **-** | **1,035** | **(28)** | **1,067** | **(10)** |

The changes in fair value of hedging derivatives considered as effective are recognized in equity under the heading "Cash flow hedge reserve". For interest rate options (caps), only the intrinsic value of the option is considered as an effective hedge. The time value is considered as ineffective on inception of the hedge.

The ineffective portion of cash flow hedges generated a €1 million loss in 2009 and was immaterial in 2008.

The contractual flows related to interest rate swaps are paid at the same time as the contractual flows of floating-rate borrowings and the amount deferred in equity is recognized in profit or loss for the period in which the fluctuations in the debt's interest rate impact profit or loss.

Changes in the hedging reserve for interest rate derivatives in fiscal 2008 and 2009 are shown in the following table:

| *in millions of euros (excluding taxes)* | **2009** | 2008 |
|---|---|---|
| Carrying amount at January 1, | (13) | 12 |
| Amount transferred to profit or loss [(1)] | 15 | (11) |
| Amount recorded directly in the hedging reserve | (26) | (14) |
| Carrying amount at December 31, | (24) | (13) |

*(1) The profit and loss entry impacts "Gross interest expense on borrowings".*

**Derivatives not designated as hedges**

At December 31, 2009, Rhodia had entered into the following interest rate swaps not designated for hedging purposes:

| *(in millions of euros)* | | **2009** | | | | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| Currency EUR | | **< 1 year** | **1 to 5 years** | **> 5 years** | **Total** | **Fair Value** | Nominal Value | Fair Value |
| | Lender Floating rate | 8 | 20 | - | 28 | (1) | 10 | - |
| Interest rate swaps | Lender Fixed rate | - | 3 | - | 3 | - | - | - |
| **TOTAL** | | **8** | **23** | **-** | **31** | **(1)** | **10** | **-** |

These derivatives not designated for hedging generated a loss of €1 million in 2009 and a gain of €2 million in 2008.

**Sensitivity analysis of the portfolio of interest rate derivatives not designated as hedges**

A sudden 100 basis point fluctuation in interest rates at the year-end would have no material impact in profit or loss, since the other variables are considered to be constant.

## 26.3 Foreign exchange risk management

A significant portion of Rhodia's assets, liabilities, expenses and income is denominated in currencies other than the euro, mainly the US dollar, Brazilian real and, to a lesser extent, the pound sterling. Changes in these currencies compared with the euro may have a material impact on the financial position and results of Rhodia.

Rhodia's policy consists in limiting its exposure to short-term fluctuations in exchange rates by calculating on a daily basis its net exposure to foreign currencies in its transactions, including both sales and purchases, and by using derivatives to reduce such exposure.

The main derivatives used by Rhodia are forward foreign exchange contracts with terms of less than one year.

The financial instruments held by Rhodia, sensitive to changes in exchange rates, include financial instruments (receivables and payables) denominated in foreign currencies and foreign exchange derivatives not designated for hedging.

At December 31, 2009, Rhodia's foreign exchange risk (excluding foreign exchange derivatives designated as hedges) by main currency breaks down as follows:

| *(in millions of euros)* | **At December 31, 2009** | | | | At December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| Currency | **USD** | **GBP** | **EUR *** | **JPY** | USD | GBP | EUR * | JPY |
| Financial receivables and (borrowings) | (96) | 17 | (35) | 2 | (14) | 222 | (57) | 7 |
| Trade receivables and (payables) | 189 | (25) | 2 | 6 | 150 | (10) | (8) | 16 |
| Foreign exchange contracts | (103) | 12 | 22 | (9) | (144) | (209) | 53 | (23) |
| Net exposure | (10) | 4 | (11) | (1) | (8) | 3 | (12) | - |

* *Foreign exchange exposure in euros of entities whose functional currency is different from the euro.*

### Analysis of foreign exchange risk sensitivity

At December 31, 2009, a sudden 10% fluctuation of the euro against the foreign currencies would have, in proportion to the assets and liabilities recorded in the balance sheet, an immaterial impact on foreign exchange gains or losses. For the purposes of this analysis, all the other variables, particularly interest rates, are considered to be constant.

| *(in millions of euros)* | **At December 31, 2009** | | | | At December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| Currency | **USD** | **GBP** | **EUR** | **JPY** | USD | GBP | EUR | JPY |
| 10% increase in the euro against the foreign currency | 1 | - | (1) | - | 1 | - | (1) | - |
| 10% decrease in the euro against the foreign currency | (1) | - | 1 | - | (1) | - | 1 | - |

### Portfolio of foreign exchange derivatives not designated as hedges

The nominal amounts as well as the fair values of forward purchase and sale contracts in currencies other than the euro and foreign exchange options are detailed below:

| *(in millions of euros)* | | **2009** | | 2008 | |
|---|---|---|---|---|---|
| | Currency | **Nominal** | **Fair Value** | Nominal | Fair Value |
| Forward purchases | USD | 88 | 1 | 79 | (2) |
| | GBP | 23 | - | 52 | (9) |
| | JPY | 45 | (1) | 48 | 5 |
| | BRL | 9 | - | 10 | - |
| | Other | 90 | 1 | 110 | (1) |
| Total | | **255** | **1** | **299** | **(7)** |
| Forward sales | USD | 191 | 1 | 223 | 3 |
| | GBP | 11 | - | 261 | 61 |
| | JPY | 54 | 1 | 71 | (5) |
| | BRL | 26 | - | 76 | - |
| | Other | 95 | (3) | 106 | 11 |
| Total | | **377** | **(1)** | **737** | **70** |
| **TOTAL** | | | **-** | | **63** |

Forward currency purchase and sale contracts are entered into by Rhodia S.A. to hedge its inter-company loans and borrowings and operating cash flows denominated in foreign currencies.

The changes in fair value of foreign exchange instruments not designated as hedges are recorded in foreign exchange gains or losses.

### Portfolio of foreign exchange derivatives designated as cash flow hedges

The nominal amounts as well as the fair values of forward currency purchase and sale contracts designated as cash flow hedges are detailed below:

| *(in million of euros)* | | **2009** | | 2008 | |
|---|---|---|---|---|---|
| | Currency | **Nominal** | **Fair Value** | Nominal | Fair Value |
| Forward purchase | USD | 4 | - | 17 | 1 |
| | JPY | 9 | (1) | - | - |
| | BRL | 137 | - | 113 | - |
| Forward sales | USD | 243 | 12 | 263 | (22) |
| | JPY | 93 | (6) | 165 | (23) |
| Total | | | **5** | | **(44)** |
| Call purchases | USD | 58 | 1 | - | - |
| **TOTAL** | | | **6** | | **(44)** |

In connection with the hedging of Rhodia's ordinary business transactions, future transaction exchange hedges are regularly set up. At December 31, 2009, the changes in fair value of these forward exchange contracts considered as effective were recognized in equity under the "Cash flow hedge reserve" heading in an amount of € (2) million.

Changes in the hedging reserve for foreign exchange derivatives in fiscal 2008 and 2009 are shown in the following table:

| *in millions of euros (excluding taxes)* | **2009** | 2008 |
|---|---|---|
| Carrying amount at January 1, | (44) | 13 |
| Amount transferred to profit or loss (1) | 4 | (1) |
| Amount recorded directly in the hedging reserve | 38 | (56) |
| Carrying amount at December 31, | (2) | (44) |

*(1) Amount recognized in net sales and other operating income and expenses*

In fiscal 2009, some of the hedges on future revenues were discontinued, generating a €(7) million expense.

The ineffective portion of cash flow hedges generated a financial gain of €11million in 2009 and €4 million in 2008.

The contractual flows related to forward currency sales and the flows arising from the future sales transactions are simultaneous; the hedging amount recorded in equity is transferred to profit or loss on the date the sales transaction is recognized in the income statement.



**Sensitivity analysis of foreign exchange derivatives qualified as cash flow hedges**

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in the US dollar against the euro.

| | 10% decrease in the euro | | 10% increase in the euro | |
|---|---|---|---|---|
| *in millions of euros (excluding taxes)* | Hedging reserve increase (decrease) | Net profit (loss) | Hedging reserve increase (decrease) | Net profit (loss) |
| 12/31/2009 | (22) | - | 18 | - |
| 12/31/2008 | (32) | - | 26 | - |

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in the Brazilian real against the US dollar.

| | 10% decrease in the euro | | 10% increase in the euro | |
|---|---|---|---|---|
| *in millions of euros (excluding taxes)* | Hedging reserve increase (decrease) | Net profit (loss) | Hedging reserve increase (decrease) | Net profit (loss) |
| 12/31/2009 | (13) | - | 11 | - |
| 12/31/2008 | (14) | - | 11 | - |

## 26.4 Management of risk related to fluctuations in the price of oil-based commodities

Rhodia's exposure to the risks related to fluctuations in the price of oil-based commodities relates mainly to its purchases of petrochemicals and natural gas.

Rhodia may hedge these risks by using (firm or indexed) swaps, options or futures and forward contracts depending on its identification of market conditions and the expected trend in its contractual purchase prices.

At December 31, 2009, Rhodia held derivatives designated as cash flow hedges, whose fair value is recognized under liabilities for €1 million in the Rhodia balance sheet (€6 million under assets and €14 million under liabilities at December 31, 2008) and derivatives not designated as hedges for €9 million under liabilities.

Changes in the hedging reserve for oil commodity derivatives in fiscal 2009 and 2008 are shown in the following table:

| *in millions of euros (excluding taxes)* | **2009** | 2008 |
|---|---|---|
| Carrying amount at January 1, | (14) | (9) |
| Amount transferred to profit or loss [1] | 15 | 24 |
| Amount recorded directly in the hedging reserve | (2) | (29) |
| Carrying amount at December 31, | (1) | (14) |

*(1) Amount recognized in Cost of sales.*

**Sensitivity analysis of derivative instruments**

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in oil commodity prices.

| | 10% price increase | | 10% price decrease | |
|---|---|---|---|---|
| *in millions of euros (excluding taxes)* | Hedging reserve increase (decrease) | Net profit (loss) | Hedging reserve increase (decrease) | Net profit (loss) |
| 12/31/2009 | (1) | - | 1 | - |
| 12/31/2008 | (1) | - | 1 | - |

## 26.5 Carbon instrument risk management (EUA/CER)

**CER future sale hedges**

Rhodia hedges against fluctuations in the future sale prices of CERs (certificates for the reduction of CO2 emissions) mainly through forward CER sales via Orbeo which is 50% owned in partnership with Société Générale.

At December 31, 2009, Rhodia sold forward CERs with delivery guarantees in a notional amount of around €131 million (€177 million at December 31, 2008). These derivatives were recognized under cash flow hedge accounting.

The fair value of these forward CER sales was recognized in the Rhodia balance sheet under assets in the amount of €45 million (€28 million at December 31, 2008) and under liabilities in the amount of €11 million (€7 million at December 31, 2008).

Changes in the hedging reserve for carbon derivatives in fiscal 2009 and 2008 are shown in the following table:

| *in millions of euros (excluding taxes)* | **2009** | 2008 |
|---|---|---|
| Carrying amount at January 1, | 22 | (13) |
| Amount transferred to profit or loss [1] | (12) | 9 |
| Amount recognized directly in the hedging reserve | 23 | 26 |
| Carrying amount at December 31, | 33 | 22 |

*(1) Amount recognized in Net sales*

**Other activities of Orbeo**

Orbeo also performs proprietary trading and arbitrage transactions. At December 31, 2009, the fair values of the derivatives contracted by Orbeo were recognized for €33 million in Rhodia's assets and for €36 million in its liabilities (€24 million in assets and €21 million in liabilities at December 31, 2008).

### Sensitivity analysis of EUA/CER derivative instruments

The following table shows the impact (prior to the tax impact) of a sudden 10% increase or decrease in carbon instrument prices:

| | 10% price increase | | 10% price decrease | |
|---|---|---|---|---|
| *in millions of euros (excluding taxes)* | Hedging reserve increase (decrease) | Net profit (loss) | Hedging reserve increase (decrease) | Net profit (loss) |
| 12/31/2009 | (10) | 1 | 9 | (1) |
| 12/31/2008 | (7) | 3 | 7 | (3) |

## 26.6 Credit risk

The financial assets that may potentially expose Rhodia to credit risk are as follows:

- short-term investments;
- derivatives;
- trade receivables;
- loans granted.

The maximum exposure of financial assets to credit risk corresponds to their net carrying amount (see Note 25).

### Cash investments and derivatives

Rhodia mainly invests its short-term investments with banks or financial institutions with S&P and Moody's ratings which are equal to or greater than A+ and Aa3, respectively (December 31, 2009 ratings).

Interest rate and currency contracts are carried out with banks or financial institutions with S&P and Moody's ratings that belong to the Investment Grade category. In addition, most of these transactions as well as those with a maturity of more than one year are carried out with counterparties which have ratings from these agencies that are equal or greater than A- and A2 respectively (December 31, 2009 ratings).

### Trade receivables

Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customer default risk and country risk.

Rhodia's customer portfolio is very diversified with more than 10,000 customers, with a limited concentration (the 30 largest customers represent less than one third of Group net sales).

Rhodia sells exclusively to industrial firms or distributors and does not deal with retailers or final customers. The vast majority of these customers are from the private sector.

Rhodia's customers are regular and well-known customers, and net sales with new customers only represent around 5%.

Rhodia financial management set up a customer risk management organization and procedures. In each country where Rhodia is located, a financial team (credit management) is responsible for analyzing and preventing customer credit risk as well as recovery.

Customer risk management procedures were set up at Group level:

a) Risk categories and credit lines:

A risk category and credit line are allocated to each customer:

- the risk category is determined using a scoring method for which the criteria are the customer's size, profitability and indebtedness;
- the credit line is assessed by credit management, according to the customer's risk category, a financial analysis of the customer and/or an external rating.

b) Credit line guarantees:

Rhodia partially guarantees net sales using credit insurance (COFACE), particularly to hedge the export sales of Group subsidiaries.

- The authorizations granted by the credit insurer fully or partially guarantees the credit lines defined by credit management.
- When exports sales cannot be insured, credit management can decide whether they should be guaranteed using documentary credit or letters of credit.
- Rhodia's general terms and conditions of sale contain a reservation of ownership clause, so that the Group is guaranteed in the event of default.

c) Management of exceeded credit lines and outstanding receivables:

- the IT systems are configured so as to systematically report an exceeded credit line or an outstanding receivable;
- an exceeded credit line or outstanding receivable systematically blocks any new customer orders in the IT systems;
- only credit management is authorized to accept the confirmation of a new order from a customer with an exceeded credit line or outstanding receivable.

Trade receivables are impaired individually if it is highly probable that they will not be partially or fully recovered.

### Trade receivables aging report

| (in millions of euros) | At December 31, 2009 | At December 31, 2008 |
|---|---|---|
| Not due | 513 | 532 |
| Overdue: | 78 | 108 |
| *less than 30 days* | *15* | *52* |
| *between 30 and 180 days* | *3* | *17* |
| *more than 180 days* | *60* | *39* |
| Allowance | (53) | (49) |
| **TOTAL** | **538** | **591** |

### Other receivables

The financial assets under the "State and local authorities» heading do not present any major credit risk.

The other headings mainly relate to non-recurring transactions monitored on an individual basis.

## 26.7 Liquidity risk

### Cash flows arising from financial liabilities by maturity date

The table below shows the contractual cash flows arising from financial liabilities including interest rate flows:

| (in millions of euros) | Carrying amount | Contractual cash flows | 12 months or less | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | 2,440 | 2,798 | 839 | 105 | 1,848 | 6 |
| *Non-secured bonds* | *1,041* | *1,227* | *37* | *41* | *1,149* | - |
| *OCEANE* (1) | *538* | *686* | *3* | *3* | *680* | - |
| *Securitization of receivables* | *41* | *48* | *48* | - | - | - |
| *Bilateral credit facilities* | *160* | *175* | *102* | *60* | *13* | - |
| *Finance lease debts* | *5* | *7* | *1* | - | *5* | *1* |
| *Accrued interest payable* | *16* | *16* | *16* | - | - | - |
| *Trade payables* | *620* | *620* | *620* | - | - | - |
| *Other debts* | *19* | *19* | *12* | *1* | *1* | *5* |
| Derivative financial liabilities | 115 | 116 | 71 | 20 | 25 | - |
| *Of which foreign exchange derivatives* | *29* | *30* | *23* | *1* | *5* | - |
| *Disbursements* | *29* | *30* | *23* | *1* | *5* | - |
| *Collections* | - | - | - | - | - | - |
| **Total financial liabilities** | **2,555** | **2,914** | **910** | **125** | **1,873** | **6** |

*(1) Assuming the OCEANE bonds are not converted*

### Liquidity risk management

Rhodia regularly monitors its liquidity and uses levers to meet any major financial requirements.

At December 31, 2009 and 2008, the liquidity position breaks down as follows:

| (in millions of euros) | 2009 | 2008 |
|---|---|---|
| Other liquid current financial assets | 84 | 10 |
| Non-utilized credit facilities | 543 | 534 |
| Cash and cash equivalents | 691 | 492 |
| **Liquidity position** | **1,318** | **1,036** |

At December 31, 2009, Rhodia has, via its syndicated credit facility ("RCF"), an undrawn and immediately available credit line of €543 million.

Finally, the fact that Rhodia can grant collateral and financial guarantees means that it is always able to raise new financing if need be and if the market conditions allow it.

## 26.8 Capital management

To maintain a satisfactory financial structure and manage its indebtedness compared to the profitability of its operations, Rhodia uses the net debt/recurring EBITDA ratio.

Net debt is defined as the sum of long-term borrowings, short-term borrowings and the current portion of long-term borrowings less cash and cash equivalents and other current financial assets.

## NOTE 27 RETIREMENT BENEFITS AND SIMILAR OBLIGATIONS

The obligations recognized in the balance sheet break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Obligations recognized in liabilities: | | |
| Retirement benefits | 1,482 | 1,168 |
| Other employee benefits | 71 | 80 |
| **TOTAL** | **1,553** | **1,248** |
| Of which: | | |
| Non-current | 1,459 | 1,155 |
| Current | 94 | 93 |
| Expenses recognized in profit or loss: | | |
| Retirement benefits | 76 | 68 |
| Other employee benefits | 7 | 8 |
| **TOTAL** | **83** | **76** |

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### Actuarial assumptions

The main actuarial assumptions used to measure defined benefit plan obligations are as follows:

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **France** | **United States** | **United Kingdom** | France | United States | United Kingdom |
| Discount rate | 4.50% | 5.50% | 5.70% | 5.25% | 6.50% | 6.40% |
| Salary increase rate | 3.50% | 3.00% | 4.00% | 4.00% | 3.00% | 2.95% |
| Retirement pension increase rate | 2.00% | n/a | 3.50% | 2.00% | n/a | 2.45% |
| Mortality table | TGH 05 and TGF 05 (Insee 2004/2006) | RP 2000 Combined | 114% PCA00 104% PCA00 | TGH 05 and TGF 05 (Insee 2002) | RP 2000 Combined | 114% PCA00 104% PCA00 |

Assumptions relating to mortality tables are based on published statistical and historical data for each country.

The probability assumptions regarding the retention of employees in the Group, future salary increases and a retirement age of between 60 and 67 years old are determined according to the countries and applicable laws.

### Sensitivity of obligations to the actuarial assumptions

In the event of increases or decreases in the discount rates, the present value of the obligations at December 31, 2009 and cost of services rendered in 2010 would be as follows:

| *(in millions of euros)* | **December 31, 2009 discount rate** | - 50 basis points | + 50 basis points |
|---|---|---|---|
| Present value of the obligations | 2,622 | 2,791 | 2,470 |
| Cost of services rendered | 22 | 24 | 21 |

A 50 basis point increase or decrease in the rate of return on plan assets would have a negligible impact on the profit or loss component "Expected return on plan assets."

A 100 basis point increase or decrease in the presumed medical cost rates would have a negligible impact on the profit or loss components (cost of services rendered and interest cost) and the cumulative obligation in respect of post-employment benefits relating to medical costs (€1 million).

The medical cost rates totaled 9% in the US and 5% in the UK.

### Return on plan assets

Plan assets are comprised of the following:

| *(in percentage)* | **2009** | 2008 |
|---|---|---|
| Shares | 40% | 33% |
| Bonds | 37% | 35% |
| *Liabilities driven investments* * | 22% | 31% |
| Other | 1% | 1% |

* *Assets portfolio (mainly floating rate bonds) with interest and inflation rate swaps, structured to replicate the exposure of retirement obligations to fluctuations in these rates, in order to reduce the volatility of the deficit.*

Plan assets do not include any financial instruments specific to Rhodia or real estate assets occupied by the Group.

The expected rates of return are determined based on the allocation of assets and expected yield projections given past trends.

| | **At December 31, 2009** | | | At December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | **France** | **United States** | **United Kingdom** | France | United States | United Kingdom |
| Expected return on pension plan assets | n/a | 7.00% | 6.44% | n/a | 7.00% | 5.70% |

In France, retirement benefit obligations are not hedged through dedicated funds. Rhodia is totally responsible for making these payments.

## 27.1 Retirement benefits

### Description of obligations in connection with defined benefit plans

Retirement obligations include retirement and other post-employment benefits, including termination benefits. The corresponding obligations mainly concern employees working in the United States, the United Kingdom and France. These three countries represent 90% of the Group's total obligations.

In France, these obligations mainly include termination benefits, a closed "IRP RP" defined benefit plan, and an "ARS" supplementary retirement plan. The main characteristic of these plans are as follows:

- the "IRP RP" plan is for all current and retired employees who contributed to the plan prior to its closure. It offers a full benefit guarantee compared with the end-of-career salary, and has no longer applied since the 1970s;
- the "ARS" plan is for executives. It sets a level of benefits independently of the change in mandatory plan benefits. It is subject to conditions, end-of-career salary, retirement age and seniority in the Group. This plan is supplemented for executive managers depending on the potential rights arising from the plans specific to this category.

In the US, they are mainly related to the following plans:

- The "Pension Equity Plan" enabling the acquisition of increasing capital according to age brackets. This plan was closed in 2003 and replaced by a defined contribution plan;
- The "Hourly Plan" providing for the acquisition of a percentage of salary by year of service (resulting from negotiations with trade unions);
- The "Restoration Plan" and "Senior Executive Retirement Plan" covering the portion of salary exceeding the limits of the "Pension Equity Plan" or granting specific guarantees to a very small group of senior executives.

In the United Kingdom, there is mainly a defined benefit plan with entitlement to a salary percentage acquisition rate per year of service. This plan was closed in 2003 and replaced by a defined contribution plan. This plan provides for a contribution rate according to age brackets.

An actuarial valuation of defined benefit obligations is performed at least once a year at the balance sheet date by independent actuaries.

**Obligations recognized in the balance sheet**

The obligations recognized in the balance sheet break down as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 | At December 31, 2005 |
|---|---|---|---|---|---|
| Present value of unfunded obligations | 1,139 | 1,005 | 975 | 969 | 928 |
| Present value of funded obligations | 1,406 | 1,092 | 1,423 | 1,551 | 1,639 |
| **Present value of total obligations** | **2,545** | **2,097** | **2,398** | **2,520** | **2,567** |
| Fair value of plan assets | (1,064) | (946) | (1,234) | (1,287) | (1,327) |
| **Net value of obligations** | **1,481** | **1,151** | **1,164** | **1,233** | **1,240** |
| Unrecognized past service cost | (8) | - | (3) | (4) | (5) |
| Assets not recognized in accordance with asset ceiling rules | 8 | 16 | - | 3 | - |
| **Net present value ofrecognized obligations** | **1,481** | **1,167** | **1,161** | **1,232** | **1,235** |
| **Balance sheet amounts:** | | | | | |
| Assets | 1 | 1 | - | 1 | 6 |
| Liabilities | 1,482 | 1,168 | 1,161 | 1,233 | 1,241 |

In France, the agreement of November 6, 2009 revised upwards the scales for termination benefits under the National Collective Bargaining Agreement governing the Chemicals Industry.

The past service cost not yet amortized relating to this plan amendment totaled €8 million at December 31, 2009.

During fiscal year 2005, the French termination benefits plan was amended for certain employees as a result of the classification of the Pont-de-Claix site as being eligible for the early retirement benefits paid to asbestos workers.

Past service costs not yet amortized relating to the amendment of this plan amounted to €3 million at December 31, 2007. They were fully amortized in 2008 following the transfer of employees from the Pont de Claix site following the disposal of the Isocyanates business at September 1, 2008.

In Brazil, the plan surplus of €8 million is not recognized following the asset ceiling rules.

### Analysis of the present value of the recognized obligation

The present value of the obligations and the fair value of the assets break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| **Present value of obligations at the beginning of the period** | **2,097** | **2,398** |
| Cost of services rendered | 15 | 17 |
| Interest cost | 129 | 129 |
| Benefits paid | (146) | (150) |
| Employee contributions | 1 | 1 |
| Past service cost | 8 | - |
| Actuarial gains and losses | 368 | (60) |
| Currency translation differences | 74 | (234) |
| Changes in the consolidation scope (1) | - | (10) |
| Curtailments and settlements (2) | (1) | 6 |
| **Present value of obligations at the end of the period** | **2,545** | **2,097** |
| **Fair value of plan assets at the beginning of the period** | **946** | **1,234** |
| Expected return on assets | 67 | 87 |
| Actuarial gains and losses on return on assets | 22 | (109) |
| Employer contributions | 37 | 41 |
| Employee contributions | 1 | 1 |
| Benefits paid | (84) | (89) |
| Currency translation differences | 75 | (219) |
| **Fair value of plan assets at the end of the period** | **1,064** | **946** |
| **Present value of the obligation** | **1,481** | **1,151** |
| Unrecognized past service cost | (8) | - |
| Assets not recognized in accordance with asset ceiling rules | 8 | 16 |
| **Present value of the recognized obligation** | **1,481** | **1,167** |

*(1) Disposal of the Isocyanates business in 2008.*
*(2) Including termination benefits allocated to employees who retired prior to normal retirement age.*

The present value of the obligation corresponds to the difference between the present value of the obligations and the fair value of the plan assets.

The breakdown of obligations and assets by Geographical Zone is as follows:

| | **At December 31, 2009** | | | At December 31, 2008 | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **France** | **Other countries** | **Total** | France | Other countries | Total |
| Present value of the obligation | 980 | 1,565 | 2,545 | 856 | 1,241 | 2,097 |
| Fair value of plan assets | - | (1,064) | (1,064) | - | (946) | (946) |
| **TOTAL** | **980** | **501** | **1,481** | **856** | **295** | **1,151** |

The actual return on plan assets amounted to €(22) million in 2008 and €89 million in 2009. The expected return was €87 million for 2008 and €67 million for 2009. Actuarial gains and losses were recognized to account for the difference between these two amounts, i.e. a €(109) million loss for 2008 and a €22 million gain for 2009.

The amount disbursed by the Group with respect to defined benefit plans corresponds to benefits paid to employees (146 million in 2009, compared to €150 million in 2008) and Rhodia's contributions to funds (€37 million in 2009, compared to €41 million in 2008), less the benefits paid directly by these funds (€84 million in 2009, compared to €89 million in 2008). This amount totaled €99 million in 2009 and €102 million in 2008 and is expected to total around €100 million in 2010.

### Expense for the year

The expense relating to retirement benefit obligations breaks down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Cost of services rendered | 15 | 17 |
| Interest cost | 129 | 129 |
| Expected return on plan assets | (67) | (87) |
| Amortization of past service cost | - | 3 |
| Curtailments and settlements [(1)] | (1) | 6 |
| Total expense recognized on profit or loss | 76 | 68 |

*(1) Including specific termination benefits for €3 million in 2009 recorded under Employee expenses and €7 million recorded under Restructuring costs in 2008.*

The cost of services rendered is recognized in operating profit or loss by destination. The interest cost and the expected return on plan assets have been recognized respectively in finance costs and finance income.

The actuarial gains and losses relating to retirement benefit obligations recognized in the statement of recognized income and expense are as follows:



| *(in millions of euros)* | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Actuarial gains and losses [(1)] | 346 | 49 | 7 | 41 | 247 |
| Application of assets ceiling rules | (8) | 16 | (3) | 11 | - |
| **TOTAL** | **338** | **65** | **4** | **52** | **247** |
| (1) Of which: | | | | | |
| Experience adjustments on measurement of obligations – loss/(gain) | 10 | 62 | 28 | 3 | 39 |
| Experience adjustments on measurement of plan assets – loss/(gain) | (22) | 109 | 1 | (41) | (50) |

Actuarial losses in 2009 were mainly due to the impacts of changes in discount rates.

## 27.2 Other employee benefits

### Description of obligations and actuarial assumptions

Other benefits granted to employees are mainly comprised of bonuses related to employee seniority in addition to other post-employment benefits in France, the US and the UK. The resulting obligations of defined benefit plans have been measured according to the same methods, assumptions and calculation rates as those used for retirement plans.

### Obligations recognized in the balance sheet

The net obligation recognized under liabilities in the balance sheet breaks down as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 | At December 31, 2007 | At December 31, 2006 | At December 31, 2005 |
|---|---|---|---|---|---|
| Net value of the unfunded obligations | 71 | 80 | 85 | 90 | 107 |
| Present value of funded obligations | 6 | 5 | 7 | 8 | 7 |
| Present value of the obligation | 77 | 85 | 92 | 98 | 114 |
| Fair value of plan assets | (6) | (5) | (7) | (6) | (5) |
| **Obligations recognized in liabilities** | **71** | **80** | **85** | **92** | **109** |

### Analysis of the present value of the obligation recognized under liabilities in the balance sheet

The net obligation recognized under liabilities breaks down as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Present value of obligations at the beginning of the period | 85 | 92 |
| Cost of services rendered | 5 | 5 |
| Interest cost | 5 | 5 |
| Benefits paid | (10) | (9) |
| Past service cost | (5) | - |
| Actuarial gains and losses | (4) | (1) |
| Currency translation differences | 2 | (3) |
| Changes in the consolidation scope | - | (4) |
| Curtailments and settlements | (1) | - |
| Present value of obligations at the end of the period | 77 | 85 |
| Fair value of plan assets at the beginning of the period | 5 | 7 |
| Employer contributions | 1 | 1 |
| Expected return on assets | - | 1 |
| Benefits paid | (1) | (2) |
| Currency translation differences | 1 | (2) |
| Fair value of plan assets at the end of the period | 6 | 5 |
| Present value of the obligation recognized under liabilities in the balance sheet | 71 | 80 |

The amount disbursed by the Group totaled €10 million in 2009, compared to €8 million in 2008, and is expected to reach €10 million in 2010.

### Expense for the year

The expense recognized in profit or loss breaks down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Cost of services rendered | 5 | 5 |
| Interest cost | 5 | 5 |
| Expected return on assets | - | (1) |
| Actuarial gains and losses | 3 | (1) |
| Amortization of unrecognized past service cost | (5) | - |
| Curtailments and settlements | (1) | - |
| **Expense recognized in the income statement** | **7** | **8** |

## NOTE 28 PROVISIONS

### 28.1 Analysis by type

| | **At December 31, 2009** | | | At December 31, 2008 | | |
|---|---|---|---|---|---|---|
| *(in millions of euros)* | **More than one year** | **Less than one year** | **Total** | More than one year | Less than one year | **Total** |
| Restructuring | 8 | 41 | **49** | 26 | 34 | **60** |
| Environmental | 194 | 45 | **239** | 165 | 31 | **196** |
| Other provisions for contingencies and losses | 168 | 74 | **242** | 88 | 72 | **160** |
| **TOTAL** | **370** | **160** | **530** | **279** | **137** | **416** |

## 28.2 Movements over the year

| *(in millions of euros)* | **At January 1, 2009** | Net charge | Utilization | Changes in consolidation scope | Currency translation differences | Other movements | **At December 31, 2009** |
|---|---|---|---|---|---|---|---|
| Restructuring | 60 | 22 | (37) | - | - | 4 | 49 |
| Environmental | 196 | 39 | (24) | 6 | 20 | 2 | 239 |
| Other provisions for contingencies and losses | 160 | 81 | (20) | - | 22 | (1) | 242 |
| **TOTAL** | **416** | **142** | **(81)** | **6** | **42** | **5** | **530** |

## 28.3 Restructuring

Restructuring provisions cover the following costs:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Employee expenses | 29 | 38 |
| Other costs | 20 | 22 |
| **TOTAL** | **49** | **60** |



Employee expenses include costs resulting from miscellaneous departure measures, including early retirement plans. The plans set up include voluntary, i.e. proposed by the employer and accepted by the employee, or involuntary, i.e. at the employer's sole discretion, departure measures.

The provisions relating to involuntary measures are recognized as soon as they are officially announced by executive management to the employee representative bodies of the employees concerned by the detailed implementation plan.

### Changes in fiscal year 2009

New measures represented a total estimated cost of €24 million and mainly concern the productivity and competitiveness plans initiated for Polyamide, Silcea and Novecare as well as the support functions and Salicylics activities. In France, the plans primarily involved the industrial facilities of Belle Etoile, Valence, Melle, Chalampe and Saint Fons Chimie as well as support functions for a total cost of €14 million. Abroad, new measures represented a cost of €10 million, mainly corresponding to the closure of two Asian sites (Ruohai and Ambarnath) and plans to improve productivity in industrial facilities and administrative and sales departments in North America (€4 million), Brazil (€2 million) and the United Kingdom.

Utilizations of provisions relating to employee expenses and site closures represent €(37) million and mainly correspond to the closure of industrial activities at the Ceriano, Ambarnath, Mulhouse, Avonmouth and Roussillon sites, as well as productivity improvement plans in the United States and Brazil and in support functions in Europe.

### Changes in fiscal year 2008

New measures represented a total estimated cost of €30 million and mainly concern the closure of the Italian site of Ceriano (Polyamide) and productivity measures for support functions in France, the United Kingdom and the United States.

Changes in estimates of previous plans resulted in an additional net charge in 2008 of €5 million, mainly relating to termination benefits allocated to employees who retired prior to normal retirement age in the United Kingdom.

Utilizations of provisions relating to employee expenses and site closures represented €(30) million and mainly correspond to the closure of industrial activities at the Mulhouse, Lille, Roussillon, Avonmouth and Oldbury sites, as well as productivity improvement plans at the Freibourg site and in support functions in Europe.

## 28.4 Environment

Rhodia periodically assesses its environmental liabilities and future possible remediation measures.

As indicated in Note 2.19, the provision is estimated by taking into account future discounted cash flows.

The discount rates used at December 31, 2009 are determined by geographical area based on inflation and risk-free interest rates (government bonds) over the probable term of the remediation obligations related to the sites.

| | 5 years | 10 years | 20 years |
|---|---|---|---|
| France | - | 1.60% | - |
| Europe (except United Kingdom and France) | - | 1.90% | - |
| United Kingdom | 0.80% | - | 2.40% |
| United States | 0.20% | 1.30% | - |
| Brazil | - | 6.30% | 6.30% |

At December 31, 2009, provisions related to environmental risks totaled €239 million, compared with €196 million at December 31, 2008.

The main provisions by geographical area are as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| South America | 87 | 63 |
| France | 83 | 73 |
| North America | 39 | 39 |
| United Kingdom | 21 | 19 |
| Europe (except United Kingdom and France) | 9 | 2 |
| **Total environmental provisions** | **239** | **196** |

The South American area mainly covers sites located in Brazil, in particular the Cubatão site.

In France, these provisions include the La Rochelle, Thann, Wattrelos, Mulhouse, Pont de Claix and Lille sites and several former mining sites (Nancy, Sain Bel, Chizeuil).

The North American area principally covers the sites located in the US, notably the Silver Bow, New Brunswick, Dalton, Charleston and Morrisville sites.

In the UK, the provisions mainly cover the Staveley, Whitehaven, Oldbury, Rattlechain and Halifax sites.

The provisions mostly relate to sites or activities which have been shut down, some of them even before the creation of Rhodia.

### Changes in fiscal year 2009

A net charge of €39 million was recognized and breaks down as follows:

- €33 million corresponding to additional provisions mainly for the following sites: Cubatão in Brazil, Castiglione in Italy, La Rochelle, Pont de Claix, Nancy and Mulhouse in France, Widnau and Emmenweid in Europe (except UK and France) and Silverbow in the United States;
- and €6 million in charges linked to financial discounting.

Utilizations of provisions amounted to €(24) million and mainly concerned the sites of:

- Cubatão for €(9) million in Brazil;
- La Rochelle and Mulhouse, each for €(2) million, and Wattrelos for €(1) million in France;
- Widnau for €(1) million in Europe (except France);
- Silverbow and New Brunswick, each for €(1) million, in the United States.

### Changes in fiscal year 2008

A net charge of €41 million was recognized and breaks down as follows:

- €36 million corresponding to additional provisions, mainly €19 million for the La Rochelle site in France essentially relating to the revision of costs of research into the future ANDRA (French National Agency for the Management of Radioactive Waste) center, according to the latest available data provided by the agency, as well as the revision of costs for the storage of radioactive waste at the future center, €6 million for the Pont de Claix site in France, and €4 million for the Cubatão site in Brazil;
- €(1) million corresponding to the net reversal of provisions set aside for changes in the discount rate, of which €(9) million in provision reversals relating to the discount rate increase in Brazil and €8 million in respect of the decline in discount rates in Europe and North America;
- and €6 million in charges linked to financial discounting.

Utilizations of provisions amounted to €(27) million and mainly concerned the sites of:

- Cubatão in Brazil for €(9) million;
- La Rochelle, Wattrelos, Pont de Claix and Roussillon in France for €(2) million, €(2) million, €(1) million and €(1) million respectively;

- Silverbow and New Brunswick in the United States for €(1.5) million and €(1) million respectively.

**Contingent environmental liabilities and re-estimates**

Based on current information, Rhodia's management estimates that it does not have probable liabilities for environmental matters other than those provided for at December 31, 2009. However, Rhodia may need to incur additional expenditure if there are changes to existing laws, regulations or their interpretations.

Estimated contingent liabilities before discounting, which amounted to around €183 million at December 31, 2008, did not increase significantly at December 31, 2009. They were nevertheless reassessed at €181 million. They mainly relate to the La Rochelle site in France for the re-estimated forecast cost of introducing waste or materials in a future storage center designed for radioactive products and graphites, the Pont de Claix site in France for the possible containment of an internal landfill and the possible treatment of pollution areas, as well as the SilverBow (Montana, United States) and Cubatão (Brazil) sites for the possible obligation to incinerate waste off site. Rhodia has maintained these contingent liabilities based on a remeasurement of the Cubatão site contingent liability, offset by the partial reversal of the Pont de Claix and La Rochelle contingent liabilities.

### 28.5 Other provisions

Other provisions mainly concern tax litigation and the provided risks and costs relating to operations sold or being sold.

Changes in 2009 relate essentially to the unfavorable developments in the Innophos litigation (see Note 32.1.3) and various tax risks (see Note 9).

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## NOTE 29 TRADE AND OTHER PAYABLES

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Operating goods and services payable | 603 | 695 |
| Capital expenditure payable | 17 | 46 |
| Employees and social security | 158 | 118 |
| State and local authorities (1) | 71 | 72 |
| Accrued expenses | 8 | 6 |
| Other | 30 | 35 |
| **TOTAL** | **887** | **972** |

*(1) At the end of December 2009, the heading "State and local authorities" includes a liability with respect to $CO_2$ allowances to be returned for €13 million (€25 million at the end of December 2008).*

## NOTE 30 LEASES

### 30.1. Operating leases

The income and expenses relating to operating leases in 2009 and 2008 break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Minimum lease payments | (34) | (39) |
| Sublease payments | 2 | 2 |
| **TOTAL** | **(32)** | **(37)** |

Minimum future payments related to operating leases can be analyzed as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Less than one year | 30 | 36 |
| From one to five years | 71 | 78 |
| More than five years | 34 | 38 |
| **TOTAL** | **135** | **152** |

## 30.2 Finance leases

The reconciliation between future finance lease payments and their present value is as follows:

| *(in millions of euros)* | Less than 1 year | From 1 to 5 years | More than 5 years | **Total** |
|---|---|---|---|---|
| **At December 31, 2009** | | | | |
| Minimum future lease payments | - | 5 | 1 | **6** |
| Interest | - | (1) | - | **(1)** |
| **Minimum future lease payments excluding interest** | **-** | **4** | **1** | **5** |

| *(in millions of euros)* | Less than 1 year | From 1 to 5 years | More than 5 years | **Total** |
|---|---|---|---|---|
| **At December 31, 2008** | | | | |
| Minimum future lease payments | 4 | 4 | 1 | **9** |
| Interest | - | (1) | - | **(1)** |
| **Minimum future lease payments excluding interest** | **4** | **3** | **1** | **8** |

## NOTE 31 OFF-BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Commitments to purchase | | |
| Firm orders for the acquisition of industrial assets | 33 | 55 |
| Commitments for the purchase of goods and services | | |
| Commitment for the acquisition of goods | 1,556 | 2,122 |
| Commitment for the acquisition of energy | 649 | 880 |
| Guarantees and liens granted | | |
| Guarantees given to non-consolidated entities to guarantee their debt | - | 1 |
| Liens granted | 91 | 110 |
| **Total commitments and guarantees given** | **2,329** | **3,168** |

Assets pledged can be analyzed as follows:

| *(in millions of euros)* | **At December 31, 2009** | At December 31, 2008 |
|---|---|---|
| Property, plant and equipment | 59 | 68 |
| Financial assets | 32 | 42 |
| **TOTAL** | **91** | **110** |

## NOTE 32 LITIGATION

### 32.1. Legal proceedings

In the ordinary course of its business, Rhodia is involved in a certain number of judicial, arbitral and administrative proceedings. These proceedings are mainly initiated by buyers of businesses sold by Rhodia or involve environmental or civil liability compensation claims related to marketed chemicals. Rhodia is also subject to certain claims and lawsuits which fall outside the scope of the ordinary course of its business, the most significant of which are summarized below in this section.

Provisions for the charges that could result from these procedures are not recognized until they are probable and their amount can be reasonably estimated. The amount of provisions made is based on Rhodia's assessment of the level of risk on a case-by-case basis and depends on its assessment of the basis for the claims, the stage of the proceedings and the arguments in its defense, it being specified that the occurrence of events during proceedings may lead to a reappraisal of the risk at any moment.

In addition, certain of the Group's US subsidiaries have potential liabilities under US Federal Superfund legislation and environmental regulations. Given the nature of the proceedings, the number of plaintiffs, the volume of waste at issue and the provisions that have already been recognized for these cases, Rhodia estimates that these claims will not result in significant costs for the Group and will not give rise to significant additional provisions.

Finally, Rhodia believes that there is no litigation or exceptional issues that, taken individually or as a whole, could have a material negative impact on its business, financial position or results, other than those detailed below.

#### AMF administrative proceedings

In a decision handed down on July 7, 2009, the Court of Cassation, France's highest court, rejected the appeal launched by Rhodia against the Paris Court of Appeal's ruling that confirmed the €750,000 fine imposed by the AMF Enforcement Committee in a decision rendered on June 21, 2007, relating to facts dating back to the years 2001-2003.

#### Litigation with shareholders

Two suits brought in January 2004 before the Paris Commercial Court by certain shareholders were adjourned:

- an individually brought ("ut singuli") action challenges sanofi-aventis (formerly Aventis) and certain individuals who were members of the Board of Directors of the Company at the time of the alleged facts. This action disputes the terms and conditions of the acquisition of Albright & Wilson by Rhodia. The plaintiffs demand that the defendants be ordered to pay the Company €925 million as compensation for the alleged harm the Company suffered. These proceedings were adjourned on January 27, 2006;
- the other suit challenges sanofi-aventis (formerly Aventis), certain individuals who were members of the Board of Directors of the Company and the Statutory Auditors at the time of the alleged facts, as well as the Company on a subsidiary basis. This action alleges that the information on environmental risks and deferred tax assets made public by the Company in 2001 and until January 29, 2002 in respect of the acquisition by Rhodia of Albright & Wilson and then Chirex, were inaccurate and misleading. Both plaintiffs demand that the defendants be ordered to pay €131.8 million as a compensation for damages. These proceedings were adjourned on February 10, 2006.

Both proceedings were adjourned due to the existence of a criminal investigation conducted by examining magistrates of the financial division of the Paris Court of First Instance concerning the same facts and pursuant to three criminal proceedings instituted in 2003 and 2004 against an unspecified defendant by the same shareholders for misuse of company assets, insider dealings, publication of false or misleading information, fraudulent balance sheet and disclosure of inaccurate accounts. Rhodia decided to join the criminal investigation as a plaintiff claiming damages ("partie civile") on January 25, 2006. The investigation was still in progress as of December 31, 2009.

#### Commercial litigation

##### Innophos litigation

On November 8, 2004, Rhodia received from Innophos, a subsidiary of Bain Capital, a complaint originating from Mexico's National Water Commission relating to water use at the Coatzacoalcos site during the period from 1998 to 2002. The total claim amounted to approximately 1.5 billion Mexican pesos (around €100 million), including user fees, interest and penalties. The Coatzacoalcos site was part of the specialty phosphates business that was sold in August 2004 to Bain Capital, giving rise to the creation of a new company, Innophos. To best protect its interests, Rhodia then informed Bain that it was willing to assume direct responsibility, subject to certain legal reservations, for resolving this matter with the Mexico National Water Commission. Since then, Rhodia has worked closely with Innophos to prepare a response, which was filed in Innophos' name on January 17, 2005. The amount of the initial claim was lowered following the application made by Rhodia to the administrative authority to reconsider and materialized by a decision rendered in August 29, 2005. The total amount of the revised claim is approximately €16.5 million. The Mexican Federal Administrative and Fiscal Court rendered several decisions in favor of Innophos in August 2008 and March 2009 that were partially invalidated by the Circuit Court in January and September 2009. On October 27, 2009, the Mexican Federal Administrative and Fiscal Court rendered a new ruling, which did not this time favor Innophos. This ruling and Circuit Court's previous decisions in this case lead Rhodia to re-estimate the risk relating to this litigation at €16.3 million (including any fines and late interest penalties payable) and set aside a provision of this amount. Innophos has appealed against this decision. Should that case be decided against Innophos, the New York courts had ruled that Rhodia should fully indemnify Innophos.

##### City of Metz litigation

At the request of the City of Metz, an expert was appointed by the Administrative Court of Nancy in 2002 in order to review the regulatory compliance of chloride disposals involving Solvay Carbonate France and Novacarb (Rhodia Chimie acting as guarantor for Novacarb in connection with Rhodia's sale of certain basic chemicals industrial and commercial activities to Bain Capital in 2002) and the financial loss which, according to the City of Metz, this chloride waste would have caused by necessitating, in particular, investments for the supply and distribution of drinking water in the early 1970s. The expert submitted his report on February 14, 2008. The report confirmed the chloride waste compliance with the operation permits of the installations. The expert also concluded that the current installations for the production of drinking water could supply drinking water to Metz and its suburbs and that, accordingly, the use of new units, and particularly the treatment units, was not necessary, save as a potential back-up system. The expert did not pronounce himself conclusively on the correlation between the City's investments to supply drinking water in the early 1970s and the chloride disposals at the time, or on the evaluation of the loss invoked. As his expertise was of a technical nature, he did not conclude further on whether the actions of the City of Metz were time-barred or not. By writ of summons dated December 30, 2008, the City of Metz nevertheless referred to the tribunal in Metz (tribunal de grande instance) seeking joint and several damages and interest of €51.5 million from Solvay Carbonate France and Novacarb to compensate for its alleged loss. Rhodia has decided not to recognize a provision.

### Other proceedings

#### Rhodia litigation with the Securities and Exchange Board of India

Rhodia S.A. is involved in proceedings in India initiated by the Securities and Exchange Board of India ("SEBI"), which is seeking to require Rhodia to initiate a public tender for 20% of the shares of Albright & Wilson Chemicals India Limited ("AWCIL"), a listed subsidiary of the group formerly known as Albright & Wilson, which Rhodia acquired in 2000 and of which it now owns 72.93%. These shares would be acquired at a price of 278 rupees per share, based on the value of those shares at the time of our acquisition of Albright & Wilson, and increased by interest accrued since 2000. Such a decision by the SEBI would increase Rhodia's holding of AWCIL from 72.93% to 92.93%. As its shareholding would exceed 90%, Rhodia would then be required to initiate a mandatory public tender offer (or "squeeze out") for the remaining 7.07% of outstanding shares for the same price. In this case, all the shares not yet held by Rhodia (27.07%) would be acquired for approximately €6 million. Rhodia is challenging the merits of SEBI's claim but this risk is provided in the financial statements. As of the date hereof, the High Court of Mumbai, which is hearing the case on Rhodia's appeal following an initial unfavorable judgment, has not made a final decision.

### Significant proceedings entered into by the Company

Since 2004, the Company is pursuing various proceedings in France, in Brazil and in the United States against sanofi-aventis (Rhône-Poulenc's successor) in respect of environmental and other employee pension liabilities inherited from its former parent company.

### Other

#### Valauret litigation

On March 19, 2005, one of the shareholders in the cases mentioned above brought a suit (in an "ut singuli" proceeding) against the Chairman of the Board of Directors and the Chief Executive Officer before the Nanterre Commercial Court alleging personal mismanagement, in an attempt to have them repay Rhodia the amounts paid to Mr. Jean-Pierre Tirouflet upon his departure in October 2003 (severance payment of €2.1 million and, if applicable, payments made under a supplementary retirement plan for which no sums have been paid to date). On November 21, 2007, whereas the case was ready to be judged, the plaintiff requested an adjournment on the grounds that a non-peremptory charge had been brought by the Paris Prosecutor's office. The defendants and the Company dispute the merits of such demands, including the application for adjournment. On February 13, 2008, the Nanterre Commercial Court declared it had jurisdiction over the matter and did not announce a stay in the proceedings. On December 3, 2008, it rendered a non-enforceable decision jointly ordering Messrs. Jean-Pierre Clamadieu and Yves-René Nanot to pay Rhodia the amount of €2.1 million in damages. They were blamed for not having challenged at the time the payment to Mr. Jean-Pierre Tirouflet of the compensation stipulated in his employment contract upon his departure from the company in 2004. Messrs. Clamadieu and Nanot have lodged an appeal against this decision. A decision of the Court of appeal is expected in 2010.

## 32.2 Commitments relating to disposals

In connection with disposals made in 2009 and prior years, Rhodia provided customary warranties related to accounting, tax, employees and environmental matters.

In 2009, Rhodia has received notices of claims in the frame of said warranties but concluded that there was no ground therefore or that the conditions of such warranties were not met. Rhodia therefore decided not to account for any provision in relation to such claims.

At last, for information, the Group has provided a guarantee of the consequences of the on-going proceedings between Innophos Inc and the National Mexican Water Company (please refer to Note 32.1).

## NOTE 33 RELATED PARTY TRANSACTIONS

### 33.1 Transactions with joint ventures, associates and non-consolidated subsidiaries

Transactions with joint ventures, associates and non-consolidated subsidiaries are performed under normal market conditions and break down in the income statement as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Revenue (1) | 100 | 160 |
| • Non-consolidated subsidiaries | 2 | 9 |
| • Associates | 9 | 10 |
| • Joint ventures | 89 | 141 |
| **Cost of sales (1)** | **34** | **51** |
| • Non-consolidated subsidiaries | 2 | 3 |
| • Associates | 1 | 2 |
| • Joint ventures | 31 | 46 |

*(1) Including transactions with related parties which were only related parties for a certain period during the year up to the date of their disposal or liquidation.*

The assets and liabilities recognized in Rhodia's balance sheet in respect of related parties are as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| **Trade and other receivables** | **29** | **20** |
| • Non-consolidated subsidiaries | - | - |
| • Associates | 2 | 2 |
| • Joint ventures | 27 | 18 |
| **Trade and other payables** | **14** | **16** |
| • Non-consolidated subsidiaries | - | - |
| • Associates | - | 1 |
| • Joint ventures | 14 | 15 |
| **Net cash (borrowings)** | **4** | **1** |
| • Non-consolidated subsidiaries | 4 | 1 |
| • Associates | - | - |
| • Joint ventures | - | - |

### 33.2 Compensation and benefits paid to key Group executives

Key Group executives are defined as being company officers (directors) of the Rhodia Group or members of the Executive Committee.

Amounts due in respect of the year (salary) or obligations existing at the end of the year (other elements):

| *(in thousands of euros, except for subscription options and free shares)* | **2009** | 2008 |
|---|---|---|
| Wages, charges and short-term benefits | 6,683 | 4,395 |
| Total retirement and other post-employment benefits | 26,571 | 18,461 |
| Severance payments (1) | 4,144 | 8,508 |
| Total stock subscription options and free shares granted | 530,140 | 497,748 |

*(1) Severance payments acquired correspond to the commitments undertaken by Rhodia for the Group's key executives in the event of employment contract termination. An agreement between Rhodia S.A and its Chief Executive Officer, approved in May 2009 by the Annual General Meeting, provides for the end of his severance payments.*

Amounts paid during the year:

| *(in thousands of euros, except for subscription options and free shares)* | **2009** | 2008 |
|---|---|---|
| Wages, charges and short-term benefits | 5,504 | 5,903 |
| Severance payments | 506 | - |
| Total stock subscription options and free shares granted | 264,000 | 129,500 |

## 33.3 Loans granted to key Group executives

At December 31, 2009, no loans were granted to any key Group executives.

# NOTE 34 SHARE-BASED PAYMENT

The principal changes in the stock option and free share plans occurring during the year were as follows:

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Options** | **Free shares** | **Total** | Options | Free shares | Total |
| **Outstanding at the beginning of the year** | 2,032,682 | 1,312,628 | 3,345,310 | 2,072,536 | 1,628,651 | 3,701,187 |
| Granted | 1,010,000 | 762,400 | 1,772,400 | - | 1,023,960 | 1,023,960 |
| Cancelled/expired | (467,744) | (25,680) | (493,424) | (38,743) | (621,857) | (660,600) |
| Exercised | - | (667,603) | (667,603) | (1,111) | (718,126) | (719,237) |
| **Outstanding at the year-end** | 2,574,938 | 1,381,745 | 3,956,683 | 2,032,682 | 1,312,628 | 3,345,310 |

## 34.1 Share capital increase reserved for employees

Rhodia did not perform any capital increases reserved for employees in 2009 and 2008.

## 34.2 Stock option plans

**Current stock option plans**

Rhodia S.A. has granted stock subscription options to certain of its executive managers and employees. All of these option plans are payable in shares over the vesting periods mentioned below. The exercise of the stock subscription options is subordinated to the beneficiary's continued employment within the Group on the date of said fiscal year, with certain exceptions (such as retirement). The options vested may be exercised over a period limited in time. The exercise period varies according to the reason for leaving the Group.

During 2009, the Board of Directors did not grant any new stock option plans.

Options granted under the 2004 plans are exercisable over an eight-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options granted under the 2001, 2002 and 2003 plans are exercisable over a twelve-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options issued under the 1999 and 2000 plans are exercisable over a ten-year period, with a holding period of five years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

In accordance with IFRS 2, only the plans granted after November 7, 2002, that were not yet vested at January 1, 2005, were measured and recognized under this standard.

### Stock option purchase plan

On May 20, 2009, the Board of Directors approved a new stock option purchase plan for 41 beneficiaries (1,010,000 options) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries. The terms and conditions of this plan are as follows:

| | Plan | |
|---|---|---|
| | French tax residents | Foreign tax residents |
| Number of shares | 605,000 | 405,000 |
| Number of beneficiaries | 17 | 24 |
| Grant date | May 20, 2009 | |
| Vesting date | May 20, 2011 | |
| Exercise period | May 21, 2011 to May 20, 2017 | |
| Holding period | May 20, 2013 | - |
| Performance criteria | Total free cash flow of fiscal years 2009 and 2010, as presented in the consolidated financial statements for the years ended December 31, 2009 and 2010 | |
| Validation of vesting conditions | Board of Directors | |

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Main changes in stock option and free share plans outstanding at December 31, 2009:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** *(in €)* | Options | Weighted average exercise price *(in €)* |
| Options outstanding at the beginning of the period | 2,032,682 | 62.00 | 2,072,536 | 61.73 |
| Options granted | 1,010,000 | 5.62 | - | - |
| Options forfeited (1) | (467,744) | 75.91 | (38,743) | 48.79 |
| Options exercised | - | - | (1,111) | 15.12 |
| **Options outstanding at the end of the period** | **2,574,938** | **37.36** | **2,032,682** | **62.00** |

*(1) Stock subscription options forfeited during the year.*

The weighted average remaining contractual life of the stock subscription options outstanding at December 31, 2009 is 5 years (3 years at December 2008).

In 2009, of all the plans granted by the Rhodia Board of Directors, no options were exercised.

### Main features of the stock option plans outstanding at December 31, 2009:

| Stock subscription option plan | 1999/1 Plan | 1999/2 Plan | 2000/1 Plan | 2000/2 Plan | 2001 Plan | 2002 Plan | 2003 Plan | 2004 A Plan | 2004 B Plan | 2009 Plan |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 05/13/1998 | 05/13/1998 | 05/13/1998 | 04/18/2000 | 04/18/2000 | 04/18/2000 | 05/21/2002 | 05/21/2002 | 05/21/2002 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 02/23/1999 | 02/23/1999 | 03/30/2000 | 09/27/2000 | 03/16/2001 | 03/20/2002 | 05/28/2003 | 06/17/2004 | 06/17/2004 | 05/20/2009 |
| Exercise period [a] | 7 years from 02/23/02 | 7 years from 03/01/02 | 7 years from 03/30/03 | 7 years from 09/27/03 | 9 years from 03/16/04 | 9 years from 03/20/05 | 9 years from 05/28/06 | 5 years from 06/17/2007 | 5 years from 06/17/07 | 6 years from 05/21/11 |
| Options granted at inception | 131,667 | 100,000 | 175,000 | 12,500 | 215,022 | 166,667 | 109,412 | 225,125 | 114,375 | 1,010,000 |
| Of which granted to the Board of Directors and Executive Committee [b] | 7,792 | 5,000 | 17,250 | - | 19,750 | 14,837 | 8,542 | 29,500 | 46,250 | 30,000 |
| Fair value of the option | - | - | - | - | - | - | 6.30 | 2.68 | 2.76 | 5.56 |
| Original exercise price *(in €)* | 180.00 | 180.00 | 205.68 | 195.12 | 188.40 | 144.48 [e] | 66.00 [e] | 18.00 | 18.00 | 5.62 |
| Maximum term *(years)* | 10 | 10 | 10 | 10 | 12 | 12 | 12 | 8 | 8 | 8 |
| Weighted-average remaining contractual life at December 31, 2009 *(years)* | - | - | 0.2 | - | 3.2 | 4.2 | 5.4 | 2.5 | 2.5 | 7.4 |
| Adjusted exercise price [c] | 76.56 | 76.56 | 87.48 | - | 80.16 | 61.44 [e] | 28.08 [e] | 15.12 | 15.12 | 5.62 |
| Weighted average exercise price | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 | 5.62 |
| Weighted average exercise price of exercisable options | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 | - |
| Options outstanding at December 31, 2008 | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 | - |
| Options granted between January 1 and December 31, 2009 | - | - | - | - | - | - | - | - | - | 1,010,000 |
| Options forfeited between January 1 and December 31, 2009 | (261,882) | (195,071) | (961) | - | (2,846) | (1,948) | (962) | (3,279) | (795) | - |
| Options exercised between January 1 and December 31, 2009 | - | - | - | - | - | - | - | - | - | - |
| Options outstanding at December 31, 2009 | - | - | 323,804 | - | 400,261 | 317,984 | 205,404 | 201,544 | 115,941 | 1,010,000 |
| Of which granted to the Board of Directors and Executive Committee [d] | - | - | 21,934 | - | 25,850 | 21,061 | 5,974 | 28,691 | 45,570 | 30,000 |
| Options exercised at December 31, 2009 | - | - | 323,804 | - | 400,261 | 317,984 | 205,404 | 201,544 | 115,941 | - |
| Of which granted to the Board of Directors and Executive Committee [d] | - | - | 21,934 | - | 25,850 | 21,061 | 5,974 | 28,691 | 45,570 | - |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | 2,938 | - | 3,917 | 6,756 | 3,721 | 9,977 | 14,891 | - |
| • Jacques Khéliff | - | - | - | - | - | - | 392 | 844 | 795 | - |
| • Yves René Nanot | - | - | - | - | - | - | - | 9,977 | 19,855 | - |
| Number of beneficiaries at December 31, 2009 | - | - | 368 | - | 548 | 383 | 403 | 233 | 64 | 41 |

*(a) Without taking into account the tax holding period for tax residents in France of 4 years as from 2001 and 5 years previously.*
*(b) As made up on the stock subscription option grant date.*
*(c) After the capital increases which took place on May 7, 2004 and December 20, 2005, the Board of Directors adjusted the exercise price and the number of options outstanding in accordance with the French Commercial Code and applicable regulations to stock option plans.*
*(d) Actual data.*
*(e) Due to a personal commitment, Mr. Tirouflet accepted that the exercise price of his options would be set at €15 (after the 2004 and 2005 adjustments, this price was reduced to €6.38 before the reverse share split or €76.56 after the reverse share split)*

The fair value of the purchase stock options was estimated using the Black & Scholes model and the following assumptions:

| | 2009 plan |
|---|---|
| Rhodia share price on the grant date | €8.86 |
| Term of the options | 8 years |
| Estimated volatility | 43% |
| Expected dividend return rate | 0% |
| Risk-free interest rate | 2.4% |

The estimated volatility was determined using the historical volatility of the Rhodia share price and the expectations of market operators. The risk-free interest rate corresponds to the average risk-free interest rate prevailing on the option grant date.

The 2009 plan is subject to exercise conditions based on the achievement of financial performance targets in 2009 and 2010. In order to measure the plan's fair value, it was assumed that these financial performance targets would be achieved.

The expense incurred during the period relating to services compensated by equity-based instruments (stock options) totaled less than €1 million at December 31, 2009 and nil at December 31, 2008.

## 34.3 Free shares plan

Under the 2005 French Finance Act, French companies are entitled to grant free shares to their executives and employees as from January 1, 2005.

**2009 A and B plans**

On March 16, 2009, the Rhodia Board of Directors approved a new free shares plan for 173 beneficiaries (2 x 381,200 shares) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries. The terms and conditions of these plans are as follows:

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| | A Plans | | B Plans | |
|---|---|---|---|---|
| | "2+2" | "4+0" | "2+2" | "4+0" |
| Number of shares | 279,800 | 101,400 | 279,800 | 101,400 |
| Number of beneficiaries | 101 | 72 | 101 | 72 |
| Grant date | March 16, 2009 | | March 16, 2009 | |
| Vesting date | March 16, 2011 | March 16, 2013 | March 16, 2011 | March 16, 2013 |
| Holding period | Minimum March 16, 2013 | - | Minimum March 16, 2013 | - |
| Performance criteria | Positive Free Cash Flow as presented in the consolidated financial statements for the year ended December 31, 2009 | | Recurring EBITDA/net sales ratio (including CER activities), as presented in the consolidated financial statements of the Company for the year ended December 31, 2009, exceeding by 2 points the average ratio of a panel of competitors | |
| Validation of vesting conditions | Board of Directors | | Board of Directors | |

### Expense recognized

The expense recognized with respect to all free shares plans totaled €6.2 million for the year ended December 31, 2009 (€15 million in 2008). It includes €0.7 million for new A and B plans granted during the year.

### Main features of the free shares plans outstanding at December 31, 2009:

| Free shares plans | Plan 2007 A | Plan 2007 B | Plan 2007 "2+2" | Plan 2007 "4+0" | Plan 2008 B "2+2" | Plan 2008 B "4+0" | Plan 2009 A "2+2"[c] | Plan 2009 A "4+0"[c] | Plan 2009 B "2+2"[c] | Plan 2009 B "4+0"[c] |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of shareholders' meeting approval | 06/23/2005 | 06/23/2005 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 01/15/2007 | 01/15/2007 | 07/30/2007 | 07/30/2007 | 03/17/2008 | 03/17/2008 | 03/16/2009 | 03/16/2009 | 03/16/2009 | 03/16/2009 |
| Vesting date | 01/16/2009 | 01/16/2009 | 07/31/2009 | 07/31/2011 | 03/18/2010 | 03/20/2012 | 03/16/2011 | 03/16/2013 | 03/16/2011 | 03/16/2013 |
| Free shares granted at inception | 344,308 | 344,308 | 92,355 | 142,755 | 355,000 | 156,980 | 279,800 | 101,400 | 279,800 | 101,400 |
| Of which granted to the Board of Directors and Executive Committee [a] | 84,167 | 84,167 | 90 | - | 117,000 | - | 117,000 | - | 117,000 | - |
| Fair value of the share | 30.44 | 30.44 | 33.03 | 34.08 | 10.94 | 11.30 | 2.37 | 2.37 | 2.37 | 2.37 |
| Period of non-transferability | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | - | 2 years after the vesting period | - | 2 years after the vesting period | - | 2 years after the vesting period | - |
| Number of free shares outstanding at December 31, 2008 | 289,424 | 289,424 | 90,285 | 135,315 | 352,200 | 155,980 | - | - | - | - |
| Free shares granted between January 1 and December 31, 2009 | - | - | - | - | - | - | 279,800 | 101,400 | 279,800 | 101,400 |
| Free shares forfeited between January 1 and December 31, 2009 | - | - | (1,530) | (750) | (9,890) | (11,110) | (500) | (700) | (500) | (700) |
| Number of free shares vested at December 31,2009 | (289,424) | (289,424) | (88,755) | - | - | - | - | - | - | - |
| Number of free shares outstanding at December 31, 2009 | - | - | - | 134,565 | 342,310 | 144,870 | 279,300 | 100,700 | 279,300 | 100,700 |
| Of which granted to the Board of Directors and Executive Committee [b] | - | - | - | - | 117,000 | - | 117,000 | - | 117,000 | - |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | - | - | 37,000 | - | 37,000 | - | 37,000 | - |
| • Jacques Khéliff | - | - | - | - | 7,500 | - | 7,500 | - | 7,500 | - |
| Number of beneficiaries at December 31, 2009 | - | - | - | 8,971 | 186 | 142 | 100 | 72 | 100 | 72 |

*(a) As made up on the grant date.*
*(b) Actual data.*
*(c) The performance criteria were met at December 31, 2009.*

## NOTE 35 STATUTORY AUDITORS' FEES FOR 2008 AND 2009

| | PricewaterhouseCoopers Audit | | | | KPMG Audit | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (excluding tax) | | % | | Amount (excluding tax) | | % | |
| *(in millions of euros)* | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Audit | | | | | | | | |
| Statutory auditors, certification; examination of individual and consolidated financial statements | 2.1 | 1.9 | 95 | 90 | 1.8 | 1.9 | 100 | 100 |
| Issuer | 0.6 | 0.5 | 27 | 23 | 0.3 | 0.4 | 17 | 21 |
| Consolidated subsidiaries | 1.5 | 1.4 | 68 | 67 | 1.5 | 1.5 | 83 | 79 |
| Other tasks and services directly related to the statutory auditor's mission | - | 0.1 | - | 5 | | - | - | - |
| Consolidated subsidiaries | - | 0.1 | - | 5 | - | - | - | - |
| **Sub-total** | **2.1** | **2.0** | **95** | **95** | **1.8** | **1.9** | **100** | **100** |
| **Other services provided by the networks to consolidated subsidiaries** | | | | | | | | |
| Legal, tax, labor | 0.1 | 0.1 | 5 | 5 | - | - | - | - |
| **Sub-total** | **0.1** | **0.1** | **5** | **5** | **-** | **-** | **-** | **-** |
| **TOTAL** | **2.2** | **2.1** | **100** | **100** | **1.8** | **1.9** | **100** | **100** |

The amounts shown include, for the share of costs borne by Rhodia, the fees relating to proportionately consolidated entities.

## NOTE 36 SUBSEQUENT EVENTS

No post closing event has occurred.

## NOTE 37 LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

The consolidated financial statements for the year ended December 31, 2009 included 101 companies, of which 88 subsidiaries, 9 joint ventures and 4 associates.

| Subsidiaries | Country | % (holding) |
|---|---|---|
| RHODIA ACETOW GMBH | Germany | 100.00 |
| RHODIA DEUTSCHLAND GMBH | Germany | 100.00 |
| RHODIA GMBH | Germany | 100.00 |
| RHODIA CHEMICALS PTY LTD | Australia | 100.00 |
| RHODIA BELGIUM | Belgium | 100.00 |
| RHODIA BRASIL LTDA | Brazil | 100.00 |
| RHODIA ENERGY BRASIL LTDA | Brazil | 100.00 |
| RHODIA POLIAMIDA BRASIL LTDA | Brazil | 100.00 |
| RHODIA POLIAMIDA E ESPECIALIDADES LTDA | Brazil | 100.00 |
| RHOPART – PARTICIPAÇÕES, SERVI SERVIÇOS E COMÉRCIO LTDA | Brazil | 100.00 |
| RHODIA CANADA INC. | Canada | 100.00 |
| JADE FINE CHEMICALS (WUXI) CO. LTD | China | 100.00 |
| RHODIA (SHANGHAI) INTERNATIONAL TRADING CO. LTD | China | 100.00 |
| RHODIA (CHINA) CO. LTD | China | 100.00 |

| Subsidiaries | Country | % (holding) |
|---|---|---|
| RHODIA PERFUMERY WUXI CO. LTD | China | 100.00 |
| RHODIA POLYAMIDE (SHANGHAI) CO. LTD | China | 100.00 |
| RHODIA SILICA QINGDAO CO. LTD | China | 100.00 |
| RHODIA SPECIALTY CHEMICALS WUXI CO. LTD | China | 100.00 |
| RHODIA WUXI PHARMACEUTICAL CO. LTD | China | 100.00 |
| RUOHAI (ZHEJIANG) FINE CHEMICALS CO. LTD | China | 100.00 |
| LIYANG RHODIA RARE EARTH NEW MATERIALS CO. LTD | China | 96.32 |
| RHODIA HENGCHANG (ZHANGJIAGANG) SPECIALTY CHEMICAL CO. LTD | China | 70.00 |
| BEIJING RP EASTERN CHEMICAL CO. LTD | China | 60.00 |
| BAOTOU RHODIA RARE EARTH CO. LTD | China | 55.00 |
| RHODIA (ZHENJIANG) CHEMICALS CO. LTD | China | 100.00 |
| RHODIA FINE CHEMICALS ADDITIVES (QINGDAO) CO., LTD | China | 100.00 |
| GUANGXI LAIBIN BIOQI NEW ENERGY CO LTD | China | 100.00 |
| RHODIA ENERGY KOREA CO. LTD | South Korea | 100.00 |
| RHODIA POLYAMIDE CO. LTD | South Korea | 100.00 |
| RHODIA SILICA KOREA CO. LTD | South Korea | 100.00 |
| RHODIA IBERIA SL | Spain | 100.00 |
| ALCOLAC, INC. | United States | 100.00 |
| RHODIA FUNDING CORP. | United States | 100.00 |
| HEAT TREATMENT SERVICES INC. | United States | 100.00 |
| RHODIA FINANCIAL SERVICES INC. | United States | 100.00 |
| RHODIA HOLDING INC. | United States | 100.00 |
| RHODIA INC. | United States | 100.00 |
| RHODIA-INDIA HOLDING INC. | United States | 100.00 |
| MC INTYRE GROUP LTD (US) | United States | 100.00 |
| RHODIA CHIMIE | France | 100.00 |
| RHODIA ENERGY | France | 100.00 |
| RHODIA ENERGY GHG | France | 100.00 |
| RHODIA FINANCE | France | 100.00 |
| RHODIA LABORATOIRE DU FUTUR | France | 100.00 |
| RHODIA OPERATIONS | France | 100.00 |
| RHODIA PARTICIPATIONS | France | 100.00 |
| RHODIA | France | 100.00 |
| RHODIA SERVICES | France | 100.00 |
| RHODIANYL S.N.C. | France | 100.00 |
| RHODIA HONG KONG LTD | Hong Kong | 100.00 |
| ALBRIGHT & WILSON CHEMICALS INDIA LTD | India | 72.93 |
| RHODIA ITALIA S.p.A | Italy | 100.00 |
| RHODIA JAPAN LTD | Japan | 100.00 |
| ANAN KASEI CO., LTD | Japan | 67.00 |
| RHODIA NICCA LTD | Japan | 60.00 |
| CAREDOR | Luxembourg | 100.00 |
| PARTICIPATIONS CHIMIQUES | Luxembourg | 100.00 |
| RHODIA DE MEXICO SA DE CV | Mexico | 100.00 |
| RHODIA ESPECIALIDADES SA DE CV | Mexico | 100.00 |
| RHODIA NEW ZEALAND LTD | New Zealand | 100.00 |
| RHODIA INTERNATIONAL HOLDINGS BV | Netherlands | 100.00 |
| RHODIA POLYAMIDE POLSKA Sp.zo.o | Poland | 100.00 |

| Subsidiaries | Country | % (holding) |
|---|---|---|
| HOLMES CHAPEL TRADING LTD | United Kingdom | 100.00 |
| RHODIA ECO SERVICES LTD | United Kingdom | 100.00 |
| RHODIA FOOD UK LTD | United Kingdom | 100.00 |
| RHODIA HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA HPCII UK LTD | United Kingdom | 100.00 |
| RHODIA INDUSTRIAL SPECIALTIES LTD | United Kingdom | 100.00 |
| RHODIA INTERNATIONAL HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA LTD | United Kingdom | 100.00 |
| RHODIA ORGANIQUE FINE LTD | United Kingdom | 100.00 |
| RHODIA OVERSEAS LTD | United Kingdom | 100.00 |
| RHODIA PHARMA SOLUTIONS HOLDINGS LTD | United Kingdom | 100.00 |
| RHODIA PHARMA SOLUTIONS LTD | United Kingdom | 100.00 |
| RHODIA REORGANISATION LTD | United Kingdom | 100.00 |
| RHODIA UK LTD | United Kingdom | 100.00 |
| MC INTYRE GROUP LTD (UK) | United Kingdom | 100.00 |
| OOO SERTOW | Russia | 100.00 |
| ALBRIGHT & WILSON ASIA PACIFIC HOLDINGS PTE LTD | Singapore | 100.00 |
| RHODIA ASIA PACIFIC PTE LTD | Singapore | 100.00 |
| SOPARGEST – SOCIETE DE PARTICIPATION ET DE GESTION S.A. | Switzerland | 99.98 |
| RHODIA THAI HOLDINGS LTD | Thailand | 100.00 |
| RHODIA THAI INDUSTRIES LTD | Thailand | 100.00 |
| ALAVER SOCIEDAD ANONIMA | Uruguay | 100.00 |
| FAIRWAY INVESTMENTS S.A. | Uruguay | 100.00 |
| ZAMIN COMPANY S/A | Uruguay | 100.00 |
| RHODIA ACETOW VENEZUELA C.A. | Venezuela | 100.00 |
| RHODIA SILICES DE VENEZUELA C.A. | Venezuela | 100.00 |

| Joint ventures | Country | % (holding) |
|---|---|---|
| WARMEVERBUNDKRAFTWERK FREIBURG GMBH | Germany | 49.90 |
| PRIMESTER | United States | 50.00 |
| BUTACHIMIE | France | 50.00 |
| COGENERATION CHALAMPE | France | 50.00 |
| HEXAGAS | France | 50.00 |
| ORBEO | France | 50.00 |
| RHODIGAZ | France | 50.00 |
| HINDUSTAN GUM & CHEMICALS LTD | India | 50.00 |
| P.T. RHODIA MANYAR | Indonesia | 50.00 |

| Associates | Country | % (holding) |
|---|---|---|
| QINGDAO DONGYUE RHODIA CHEMICAL CO LTD | China | 30.00 |
| GIE OSIRIS | France | 41.00 |
| GIE CHIMIE SALINDRES | France | 50.00 |
| ZAKLAD ENERGOELEKTRYCZNY "ENERGO-STIL" Sp. z o. o. | Poland | 25.00 |

# 6.5 Company financial statements year ended December 31, 2009

## 6.5.1 STATUTORY AUDITOR'S REPORT ON THE STATUTORY ACCOUNT (YEAR ENDED DECEMBER 31, 2009)

*This is a free translation into English of the statutory auditor's report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditor's report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditor's assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders

In compliance with the assignment entrusted to us by your General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying financial statements of Rhodia SA ;
- the justification of our assessments ;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the financial position and assets and liabilities of the company, as of December 31, 2009, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

### II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the Commercial Code *(Code de Commerce)* relating to the justification of our assessments, we bring to your attention the following matter:

The accounting estimates used to prepare the financial statements at December 31, 2009 were made against a backdrop of highly volatile markets and significant difficulty in assessing the economic outlook. In this context, and in accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

The company estimates the value in use of its investments in accordance with the methods described in Notes 2.2 to the financial statements and recognizes impairments when the carrying amount exceeds value in use. We assessed the method adopted by the company and verified its correct application. Our work also consisted in assessing the data and assumptions used by the company and verifying the resulting calculations.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III – Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code *(Code de commerce)* relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlaying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the controlling interests and the identity of the shareholders has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris La Défense, March 11, 2010

Statutory Auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
|---|---|
| | *Division of KPMG S.A.* |
| Christian Perrier | Denis Marangé |

## 6.5.2 STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### A. BALANCE SHEET

| ASSETS *(in millions of euros)* | Note | December 31, 2009 Gross amount | December 31, 2009 Depreciation & amortization | December 31, 2009 Net amount | December 31, 2008 Net amount |
|---|---|---|---|---|---|
| Intangible assets, and property, plant and equipment | 3 | 9 | (8) | 1 | 1 |
| Equity investments | 4 | 4,063 | (1,951) | 2,112 | 1,897 |
| Loans to equity investments | 5 | 1,371 | (2) | 1,369 | 2,831 |
| Other long-term investments | | - | - | - | 9 |
| **Non-current assets** | | **5,443** | **(1,961)** | **3,482** | **4,738** |
| Other receivables | 6 | 98 | (3) | 95 | 1,203 |
| Cash advances to subsidiaries | 7 | 500 | - | 500 | 402 |
| Marketable securities | 8 | 458 | - | 458 | 106 |
| Cash and short-term investments | | 2 | - | 2 | 109 |
| **Current assets** | | **1,058** | **(3)** | **1,055** | **1,820** |
| Deferred charges | 9 | 5 | - | 5 | 7 |
| Unrealized foreign exchange losses | | 8 | - | 8 | 192 |
| **TOTAL ASSETS** | | **6,514** | **(1,964)** | **4,550** | **6,757** |

| LIABILITIES AND SHAREHOLDERS' EQUITY *(in millions of euros)* | Note | December 31, 2009 Before appropriation | December 31, 2008 Before appropriation |
|---|---|---|---|
| Share capital | | 1,213 | 1,213 |
| Additional paid-in capital | | 14 | 14 |
| Legal reserve | | 58 | 40 |
| Other reserves | | 464 | 123 |
| Net profit for the year | | (120) | 359 |
| **Shareholders' equity** | 10 | **1,629** | **1,749** |
| **Provisions** | 11 | **326** | **382** |
| Bank borrowings | | 1,670 | 1,689 |
| Other borrowings | | 473 | 1,697 |
| **Borrowings** | 12 | **2,143** | **3,386** |
| Tax and employee-related liabilities | | 4 | 2 |
| Other liabilities | 13 | 440 | 1,202 |
| **Liabilities** | | **2,587** | **4,590** |
| Unrealized foreign exchange gains | | 8 | 36 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **4,550** | **6,757** |

## B. INCOME STATEMENT

| | Note | **2009** | 2008 |
|---|---|---|---|
| (in millions of euros) | | | |
| Dividends received from equity investments | | 3 | 15 |
| Interest income | | 138 | 358 |
| Interest expense | | (103) | (254) |
| Charges to/reversals of provisions for impairment of securities | | (62) | (198) |
| Charges to/reversals of provisions for subsidiary-related risks | | (4) | 8 |
| Other financial income/(expenses) | | (77) | 356 |
| **Net financial items** | 14 | **(105)** | **285** |
| Operating profit/(loss) | 15 | (30) | (21) |
| **Net profit/(loss) from ordinary activities** | | **(135)** | **264** |
| Net exceptional items | 16 | (10) | 4 |
| **Net profit/(loss) from ordinary activities before tax** | | **(145)** | **268** |
| Corporate income tax | 17 | 25 | 91 |
| **Net profit/(loss) for the year** | | **(120)** | **359** |

## C. CASH FLOW STATEMENT

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Operating cash flow | | |
| Net profit for the year | (120) | 359 |
| *Elimination of non-cash and non-operating income and expenses* | | |
| • Charges to depreciation, amortization and provisions | 114 | 211 |
| • Profit/(loss) from assignment and waiver of receivables | 6 | (13) |
| • Share in profit/(loss) of partnerships (SNC) | 40 | (356) |
| • Unrealized foreign exchange (gains) or losses | 47 | (41) |
| Changes in working capital requirement | (17) | 80 |
| *Net cash from operating activities (A)* | *70* | *240* |
| Investing cash flow | | |
| Disbursements related to acquisitions of equity investments | - | (1) |
| Disbursements related to a capital increase on equity investments | (284) | - |
| Proceeds from disposal of equity investments | 2 | 15 |
| Proceeds from the impact of a capital reduction on equity investments | - | 24 |
| Net changes in loans to equity investments and other long-term investments | 705 | 440 |
| *Net cash from investing activities (B)* | *423* | *478* |
| Financing cash flow | | |
| Dividends paid to shareholders | - | (25) |
| New bonds and bank borrowings | - | 2 |
| Redemption of bonds and repayment of bank borrowings | (40) | (17) |
| Net changes in inter-company loans | (167) | (398) |
| Cash advances to subsidiaries | (128) | (271) |
| *Net cash used in financing activites (C)* | *(335)* | *(709)* |
| Change in cash and cash equivalents (A+B+C) | 158 | 9 |
| Cash and cash equivalents at the beginning of the year (D) | 202 | 193 |
| Cash and cash equivalents at the end of the year (A+B+C+D) | 360 | 202 |

# NOTES TO THE STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

## NOTE 1 ACTIVITIES AND HIGHLIGHTS OF THE YEAR

Rhodia S.A. (hereinafter referred to as "Rhodia S.A." or the "Company") is the parent company of the Rhodia specialty chemicals group. It acts as a holding company and also provides services as parent company to support, advise, coordinate and manage Rhodia's subsidiaries.

No significant events occurred during the year 2009.

## NOTE 2 ACCOUNTING POLICIES

The annual financial statements of Rhodia S.A. were prepared in accordance with the accounting principles generally accepted in France and more specifically the 1999 French General Chart of Accounts. The balance sheet and profit or loss statement presentation has been adapted to the Company's holding company status.

### 2.1 Intangible assets and property, plant and equipment

**Valuation methods**

Intangible assets and property, plant and equipment are stated at purchase cost if acquired for valuable consideration, at production cost if internally generated, and at contribution value if received as a contribution.

Purchase cost includes:

- purchase price including import duties and non-recoverable taxes less rebates, trade discounts and payment allowances;
- incidental expenses excluding purchase expenses.

It should be noted that acquired brands are capitalized. The renewal costs of generated or acquired brands are expensed as incurred.

**Methods used to calculate depreciation and amortization**

Depreciation and amortization are calculated on a straight-line basis over the expected period of use.

Acquired brands with unlimited useful lives are not amortized.

**Assessment of asset value**

When there is an indication of impairment, the net carrying amount of the non-current asset is compared with its present value. An impairment loss is recorded, where appropriate, when the present value of the non-current asset falls below its net carrying amount.

### 2.2 Long-term investments

Equity investments are initially recognized at cost. Purchase expenses are, where applicable, allocated to the purchase cost of the securities.

Periodically, and particularly when valuing its portfolio, the Company measures the value in use of its equity investments. Where the purchase cost exceeds the value in use, two types of provision can be recorded:

- an impairment provision for up to the initial amount of the securities;
- a financial contingency provision for subsidiaries in respect of the residual amount.

Where value in use exceeds the purchase cost, no unrealized capital gains are recognized.

The value in use of equity investments is determined as follows:

1/ The value in use of operating entities mainly takes into account the weighting of two criteria:

- the share of consolidated equity held;
- the share of enterprise value net of indebtedness. The enterprise value is determined using a market multiple applied to 2009 adjusted EBITDA [36].

On a case-by-case basis, external valuations are carried out, mainly based on the discounted future cash flows of the subsidiary, including the gains arising from the Group tax consolidation.

2/ For non-operating or immaterial entities, the value in use is determined based on the share of equity held, calculated using the accounting principles applied by Rhodia for the preparation of its consolidated financial statements.

### 2.3 Receivables and payables

Receivables and payables are stated at nominal value. An impairment loss is recorded when their historical cost exceeds their carrying amount.

### 2.4 Marketable securities

**Negotiable medium-term notes**

Negotiable medium-term notes are recognized at cost. An impairment loss is recorded when their net carrying amount exceeds their net asset value.

**Treasury shares**

Treasury shares allocated to bonus share allotment plans are not subject to impairment based on market value due to Rhodia S.A.'s commitment to allocate these shares to employees. A provision is recognized in liabilities (see paragraph 2.14 below).

*(36) "Adjusted EBITDA" corresponds to annual operating profit or loss before restructuring costs, net charges to depreciation, amortization and impairment, and other operating income and expenses adjusted for the first half of 2009, and considered not relevant with regard to the Group's long term valuation.*

Treasury shares not allocated to bonus share allotment plans are subject to impairment where their carrying amount exceeds their market value at the balance sheet date.

**Treasury stock options**

With respect to the stock option plan allocated in 2009, Rhodia S.A. hedged itself by buying treasury stock options and the premium paid was recognized in marketable securities. A provision was recognized in liabilities (see Note 2.12 hereafter).

## 2.5 Bond issues

OCEANE bonds (bonds that can be converted or exchanged for new or existing shares) have been recorded in borrowings at nominal value on issuance, excluding redemption premiums. A provision determined on an actuarial basis to cover the risk that bonds may not be converted and the redemption premium-related expense is recorded so long as the conversion is not reasonably probable.

## 2.6 Bond issuance costs and premiums

Issuance costs and premiums incurred by Rhodia S.A. in respect of the issuance of bonds are spread out over the terms of the bonds on a straight-line basis when they are not rebilled to subsidiaries. A one-time amortization charge is recognized in the event of early redemption or buyback of the bonds.

## 2.7 Foreign currency transactions

Foreign currency-denominated income and expenses are recorded for their euro equivalent amount on the date of the transaction or commitment. Foreign currency-denominated payables, receivables and cash are shown on the face of the balance sheet for their euro equivalent amount at the exchange rate prevailing at the year-end. Differences arising from the revaluation of payables and receivables denominated in foreign currencies at the year-end exchange rate are shown on the face of the balance sheet as Currency translation adjustments. A provision is set aside for unrealized exchange losses. The difference arising from the revaluation of cash balances is recorded in the income statement.

## 2.8 Derivative financial instruments

Rhodia S.A. uses derivative financial instruments in order to manage and mitigate its exposure to foreign exchange, interest rate and commodity index risk. Rhodia S.A.'s policy is to manage its positions on an overall basis without necessarily setting up specific hedges.

**Interest-rate derivatives**

Income and expenses arising from the use of interest-rate derivatives are recognized in profit or loss symmetrically to the income and expenses from hedged transactions when they qualify for hedge accounting.

When they do not qualify for hedge accounting, these instruments are valued as follows:

- net unrealized losses on OTC instruments are fully provided for;
- net unrealized gains on OTC instruments are recorded in profit or loss solely when the transaction has been settled;
- unrealized gains and losses on organized markets are directly recognized in profit or loss.

**Foreign exchange derivatives**

Foreign exchange derivatives underpin Rhodia S.A.'s foreign exchange position. Unrealized gains and losses on such instruments are included in the calculation of the provision for unrealized foreign exchange losses.

**Energy and commodity hedging derivatives**

Gains and losses arising from these instruments are recorded in net financial items.

## 2.9 Retirement obligations

Rhodia S.A. recognizes its retirement obligations, other post-employment benefits and termination benefits via a provision.

The amount thus provided corresponds to the actuarial value of rights vested by the beneficiaries at the year-end, without taking into account their future salary increases. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recorded in profit or loss as soon as recognized. Charges to and reversals from provisions are recorded in operating profit or loss.

## 2.10 Long-service awards

The Company's obligations with regard to employee long-service awards are fully provided for and estimated based on the assumptions used to calculate retirement obligations.

## 2.11 Treasury stock subscription options

Stock subscription plans are recorded when options are exercised as a capital increase in an amount corresponding to the subscription price paid by option holders. The difference between the subscription price and the par value of the stock represents additional paid-in capital where appropriate. No remuneration expense is recorded for employee benefits.

## 2.12 Treasury stock purchase options

Pursuant to CNC notice 2008-17 of November 6, 2008 on the accounting treatment of stock options plans:

- a provision was set aside to cover Rhodia S.A.'s obligation to deliver shares to the beneficiaries when the purchase options are exercised. The provision was determined by multiplying:
- – the probable share buyback price measured at the forward purchase price plus the premium paid for the hedge and less the strike price likely to be paid by employees,

- by the number of options that should be allocated considering the allotment plan requirements (performance/presence),
- this provision is amortized on a straight-line basis over the vesting period, as and when the rights are vested by the beneficiaries,

- the charge to the contingency provision is presented in employee expenses via an expense reclassification account.

### 2.13 Bonus shares to be issued

Rhodia S.A. records the bonus shares definitely vested by beneficiaries when they are issued, via an offsetting entry against available reserves up to the par value amount of the shares issued.

No remuneration expense is recorded for employee benefits. The costs arising from bonus share allotment plans are expensed.

### 2.14 Allocations of existing bonus shares

Pursuant to CNC notice 2008-17 of November 6, 2008 on the accounting treatment of employee bonus share allotment plans:

- a provision is set aside to cover Rhodia S.A.'s obligation to deliver the shares to the beneficiaries at the definitive allocation date. The provision is determined by multiplying the share buyback price by the number of shares that should be allocated considering the allotment plan requirements (performance/presence). This provision is amortized on a straight-line basis over the bonus share vesting period, as and when the rights are vested by the beneficiaries;
- the charge to the contingency provision is presented in employee expenses via an expense reclassification account;
- the fair value of the shares at the time of allocation is used to calculate the base for the 10% social security contributions payable by Rhodia S.A.

### 2.15 Dividends

Dividends receivable by Rhodia S.A. from its subsidiaries and equity investments are recorded as income on the date of approval by their Annual General Meetings.

### 2.16 Method of recognizing profit or loss of partnerships (SNC)

Under the bylaws of Rhodia Participations (SNC), the share of profit or loss allocated to Rhodia S.A. is deemed to have been granted retroactively as of the period-end. As a result, the share of profit or loss is offset in net financial items against a current account classified under "Other receivables" or "Other payables".

This method of recognition was also applied to Rhodianyl until June 2009, when the entity's legal structure was modified (change from SNC to SAS).

### 2.17 Corporate income tax

Rhodia S.A. and certain of its French subsidiaries have entered into a tax consolidation group agreement whereby each subsidiary computes its tax expense as if it were not part of a tax group.

The tax savings resulting from the utilization of the tax losses of subsidiaries included in the tax group are immediately recognized in profit or loss by Rhodia S.A. and do not give rise to any subsequent cash payback. When subsidiaries become profit-making, Rhodia S.A. assumes, as appropriate, an additional tax expense as a result of having already deducted its subsidiaries' tax losses.

### 2.18 Statement of cash flows

Cash and cash equivalents include cash, marketable securities with an initial maturity of less than 3 months, excluding treasury shares and the premium paid for treasury stock purchase options, and bank balances in credit.

## NOTE 3 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

This heading includes primarily the Rhodia S.A. brand acquired when the Group was established.

## NOTE 4 EQUITY INVESTMENTS

| *(in millions of euros)* | December 31, 2008 | Increase | Decrease | **December 31, 2009** |
|---|---|---|---|---|
| Gross | 3,787 | 284 | (8) | 4,063 |
| Impairment | (1,890) | (271) | 210 | (1,951) |
| Net | 1,897 | 13 | 202 | 2,112 |

The increase in gross equity investments is primarily attributable to the impact of a capital increase involving Rhodia Holding Ltd securities in the amount of €270 million and Rhodia Iberia S.L securities in the amount of €12 million.

The decrease in gross equity investments is due to the sale to Rhodia Operations of Rhodia Electronics & Catalysis securities in the amount of €4 million and the sale of Phosphoric Fertilizers Industry S.A securities in the amount of €4 million.

Charges for the impairment of equity investments in the amount of €(271) million mainly concern Rhodia Holding Ltd. The value of Rhodia Holding Ltd was heavily impacted by the changes in retirement obligations in one of its subsidiaries.

The reversal of the provision for impairment for €210 million mainly concerns:

- Rhodia Holding Inc. and Rhodia Brazil Ltda for respectively €62 million and €78 million, mainly due to the decrease of their indebtedness in 2009;
- Rhodia Deutschland for €61 million, due to the calculation of a new value in use by an expert;
- disposal of Rhodia Electronics & Catalysis and Phosphoric Fertilizers Industry, each for €3 million.

As of December 31, 2009, the gross equity investments pledged in connection with the set-up of a new credit facility in 2007 amounted to €425 million, as in the previous period.

## NOTE 5 LOANS TO EQUITY INVESTMENTS

All items under this heading concern equity affiliates.

As part of its business as the Group's holding company, Rhodia S.A. finances its subsidiaries and sub-subsidiaries, particularly by means of medium-term loans.

Loans to equity investments break down by maturity as follows:

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| 2009 | - | 330 |
| 2010 | 201 | 167 |
| 2011 | 1 | 74 |
| 2012 | 231 | 304 |
| 2013 | 938 | 1,958 |
| **TOTAL** | **1,371** | **2,833** |

The change in loans to equity investments between 2008 and 2009 was mainly due to:

- the offsetting of Rhodianyl loans against Rhodia S.A.'s share in the losses of this subsidiary in respect of 2008 and 2009 for €733 million;
- the repayment by Rhodia Holding Ltd of its debt with Rhodia S.A. for €273 million, made possible by the share capital increase subscribed to by Rhodia S.A. (see Note 4);
- the repayment by Rhodia Finance of a portion of its debt for €288 million.

As of December 31, 2009, the loans pledged in connection with the set-up of a new credit facility in 2007 total €200 million, as in the previous period.

## NOTE 6 OTHER RECEIVABLES

As of December 31, 2009, this gross heading totals €98 million and includes:

- receivables from equity affiliates of €75 million (€1,167 million as of December 31, 2008), of which €60 million for current accounts relating to the tax consolidation. The sharp decrease in receivables from equity affiliates between 2008 and 2009 was mainly due to the payment in 2009 of Rhodia S.A.'s share in Rhodia Participations' 2008 profits for €1,057 million;
- receivables from the French State of €21 million (€30 million as of December 31, 2008) in respect of the 2009 research tax credit (€19 million) and the 2009 employee profit-sharing tax credit (€2 million);
- accrued income on interest rate swaps of €1 million (€8 million as of December 31, 2008);
- options in the amount of €1 million (€1 million as of December 31, 2008).



## NOTE 7 CASH ADVANCES TO SUBSIDIARIES

This heading includes Rhodia S.A.'s advances to equity affiliates as part of the Group cash pooling arrangement.

## NOTE 8 MARKETABLE SECURITIES

As of December 31, 2009, marketable securities comprise negotiable medium-term notes of €53 million, bank deposits, deposit certificates and associated interest for €171 million, open-ended investment funds and money-market funds for €224 million, treasury shares for €8 million and treasury stock purchase options for €2 million.

As of December 31, 2009, the carrying amount of these cash instruments, excluding the treasury shares, approximated their net asset value.

A portion of the treasury shares bought back in 2008 to hedge the bonus share allotment plans was transferred to the beneficiaries in 2009. As new bonus share allotment plans were voted in 2009 (see Note 22.2), there were no more treasury shares that could not be allocated as of December 31, 2009.

Rhodia S.A. bought treasury stock purchase options to hedge the stock option plans voted in 2009, with the premium paid for the hedge purchase being recognized in marketable securities.

## NOTE 9 DEFERRED CHARGES

Deferred charges total €5 million as of December 31, 2009 and relate to bond issuance costs that are to be spread forward (€1 million in respect of the 2006 fourth quarter bond issue and €4 million in respect of the new bond issue subscribed during the first half of 2007).

## NOTE 10 EQUITY

### 10.1 Share capital and additional paid-in capital

As of December 31, 2009, Rhodia S.A.'s share capital totaled €1,213,044,816, comprising 101,087,068 Rhodia S.A. shares with a par value of €12 each.

As of December 31, 2009, Rhodia S.A. held 1,121, 784 treasury shares (recognized in marketable securities) that were bought back during 2008 in order to cover the bonus share allotment plans granted to the employees or corporate officers of the Company and its subsidiaries. A total of 670,353 treasury shares were transferred to the beneficiaries of bonus share allotment plans expiring in 2009.

### 10.2 Breakdown of changes in equity

| *(in millions of euros)* | As of December 31, 2008 | Appropriation of 2008 earnings | 2009 net loss | **As of December 31, 2009** |
|---|---|---|---|---|
| Share capital | 1,213 | - | - | 1,213 |
| Additional paid-in capital (1) | 14 | - | - | 14 |
| Legal reserve | 40 | 18 | - | 58 |
| Other reserves | 123 | 341 | - | 464 |
| Net profit/(loss) for the year | 359 | (359) | (120) | (120) |
| **Shareholders' equity** | **1,749** | **-** | **(120)** | **1,629** |

*(1) Of which €8 million retained with respect to treasury shares as part of the buyback in order to hedge all the bonus share allotment plans, already decided in 2008 and 2009.*

### 10.3 Proposed appropriation of 2009 loss

It will be proposed at the Shareholders' General Meeting to appropriate the 2009 loss of €(120) million as follows:

| Origin *(in millions of euros)* | |
|---|---|
| Year loss | (120) |
| Other reserves | 464 |
| i.e. a distributable amount of | 344 |
| **Proposed appropriation:** | |
| Legal reserve (5% of net profit) | - |
| • Dividends * | 25 |
| • Other reserves | 319 |

** This amount will be adjusted according to the number of treasury shares remaining on the date of dividend payment.*

## NOTE 11 PROVISIONS

Provisions as of December 31, 2009 and changes during fiscal year 2009 break down as follows:

| *(in millions of euros)* | Amount as of 12/31/2008 | Charges | Reversals | **Amount as of 12/31/2009** |
|---|---|---|---|---|
| Unrealized exchange losses (1) | 109 | - | (109) | - |
| Termination payments on retirement and long service medals | 27 | 13 | (2) | 38 |
| Subsidiary-related contingencies (2) | 209 | 172 | (142) | 239 |
| Other contingencies and losses (3) | 37 | 18 | (6) | 49 |
| **Total provisions** | **382** | **203** | **(259)** | **326** |

*(1) The repayment of the Rhodia Holding Ltd pound sterling loan (see Note 5) allowed for the reversal of the provision for unrealized foreign exchange losses. As of December 31, 2009, the revaluation of foreign currency-denominated receivables and payables, and foreign exchange derivative instruments results in a net unrealized gain.*

*(2) Following Rhodia S.A.'s subscription to the Rhodia Holding Ltd capital increase in 2009, the provision for contingencies recognized in 2008 was reversed in the amount of €140 million.*
*The charges for the year also mainly involve Rhodia Holding Ltd. The measurement of the Rhodia S.A. securities portfolio as of December 31, 2009 generated a new provision for contingencies for Rhodia Holding Ltd, due to the impacts arising from the change in retirement obligations in one of its subsidiaries.*

*(3) As of December 31, 2009, provisions for other contingencies and losses mainly relate to:*
- *financial risk (redemption premium) of the OCEANE bond issued in 2007 (€30 million) (see Note 12.5),*
- *guarantees given to sold subsidiaries or their buyers (€13 million),*
- *contingency provision corresponding to the estimated cost of the allotment of bonus shares to employees and corporate officers over four years for €(5) million. The allocation cost is determined based on an annual employee turnover assumption of 3%,*
- *contingency provision corresponding to the difference between the forward purchase price, plus the treasury stock purchase option premium and the strike price of the stock options granted to employees and corporate officers over two years for €(1) million.*

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## NOTE 12 BORROWINGS

### 12.1 Breakdown by type

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 | Maturity as of December 31, 2009 |
|---|---|---|---|
| 2004 Senior notes ($ denominated) | 4 | 4 | 06/01/2010 |
| 2004 Senior notes (€ denominated) | 1 | 1 | 06/01/2010 |
| 2013 bond issue (€ denominated) | 1,035 | 1,067 | 10/15/2013 |
| 2014 OCEANE bonds (€ denominated) | 595 | 595 | 01/01/2014 |
| Banks with a credit balance | 24 | - | |
| Accrued interest and other borrowings | 11 | 22 | |
| Sub-total bonds and bank borrowings | 1,670 | 1,689 | |
| Equity affiliate loans | 473 | 1,697 | |
| **TOTAL** | **2,143** | **3,386** | |

## 12.2 Breakdown by foreign currency

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Bonds and bank borrowings | | |
| Euro | 1,666 | 1,685 |
| US dollar | 4 | 4 |
| Sub-total bonds and bank borrowings | 1,670 | 1,689 |
| Equity affiliates | | |
| Euro | 384 | 1,531 |
| Swiss franc | 11 | 11 |
| US dollar | 77 | 9 |
| Pound sterling | - | 133 |
| Singapore dollar | - | 13 |
| Other foreign currencies | 1 | - |
| Sub-total equity affiliates | 473 | 1,697 |
| **TOTAL** | **2,143** | **3,386** |

## 12.3 Breakdown by maturity

As of December 31, 2009, the maturity dates of these borrowings are as follows:

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Bonds and bank borrowings | | |
| 2009 | - | 22 |
| 2010 | 40 | 5 |
| 2011 | - | - |
| 2012 and beyond | 1,630 | 1,662 |
| Sub-total bonds and bank borrowings | 1,670 | 1,689 |
| Equity affiliates | | |
| 2009 | - | 1,685 |
| 2010 | 473 | 12 |
| Sub-total equity affiliates | 473 | 1,697 |
| **TOTAL** | **2,143** | **3,386** |

## 12.4 Breakdown by rate

Long and medium-term borrowings broken down by interest rate, excluding the derivatives portfolio, break down as follows:

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Floating rate | 1,529 | 2,365 |
| Fixed rate | 614 | 1,021 |
| **TOTAL** | **2,143** | **3,386** |

## 12.5 Comments on the financing arrangements

### Floating Rate Notes

*Floating Rate Notes* were issued for a nominal amount of €1,100 million at 3-month Euribor + 2.75%, maturing on October 15, 2013. In 2008, Rhodia undertook the early redemption of a portion of these bonds for a nominal amount of €33 million, thus reducing the principal amount of the notes to €1,067 million. The redemption price was €17 million.

In 2009, Rhodia S.A continued with the early redemption of another portion of these bonds for a nominal amount of €32 million, thus reducing the principal amount of the notes to €1,035 million at December 31, 2009. The redemption price was €29 million.

**OCEANE**

On April 27, 2007, OCEANE bonds (bonds that can be converted or exchanged for new or existing shares), maturing on January 1, 2014 and bearing interest at 0.5%, were issued for a nominal amount of €595 million. The issue price amounted to €48.1 per bond. OCEANE bond holders may, at any time, exercise their conversion option on a 1.02 for 1 basis. OCEANE bonds carry a 13.22% redemption premium and a buyback option that may be exercised by Rhodia under certain conditions.

**Syndicated credit line**

On March 30, 2007, Rhodia entered into a multi-currency syndicated credit facility for €600 million (˝*Multicurrency Revolving Credit and Guaranty Facility*˝ or ˝RCF˝) maturing on June 30, 2012.

The interest rate applied to the borrowed sums corresponds to the bank discount rate according to the currency of the borrowing plus the applicable margin. The applicable margin can be reduced based on an improvement in the net consolidated indebtedness/adjusted EBITDA ratio ("*leverage*"). In addition, Rhodia pays a commitment fee corresponding to 45% of the applicable margin depending on its level. The syndicated credit facility is usable in the form of bank loans and/or guarantees.

Rhodia has given collateral security in connection with the implementation of this syndicated credit line. Such collateral security is made up of a pledge of the securities of one of its subsidiaries and a pledge of a secured loan of another of its subsidiaries.

The RCF includes early repayment clauses, including a change of control of Rhodia S.A. or the adoption of a break-up or liquidation plan for the Company.

Moreover, the RCF includes mandatory repayment and partial cancellation clauses, notably in the case of asset disposals beyond certain thresholds provided for in the agreement, and under certain conditions, notably in respect of the application of proceeds from disposals.

The continuation of the RCF syndicated credit facility is subject to the compliance with certain financial ratios ("*covenants*") by Rhodia which are tested on a half-yearly basis. In order to guarantee its liquidity until maturity on June 30, 2012, Rhodia re-negotiated these covenants on April 3, 2009 as follows:

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| | Consolidated net debt/Adjusted recurring EBITDA | Recurring EBITDA /Net financial expenses |
|---|---|---|
| 12/31/2009 | 4.75:1.0 | 2.50:1.0 |
| 06/30/2010 | 3.75:1.0 | 3.10:1.0 |
| 12/31/2010 | 3.50:1.0 | 3.40:1.0 |
| 06/30/2011 | 3.00:1.0 | 4.00:1.0 |
| 12/31/2011 | 3.00:1.0 | 4.00:1.0 |

The aggregates used to calculate the ratios as defined in the syndicated credit line are as follows:

- consolidated net indebtness: aggregate of non-current and current borrowings and guarantees given to third parties with respect to financial indebtedness of unconsolidated subsidiaries minus the aggregate of cash and cash equivalents and other current financial assets;
- recurring EBITDA: operating profit or loss prior to depreciation and impairment, restructuring costs and other operating income and expenses;
- adjusted recurring EBITDA: the Group's recurring EBITDA plus recurring EBITDA, of non consolidated entities whose borrowing are secured by the Group, pro rata to the percentage interest held by the Group;
- net financial expenses: interest on non-current and current borrowings, after capitalization of interest expense related to the financing of certain assets and incorporated in the purchase cost of such assets, minus interest income on cash and cash equivalents and other current financial assets.

At and prior to December 31, 2009, Rhodia has complied with all applicable financial covenants.

In 2009, the RCF syndicated credit facility was only drawn down for bank guarantees. As of December 31, 2009 bank guarantees totalized €57 million, the amount not drawn down was €543 million.

## 12.6 Market value of borrowings

As of December 31, 2009, Rhodia S.A.'s debt was discounted by around 8.3% (49% as of December 31, 2008) versus its nominal due to interest rate fluctuations and the general financial markets situation arising from the continued uncertainty of investors regarding the changes in macro-economic conditions.

## 12.7 Rating

Rhodia is rated by two independent international rating agencies, Moody's Investors Service and Standard & Poor's.

In May 2009, Moody's Investors Service maintained its *Corporate Family Rating* at Ba3 and changed the outlook from stable to negative. The unsecured senior debt and the OCEANE bond retained a B1 rating. On the same date, Standard & Poors issued a BB- rating (stable outlook) to Rhodia (*Corporate credit rating*) and a BB- rating to long-term borrowings.

Previously, two BB ratings were issued.

No downward rating of either of these agencies can cause an accelerated repayment of any of the current borrowings or an increase in the cost thereof.

## NOTE 13 OTHER LIABILITIES

This item includes cash advances from subsidiaries as part of the Group cash pooling system and Rhodia S.A.'s share in the 2009 loss of Rhodia Participations SNC.

## NOTE 14 NET FINANCIAL ITEMS

Net financial items break down as follows:

| *(in millions of euros)* | **2009** | 2008 |
|---|---|---|
| Dividends from equity investments | 3 | 15 |
| Interest income | 138 | 358 |
| Interest expense | (103) | (254) |
| Net foreign exchange gains/(losses) | 5 | (2) |
| Net reversal from/(charge to) provisions for impairment of equity investments and for subsidiary-related contingencies | (66) | (190) |
| Other net interest income/(expense) | (82) | 358 |
| **TOTAL** | **(105)** | **285** |

### 14.1 Dividends from equity investments

All dividends received are from equity affiliates.

### 14.2 Interest income and expense

Net interest income totals €35 million in 2009, compared to €104 million in 2008. The change compared to the previous year results primarily from the repayment of a loan through the allocation of Rhodia S.A.'s share to the 2008 and 2009 losses of Rhodianyl SNC.

Interest income mainly relates to loans and cash advances granted to equity affiliates for €123 million (€313 million in 2008), interest rate swaps for €14 million (€39 million in 2008).

Interest expense relates to bond issuance costs for €51 million (€89 million in 2008), interest rate swaps for €29 million (€30 million in 2008) and to loans and cash advances to equity affiliates for €23 million (€135 million in 2008).

### 14.3 Impairment of equity investments and provisions for subsidiary-related contingencies

Changes in impairment of equity investments and provisions for subsidiary-related contingencies are analyzed in Notes 4 and 11.

### 14.4 Other financial income and expense

In 2009, this item primarily includes:

- the share of Rhodia S.A. in the 2009 profits of Rhodianyl and Rhodia Participations for a total of €73 million. In addition, Rhodia Participations recorded as of December 31, 2009 additional provisions for the securities of its subsidiaries, particularly Rhodia Services, in the amount of €(59) million. Rhodianyl changed its legal structure from SNC to SAS during the year, so only the loss incurred before the change was recorded in Rhodia S.A. accounts;
- the charge to a provision for financial contingencies regarding the redemption of OCEANE bond premiums for €(12) million (€11 million in 2008);
- non-rebilled negotiation expenses and non-utilized credit lines for €(1) million;
- capital gains on sales of marketable securities for €2 million (€4 million in 2008);
- the €3 million (€16 million in 2008) profit on the early redemption of FRN (see Note 12.5).

In 2008, this item included Rhodia S.A.'s shares in the profits of Rhodianyl and Rhodia Participations for €356 million.

## NOTE 15 OPERATING PROFIT/(LOSS)

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Services billed to equity affiliates | 8 | 6 |
| Taxes | (1) | (1) |
| Personnel costs excluding retirement | (15) | (15) |
| Net retirement expenses and similar commitments (1) | (11) | (4) |
| Other operating expenses | (11) | (7) |
| **Net operating loss** | **(30)** | **(21)** |

*(1) the actuarial gains and losses arising from changes on French pension regulations and the change in discount rates generated an increase in retirement expenses in 2009.*

## NOTE 16 NET EXCEPTIONAL ITEMS

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Net gains/(losses) on disposals of securities and assignment of receivables (1) | (6) | 12 |
| Investment disposal costs | - | (3) |
| Other | (4) | (5) |
| **TOTAL** | **(10)** | **4** |

*(1) Net losses arose from the disposal of Rhodia Electronics & Catalysis (REC) and Phosphoric Fertilizers Industry securities.*

## NOTE 17 TAX POSITION

Rhodia S.A. has been under a tax consolidation group regime since 1999. The scope of the tax group covered 11 companies in 2009 versus 12 in 2008 primarily as a result of the merger of activities conducted in France, particularly in Rhodia Opérations (sale of Rhodia Electronics & Catalysis securities held by Rhodia S.A. to Rhodia Opérations, then upstream merger of Rhodia Electronics & Catalysis into Rhodia Opérations).

In 2009, under the tax consolidation group regime, the Group reported net tax savings of €50 million (€91 million in 2008), that were equivalent to the tax charge of the profitable companies in the tax group. Furthemore, the reevaluation of tax contingencies at group level led to the recognition of an expense in the amount of €(25) million.

Had Rhodia S.A. not belonged to a tax group, it would not have incurred any tax charge in respect of 2009 and 2008 due to its own loss-making position.

As of December 31, 2009, the tax group's tax loss carryforwards totaled €2,194 million (as a base) (€2,134 million in 2008), of which €1,871 million in losses transferred from consolidated subsidiaries.

## NOTE 18 OFF-BALANCE SHEET COMMITMENTS AND TRANSACTIONS INVOLVING DERIVATIVE FINANCIAL INSTRUMENTS

### 18.1 Commitments given

| *(in millions of euros)* | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| To guarantee the obligations of equity affiliates | 80 | 121 |
| To guarantee the obligations of related parties | - | 1 |
| Other | - | 13 |
| **TOTAL** | **80** | **135** |

Certain Rhodia S.A. subsidiaries are financed as part of trade receivable securization programs entered into with financial institutions and Rhodia S.A. is committed to guarantee the payment of any amount payable by its subsidiaries under such programs. As of December 31, 2009, financings secured by Rhodia S.A.'s subsidiaries under such programs totaled €41 million.

In addition, Rhodia S.A. granted Orbeo a guarantee of up to a maximum of €200 million to cover its subsidiaries' obligations arising from the sale of greenhouse gas emissions ("CER"). Orbeo is a joint venture created in 2006 with *Société Générale Énergie* (a subsidiary of Société Générale) for the purpose of having the CER products marketed by the Rhodia Group in Brazil and South Korea. As the forward CER sales price negotiated with Orbeo and not settled as of December 31, 2009 is higher than the spot exchange rate at this date, the risk covered by this guarantee is nil at the year-end.

## 18.2 Commitments relating to disposals

Disposals in 2009 and previous fiscal years were covered by the standard warranties with regard to accounting, tax, social and environmental matters.

None of the warranties granted in connection with the disposals were triggered in 2009.

## 18.3 Derivative financial instruments

Rhodia S.A. is exposed to market risks as a result of its financial transactions.

To manage its subsidiaries' exposure to the exchange risk arising primarily from their trading transactions, Rhodia S.A. sets up derivative instruments with external counterparties on behalf of its subsidiaries. The resulting exposure is immediately cancelled by setting up symmetrical contracts with the relevant subsidiaries. Thus, Rhodia S.A. does not assume any risk associated with these instruments.

This exposure is mainly related to fluctuations in exchange and interest rates.

### Interest rate risk management

#### Derivatives designated as hedges

Rhodia S.A. is exposed to the variability of interest rates on the floating rate portion of its financial indebtedness. Since 2006, interest rate swaps and options (caps) have been entered into in order to hedge the floating rate bonds issued in October 2006. The notional amounts of these contracts and their fair values are detailed in the table below.

| | | **2009** | | | | | **2008** | |
|---|---|---|---|---|---|---|---|---|
| *(in millions of euros)* | | **< 1 yr** | **1 to 5 yrs** | **> 5 yrs** | **Total** | **Fair value** | Total | Fair value |
| *Interest-rate* swap | Floating-rate lender | - | 735 | - | 735 | (27) | 717 | (11) |
| Cap | Purchase | - | 300 | - | 300 | (1) | 350 | 1 |
| **TOTAL** | | **-** | **1,035** | **-** | **1,035** | **(28)** | **1,067** | **(10)** |

#### Derivatives not designated as hedges

As of December 31, 2009, Rhodia S.A. did not have any interest rate derivatives not designated as hedges.

### Foreign exchange risk management

Rhodia S.A.'s policy consists in limiting its exposure to short-term fluctuations in exchange rates by calculating on a daily basis its net exposure to foreign currencies in its transactions, including both sales and purchases, and by using derivatives to reduce such exposure. The main derivatives used by Rhodia S.A. are forward foreign exchange contracts with terms of less than one year.

Forward currency purchase and sale contracts are mainly entered into by Rhodia S.A. to hedge its inter-company loans and borrowings and operating cash flows denominated in foreign currencies.

The nominal amounts as well as the fair values of forward purchase and sale contracts entered into with either external counterparties or subsidiaries are detailed below:

| (in millions of euros) | Foreign currencies | As of December 31, 2009 | |
|---|---|---|---|
| | | **Nominal** | **Fair value** |
| | USD | 408 | 7 |
| | GBP | 44 | 1 |
| | JPY | 126 | 8 |
| | Other | 118 | 1 |
| Forward purchases | **Total** | **696** | **17** |
| | USD | 366 | (1) |
| | GBP | 61 | (1) |
| | JPY | 173 | (7) |
| | Other | 84 | - |
| Forward sales | **Total** | **684** | **(9)** |
| Call sales | USD | 58 | (1) |
| Call purchases | USD | 58 | 1 |



**Commodity risk management (fuel-oil, diesel)**

The commodities investment portfolio is showed hereafter.

| (in millions of euros) | Diesel and fuel-oil swaps | **December 31, 2009** | | December 31, 2008 | |
|---|---|---|---|---|---|
| | | **Qty (tons)** | **Fair value** | Qty (tons) | Fair value |
| | Buyer | 17,736 | - | 77,102 | (12) |
| External transactions | Seller | 336,519 | (1) | 43,200 | 6 |
| | Buyer | 336,519 | 1 | 43,200 | (6) |
| Internal transactions | Seller | 17,736 | - | 77,102 | 12 |

## 18.4 Counterparty risk

Transactions that may potentially expose Rhodia S.A. to a counterparty risk are essentially:

- short-term investments;
- derivative instruments.

Rhodia S.A. makes short-term investments with banks or financial institutions having S&P and Moody's ratings greater than or equal to A+ and Aa3, respectively, as of December 31, 2009.

Interest-rate or foreign currency contracts are entered into with banks or financial institutions whose S&P and Moody's ratings are greater than or equal to A+ and Aa3, respectively, as of December 31, 2009.

# NOTE 19 LITIGATION

## 19.1 Legal proceedings

In the ordinary course of its business, Rhodia is involved in a certain number of judicial, arbitral and administrative proceedings. These proceedings are mainly initiated by buyers of businesses sold by Rhodia or involve environmental or civil liability compensation claims related to marketed chemicals. Rhodia is also subject to certain claims and lawsuits which fall outside the scope of the ordinary course of its business, the most significant of which are summarized below in this section.

Provisions for the charges that could result from these procedures are not recognized until they are probable and their amount can be reasonably estimated. The amount of provisions made is based on Rhodia's assessment of the level of risk on a case-by-case basis and depends on its assessment of the basis for the claims, the stage of the proceedings and the arguments in its defense, it being specified that the occurrence of events during proceedings may lead to a reappraisal of the risk at any moment.

In addition, certain of the Group's US subsidiaries have potential liabilities under US Federal Superfund legislation and environmental regulations. Given the nature of the proceedings, the number of plaintiffs, the volume of waste at issue and the provisions that have already been recognized for these cases, Rhodia estimates that these claims will not result in significant costs for the Group and will not give rise to significant additional provisions.

Finally, Rhodia believes that there is no litigation or exceptional issues that, taken individually or as a whole, could have a material negative impact on its business, financial position or results, other than those detailed below.

## 19.2 AMF administrative proceedings

In a decision handed down on July 7, 2009, the Court of Cassation, France's highest court, rejected the appeal launched by Rhodia against the Paris Court of Appeal's ruling that confirmed the €750,000 fine imposed by the AMF Enforcement Committee in a decision rendered on June 21, 2007, relating to facts dating back to the years 2001-2003.

## 19.3 Litigation with shareholders

Two suits brought in January 2004 before the Paris Commercial Court by certain shareholders were adjourned:

- an individually brought ("*ut singuli*") action challenges Sanofi-Aventis (formerly Aventis) and certain individuals who were members of the Board of Directors of the Company at the time of the alleged facts. This action disputes the terms and conditions of the acquisition of Albright & Wilson by Rhodia. The plaintiffs demand that the defendants be ordered to pay the Company €925 million as compensation for the alleged harm the Company suffered. These proceedings were adjourned on January 27, 2006;
- the other suit challenges Sanofi-Aventis (formerly Aventis), certain individuals who were members of the Board of Directors of the Company and the Statutory Auditors at the time of the alleged facts, as well as the Company on a subsidiary basis. This action alleges that the information on environmental risks and deferred tax assets made public by the Company in 2001 and until January 29, 2002 in respect of the acquisition by Rhodia of Albright & Wilson and then Chirex, were inaccurate and misleading. Both plaintiffs demand that the defendants be ordered to pay €131.8 million as a compensation for damages. These proceedings were adjourned on February 10, 2006.

Both proceedings were adjourned due to the existence of a criminal investigation conducted by examining magistrates of the financial division of the Paris Court of First Instance concerning the same facts and pursuant to three criminal proceedings instituted in 2003 and 2004 against an unspecified defendant by the same shareholders for misuse of company assets, insider dealings, publication of false or misleading information, fraudulent balance sheet and disclosure of inaccurate accounts. Rhodia decided to join the criminal investigation as a plaintiff claiming damages ("partie civile") on January 25, 2006. The investigation was still in progress as of December 31, 2009.

## 19.4 Commercial litigation

**Innophos litigation**

On November 8, 2004, Rhodia received from Innophos, a subsidiary of Bain Capital, a complaint originating from Mexico's National Water Commission relating to water use at the Coatzacoalcos site during the period from 1998 to 2002. The total claim amounted to approximately 1.5 billion Mexican pesos (around €100 million), including user fees, interest and penalties. The Coatzacoalcos site was part of the specialty phosphates business that was sold in August 2004 to Bain Capital, giving rise to the creation of a new company, Innophos. To best protect its interests, Rhodia then informed Bain that it was willing to assume direct responsibility, subject to certain legal reservations, for resolving this matter with the Mexico National Water Commission. Since then, Rhodia has worked closely with Innophos to prepare a response, which was filed in Innophos' name on January 17, 2005. The amount of the initial claim was lowered following the application made by Rhodia to the administrative authority to reconsider and materialized by a decision rendered in August 29, 2005. The total amount of the revised claim is approximately €16.5 million. The Mexican Federal Administrative and Fiscal Court rendered several decisions in favor of Innophos in August 2008 and March 2009 that were partially invalidated by the Circuit Court in January and September 2009. On October 27, 2009, the Mexican Federal Administrative and Fiscal Court rendered a new ruling, which did not this time favor Innophos. This ruling and Circuit Court's previous decisions in this case lead Rhodia to re-estimate the risk relating to this litigation at €16.3 million (including any fines and late interest penalties payable) and set aside a provision of this amount. Innophos has appealed against this decision. Should that case be decided against Innophos, the New York courts had ruled that Rhodia should fully indemnify Innophos.

**City of Metz litigation**

At the request of the City of Metz, an expert was appointed by the Administrative Court of Nancy in 2002 in order to review the regulatory compliance of chloride disposals involving Solvay Carbonate France and Novacarb (Rhodia Chimie acting as guarantor for Novacarb in connection with Rhodia's sale of certain basic chemicals industrial and commercial activities to Bain Capital in 2002) and the financial loss which, according to the City of Metz, this chloride waste would have caused by necessitating, in particular, investments for the supply and distribution of drinking water in the early 1970s. The expert submitted his report on February 14, 2008. The report confirmed the chloride waste compliance with the operation permits of the installations. The expert also concluded that the current installations for the production of drinking water could supply drinking water to Metz and its suburbs and that, accordingly, the use of new units, and particularly the treatment units, was not necessary, save as a potential back-up system. The expert did not pronounce himself conclusively on the correlation between the City's investments to supply drinking water in the early 1970s and the chloride disposals at the time, or on the evaluation of the loss invoked. As his expertise was of a technical nature, he did not conclude further on whether the actions of the City of Metz were time-barred or not. By writ of summons dated December 30, 2008, the City of Metz nevertheless referred to the tribunal in Metz (tribunal de grande instance) seeking joint and several damages and interest of €51.5 million from Solvay Carbonate France and Novacarb to compensate for its alleged loss. Rhodia has decided not to recognize a provision.

## 19.5 Other proceedings

**Rhodia litigation with the Securities and Exchange Board of India**

Rhodia S.A. is involved in proceedings in India initiated by the Securities and Exchange Board of India ("SEBI"), which is seeking to require Rhodia to initiate a public tender for 20% of the shares of Albright & Wilson Chemicals India Limited ("AWCIL"), a listed subsidiary of the Group formerly known as Albright & Wilson, which Rhodia acquired in 2000 and of which it now owns 72.93%. These shares would be acquired at a price of 278 rupees per share, based on the value of those shares at the time of our acquisition of Albright & Wilson, and increased by interest accrued since 2000. Such a decision by the SEBI would increase Rhodia's holding of AWCIL from 72.93% to 92.93%. As its shareholding would exceed 90%, Rhodia would then be required to initiate a mandatory public tender offer (or "squeeze out") for the remaining 7.07% of outstanding shares for the same price. In this case, all the shares not yet held by Rhodia (27.07%) would be acquired for approximately €6 million. Rhodia is challenging the merits of SEBI's claim but this risk is provided in the financial statements. As of the date hereof, the *High Court of Mumbai,* which is hearing the case on Rhodia's appeal following an initial unfavorable judgment, has not made a final decision.

## 19.6 Significant proceedings entered into by the Company

Since 2004, the Company is pursuing various proceedings in France, in Brazil and in the United States against Sanofi-Aventis (Rhône-Poulenc's successor) in respect of environmental and other employee pension liabilities inherited from its former parent company

## 19.7 Other

**Valauret litigation**

On March 19, 2005, one of the shareholders in the cases mentioned above brought a suit (in an "ut singuli" proceeding) against the Chairman of the Board of Directors and the Chief Executive Officer before the Nanterre Commercial Court alleging personal mismanagement, in an attempt to have them repay Rhodia the amounts paid to M. Jean-Pierre Tirouflet upon his departure in October 2003 (severance payment of €2.1 million and, if applicable, payments made under a supplementary retirement plan for which no sums have been paid to date). On November 21, 2007, whereas the case was ready to be judged, the plaintiff requested an adjournment on the grounds that a non-peremptory charge had been brought by the Paris Prosecutor's office. The defendants and the Company dispute the merits of such demands, including the application for adjournment. On February 13, 2008, the Nanterre Commercial Court declared it had jurisdiction over the matter and did not announce a stay in the proceedings. On December 3, 2008, it rendered a non-enforceable decision jointly ordering Messrs. Jean-Pierre Clamadieu and Yves-René Nanot to pay Rhodia the amount of €2.1 million in damages. They were blamed for not having challenged at the time the payment to M. Jean-Pierre Tirouflet of the compensation stipulated in his employment contract upon his departure from the company in 2004. Messrs. Clamadieu and Nanot have lodged an appeal against this decision. A decision of the Court of appeal is expected in 2010.

## NOTE 20 COMPENSATION AND BENEFITS PAID TO KEY GROUP EXECUTIVES

Compensation and other benefits vested and paid to members of the Executive Committee and corporate officers break down as follows:

### 20.1 Amounts paid during the period

| *(in thousands of euros, except for options/shares granted)* | **2009** | 2008 |
|---|---|---|
| Wages, costs and short-term benefits | 2,902 | 3,654 |
| Total stock subscription options and bonus shares granted | 169,000 | 71,000 |

### 20.2 Amounts due in respect of the year (salary) or obligations existing at the end of the year (other elements)

| *(in thousands of euros, except for options/shares granted)* | **2009** | 2008 |
|---|---|---|
| Wages, costs and short-term benefits | 3,801 | 2,583 |
| Accumulated retirement and other post-employment benefits | 13,609 | 7,592 |
| Severance payments (1) | 1,800 | 5,881 |
| Total stock subscription options and bonus shares granted | 297,379 | 263,694 |

*(1) Severance payments acquired correspond to the commitments undertaken by Rhodia S.A. for the Group's key executives in the event of employment contract termination. An agreement between Rhodia S.A and its Chief Executive Officer, approved in May 2009 by the Annual General Meeting, provides for the end of his severance payments.*

## NOTE 21 AVERAGE NUMBER OF EMPLOYEES

| | **2009** | 2008 |
|---|---|---|
| Management | 34 | 27 |
| Non-management | 3 | 3 |
| **TOTAL** | **37** | **30** |

The increase in the average number of employees was due to the transfer of Rhodia Services employees to Rhodia S.A. in 2008.

## NOTE 22 SHARE-BASED PAYMENT

The principal changes in the stock option and free share plans occurring during the year were as follows:

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Options** | **Free shares** | **Total** | Options | Free shares | Total |
| **Outstanding at the beginning of the year** | **2,032,682** | **1,312,628** | **3,345,310** | **2,072,536** | **1,628,651** | **3,701,187** |
| Granted | 1,010,000 | 762,400 | 1,772,400 | - | 1,023,960 | 1,023,960 |
| Cancelled/expired | (467,744) | (25,680) | (493,424) | (38,743) | (621,857) | (660,600) |
| Exercised | - | (667,603) | (667,603) | (1,111) | (718,126) | (719,237) |
| **Outstanding at the year-end** | **2,574,938** | **1,381,745** | **3,956,683** | **2,032,682** | **1,312,628** | **3,345,310** |

## 22.1 Share capital increase reserved for employees

Rhodia S.A. did not perform any capital increases reserved for employees in 2009 and 2008.

## 22.2 Stock option plans

**Current stock option plans**

Rhodia S.A. has granted stock subscription options to certain of its executive managers and employees. All of these option plans are payable in shares over the vesting periods mentioned below. The exercise of the stock subscription options is subordinated to the beneficiary's continued employment within the Group on the date of said fiscal year, with certain exceptions (such as retirement). The options vested may be exercised over a period limited in time. The exercise period varies according to the reason for leaving the Group.

During 2009, the Board of Directors did not grant any new stock option plans.

Options granted under the 2004 plans are exercisable over an eight-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options granted under the 2001, 2002 and 2003 plans are exercisable over a twelve-year period, with a holding period of four years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

Options issued under the 1999 and 2000 plans are exercisable over a ten-year period, with a holding period of five years for French tax residents and three years for foreign tax residents as from the grant date by the Board of Directors.

**Stock option purchase plan**

On May 20, 2009, the Board of Directors approved a new stock option purchase plan for 41 beneficiaries (1,010,000 options) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries. The terms and conditions of this plan are as follows:



| | Plan | |
|---|---|---|
| | French tax residents | Foreign tax residents |
| Number of shares | 605,000 | 405,000 |
| Number of beneficiaries | 17 | 24 |
| Grant date | May 20, 2009 | |
| Vesting date | May 20, 2011 | |
| Exercise period | May 21, 2011 to May 20, 2017 | |
| Holding period | May 20, 2013 | - |
| Performance criteria | Total free *cash flow of* fiscal years 2009 and 2010, as presented in the consolidated financial statements for the years ended December 31, 2009 and 2010 | |
| Validation of vesting conditions | Board of Directors | |

Main changes in stock option and free share plans outstanding at December 31, 2009:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** *(in €)* | Options | Weighted average exercise price *(in €)* |
| **Options outstanding at the beginning of the period** | **2,032,682** | **62.00** | **2,072,536** | **61.73** |
| Options granted | 1,010,000 | 5.62 | - | - |
| Options forfeited (1) | (467,744) | 75.91 | (38,743) | 48.79 |
| Options exercised | - | - | (1,111) | 15.12 |
| **Options outstanding at the end of the period** | **2,574,938** | **37.36** | **2,032,682** | **62.00** |

*(1) Stock subscription options forfeited during the year.*

The weighted average remaining contractual life of the stock subscription options outstanding at December 31, 2009 is 5 years (3 years at December 2008).

In 2009, of all the plans granted by the Rhodia Board of Directors, no options were exercised.

**Main features of the stock option plans outstanding at December 31, 2009:**

| Stock subscription Option plan | 1999/1 Plan | 1999/2 Plan | 2000/1 Plan | 2000/2 Plan | 2001 Plan | 2002 Plan | 2003 Plan | 2004 A Plan | 2004 B Plan | 2009 Plan |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of Shareholders' Meeting approval | 05/13/1998 | 05/13/1998 | 05/13/1998 | 04/18/2000 | 04/18/2000 | 04/18/2000 | 05/21/2002 | 05/21/2002 | 05/21/2002 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 02/23/1999 | 02/23/1999 | 03/30/2000 | 09/27/2000 | 03/16/2001 | 03/20/2002 | 05/28/2003 | 06/17/2004 | 06/17/2004 | 05/20/2009 |
| Exercise period [(a)] | 7 years from 02/23/02 | 7 years from 03/01/02 | 7 years from 03/30/03 | 7 years from 09/27/03 | 9 years from 03/16/04 | 9 years from 03/20/05 | 9 years from 05/28/06 | 5 years from 06/17/2007 | 5 years from 06/17/07 | 6 years from 05/21/11 |
| Options granted at inception | 131,667 | 100,000 | 175,000 | 12,500 | 215,022 | 166,667 | 109,412 | 225,125 | 114,375 | 1,010,000 |
| Of which granted to the Board of Directors and Executive Committee [(b)] | 7,792 | 5,000 | 17,250 | - | 19,750 | 14,837 | 8,542 | 29,500 | 46,250 | 30,000 |
| Original exercise price *(in €)* | 180.00 | 180.00 | 205.68 | 195.12 | 188.40 | 144.48 [(e)] | 66.00 [(e)] | 18.00 | 18.00 | 5.62 |
| Maximum term *(years)* | 10 | 10 | 10 | 10 | 12 | 12 | 12 | 8 | 8 | 8 |
| Weighted-average remaining contractual life at December 31, 2009 *(years)* | - | - | 0.2 | - | 3.2 | 4.2 | 5.4 | 2.5 | 2.5 | 7.4 |
| Adjusted exercise price (*c*) | 76.56 | 76.56 | 87.48 | - | 80.16 | 61.44 [(e)] | 28.08 [(e)] | 15.12 | 15.12 | 5.62 |
| Weighted average exercise price | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 | 5.62 |
| Weighted average exercise price of exercisable options | 76.56 | 76.56 | 87.48 | - | 80.16 | 62.76 | 31.44 | 15.12 | 15.12 | - |
| Options outstanding at December 31, 2008 | 261,882 | 195,071 | 324,765 | - | 403,107 | 319,932 | 206,366 | 204,823 | 116,736 | - |
| Options granted between January 1 and December 31, 2009 | - | - | - | - | - | - | - | - | - | 1,010,000 |
| Options forfeited between January 1 and December 31, 2009 | (261,882) | (195,071) | (961) | - | (2,846) | (1,948) | (962) | (3,279) | (795) | - |
| Options exercised between January 1 and December 31, 2009 | - | - | - | - | - | - | - | - | - | - |
| Options outstanding at December 31, 2009 | - | - | 323,804 | - | 400,261 | 317,984 | 205,404 | 201,544 | 115,941 | 1,010,000 |
| Of which granted to the Board of Directors and Executive Committee [(d)] | - | - | 21,934 | - | 25,850 | 21,061 | 5,974 | 28,691 | 45,570 | 30,000 |
| Options exercised at December 31, 2009 | - | - | 323,804 | - | 400,261 | 317,984 | 205,404 | 201,544 | 115,941 | - |
| Of which granted to the Board of Directors and Executive Committee [(d)] | - | - | 21,934 | - | 25,850 | 21,061 | 5,974 | 28,691 | 45,570 | - |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | 2,938 | - | 3,917 | 6,756 | 3,721 | 9,977 | 14,891 | - |
| • Jacques Khéliff | - | - | - | - | - | - | 392 | 844 | 795 | - |
| • Yves René Nanot | - | - | - | - | - | - | - | 9,977 | 19,855 | - |
| Number of beneficiaries at December 31, 2009 | - | - | 368 | - | 548 | 383 | 403 | 233 | 64 | 41 |

*(a) Without taking into account the tax holding period for tax residents in France of 4 years as from 2001 and 5 years previously.*
*(b) As made up on the stock subscription option grant date.*
*(c) After the capital increases which took place on May 7, 2004 and December 20, 2005, the Board of Directors adjusted the exercise price and the number of options outstanding in accordance with the French Commercial Code and applicable regulations to stock option plans.*
*(d) Actual data.*
*(e) Due to a personal commitment, M. Tirouflet accepted that the exercise price of his options would be set at €15 (after the 2004 and 2005 adjustments, this price was reduced to €6.38 before the reverse share split or €76.56 after the reverse share split).*

## 22.3 Free share plan

Under the 2005 French Finance Act, French companies are entitled to grant free shares to their executives and employees as from January 1, 2005.

**2009 A and B plans**

On March 16, 2009, the Rhodia Board of Directors approved a new free shares plan for 173 beneficiaries (2 x 381,200 shares) subject to the conditions governing Rhodia's performance and the continued employment of the beneficiaries.

The terms and conditions of these plans are as follows:

| | Plans A | | Plans B | |
|---|---|---|---|---|
| | "2+2" | "4+0" | "2+2" | "4+0" |
| Number of shares | 279,800 | 101,400 | 279,800 | 101,400 |
| Number of beneficiaries | 101 | 72 | 101 | 72 |
| Grant date | March 16, 2009 | | March 16, 2009 | |
| Vesting date | March 16, 2011 | March 16, 2013 | March 16, 2011 | March 16, 2013 |
| Holding period | Minimum March 16, 2013 | - | Minimum March 16, 2013 | - |
| Performance criteria | Positive Free Cash Flow as presented in the consolidated financial statements for the year ended December 31, 2009 | | Recurring EBITDA / net sales ratio (including CER activities), as presented in the consolidated financial statements of the Company for the year ended December 31, 2009, exceeding by 2 points the average ratio of a panel of competitors | |
| Validation of vesting conditions | Board of Directors | | Board of Directors | |

**Expense recognized**

The expense recognized with respect to all free shares plans totaled €3 million for the year ended December 31, 2009 (€8 million in 2008).

**Main features of the free shares plans outstanding at December 31, 2009:**

| Free shares plans | Plan 2007 A | Plan 2007 B | Plan 2007 "2+2" | Plan 2007 "4+0" | Plan 2008 B "2+2" | Plan 2008 B "4+0" | Plan 2009 A "2+2" (c) | Plan 2009 A "4+0" (c) | Plan 2009 B "2+2" (c) | Plan 2009 B "4+0" (c) |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of Shareholders' Meeting approval | 06/23/2005 | 06/23/2005 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 | 05/03/2007 |
| Date of grant as approved by the Board of Directors | 01/15/2007 | 01/15/2007 | 07/30/2007 | 07/30/2007 | 03/17/2008 | 03/17/2008 | 03/16/2009 | 03/16/2009 | 03/16/2009 | 03/16/2009 |
| Vesting date | 01/16/2009 | 01/16/2009 | 07/31/2009 | 07/31/2011 | 03/18/2010 | 03/20/2012 | 03/16/2011 | 03/16/2013 | 03/16/2011 | 03/16/2013 |
| Free Bonus shares granted at inception | 344,308 | 344,308 | 92,355 | 142,755 | 355,000 | 156,980 | 279,800 | 101,400 | 279,800 | 101,400 |
| Of which granted to the Board of Directors and Executive Committee (a) | 84,167 | 84,167 | 90 | - | 117,000 | - | 117,000 | - | 117,000 | - |
| Period of non-transferability | 2 years after the vesting period | 2 years after the vesting period | 2 years after the vesting period | - | 2 years after the vesting period | - | 2 years after the vesting period - | - | 2 years after the vesting period - | - |
| Number of free bonus shares outstanding at December 31, 2008 | 289,424 | 289,424 | 90,285 | 135,315 | 352,200 | 155,980 | - | - | - | - |
| Bonus Free shares granted between January 1 and December 31, 2009 | - | - | - | - | - | - | 279,800 | 101,400 | 279,800 | 101,400 |
| Bonus Free shares forfeited between January 1 and December 31, 2009 | - | - | (1,530) | (750) | (9,890) | (11,110) | (500) | (700) | (500) | (700) |
| Number of bonus free shares vested at December 31, 2009 | (289,424) | (289,424) | (88,755) | - | - | - | - | - | - | - |
| Number of bonus free shares outstanding at December 31, 2009 | - | - | - | 134,565 | 342,310 | 144,870 | 279,300 | 100,700 | 279,300 | 100,700 |
| Of which granted to the Board of Directors and Executive Committee (b) | - | - | - | - | 117,000 | - | 117,000 | - | 117,000 | - |
| Of which corporate officers | | | | | | | | | | |
| • Jean-Pierre Clamadieu | - | - | - | - | 37,000 | - | 37,000 | - | 37,000 | - |
| • Jacques Khéliff | - | - | - | - | 7,500 | - | 7,500 | - | 7,500 | - |
| Number of beneficiaries at December 31, 2009 | - | - | - | 8,971 | 186 | 142 | 100 | 72 | 100 | 72 |

*(a) As made up on the grant date.*
*(b) Actual data.*
*(c) The performance criteria were met as of December 31, 2009.*

## NOTE 23 SUBSEQUENT EVENTS

There were no subsequent events.

## NOTE 24 SUBSIDIARIES AND AFFILIATES

| *(in millions of euros)* | Share capital | Shareholders' equity (excluding net profit for the year) [a] | % held | Gross carrying amount | Net carrying amount | Loans granted by the Company not yet repaid | Amount of guarantees given by the Company | Previous year revenue exclusive of tax [b] [c] | Net profit or loss of previous year [b] | Dividends received by the Company during the previous year |
|---|---|---|---|---|---|---|---|---|---|---|
| 1./ French subsidiaries | | | | | | | | | | |
| Rhodia Participations | 110 | 110 | 100.00% | 110 | 110 | - | - | - | (40) | - |
| Rhodianyl | 605 | 615 | 100.00% | 615 | 615 | 34 | - | - | (171) | - |
| Rhodia Finance | 252 | 104 | 99.98% | 252 | 252 | 583 | - | - | (32) | - |
| Rhodia Chimie | 29 | 143 | 100.00% | 84 | - | - | - | 7 | (14) | - |
| **Total French subsidiaries** | | | | **1,061** | **977** | **617** | **-** | **7** | **(257)** | **-** |
| 2./ Foreign subsidiaries [d] | | | | | | | | | | |
| Rhodia Holding Inc. | 768 USD | 133 | 89.02% | 425 | 425 | - | - | - | (1) | - |
| Rhodia de Mexico SA de CV | 204 MXN | (7) | 100.00% | 25 | - | 5 | - | 15 | - | - |
| Rhodia Silica Koréa Co Ltd | 12,989 KRW | 15 | 100.00% | 9 | 9 | - | - | 44 | 6 | - |
| Rhodia Holding Ltd | 546 GBP | 102 | 100.00% | 1,199 | - | - | - | - | 107 | - |
| Rhodia New Zealand | 3 NZD | 2 | 100.00% | 2 | 2 | - | - | 2 | - | - |
| Sopargest | 20 CHF | 16 | 99.99% | 74 | 17 | - | - | - | - | 1 |
| Rhodia Ibéria | 17 EUR | 27 | 100.00% | 127 | 39 | - | - | 51 | (12) | - |
| Rhodia Hong Kong | 6 HKD | 1 | 100.00% | 2 | 1 | - | - | 13 | - | 2 |
| Rhodia Polyamides Co Ltd | 24,629 KRW | 24 | 59.40% | 24 | 24 | 32 | - | 230 | 9 | - |
| Rhodia Brasil LTDA | 210 BRL | 129 | 100.00% | 386 | 230 | - | - | 41 | (15) | - |
| Rhodia China Co LTD | 405 CNY | 42 | 100.00% | 43 | 43 | - | - | 17 | 1 | - |
| Rhodia Deutschland | 8 EUR | 163 | 100.00% | 677 | 340 | 273 | - | - | 41 | - |
| Other companies at minimum 50% held | | | | 7 | 5 | 18 | - | 44 | 1 | - |
| **Total foreign subsidiaries** | | | | **3,000** | **1,135** | **328** | **-** | **457** | **137** | **3** |
| **Total subsidiaries at minimum 50% held** | | | | **4,061** | **2,112** | **945** | **-** | **464** | **(120)** | **3** |
| Subsidiaries at maximum 50% held | | | | | | | | | | |
| French subsidiaries | | | | 2 | - | 25 | 2 | 420 | 19 | - |
| Foreign subsidiaries | | | | - | - | - | - | 392 | 2 | - |
| **Total subsidiaries at maximum 50% held** | | | | **2** | **-** | **25** | **2** | **812** | **21** | **-** |
| **Total equity investments** | | | | **4,063** | **2,112** | **970** | **2** | **1,276** | **(99)** | **3** |

*(a) The currency translation rate used for foreign companies is that prevailing at the end of December 2009.*
*(b) The currency translation rate used for foreign companies is the cumulative average rate from January 1 through December 31, 2009 for consolidated companies and the rate prevailing at end of December 2009 for non consolidated companies.*
*(c) For foreign companies, revenues exclusive of services and ancillary revenues.*
*(d) Share capital in (millions of) local currency. Shareholders equity, revenue and net income are derived from the statutory accounts estimated to date.*

This table has been compiled according to the currently available data.

## 6.5.3 PORTFOLIO OF EQUITY INVESTMENTS AND MARKETABLE SECURITIES

### 6.5.3.1 Equity investments

| Subsidiaries | Number of shares | % capital | Value at December 31, 2009 *(in millions of euros)* |
|---|---|---|---|
| 1. French Subsidiaries | | | |
| Rhodianyl | 40,357,499 | 100.00% | 615 |
| Rhodia Finance | 16,797,466 | 99.98% | 252 |
| Rhodia Participations | 7,348,699 | 100.00% | 110 |
| Rhodia Chimie | 28,836,752 | 100.00% | - |
| Total French subsidiaries | | | 977 |
| 2. Foreign Subsidiaries | | | |
| Rhodia Holding Inc. | 1,540 | 89.02% | 425 |
| Rhodia Deutschland | 7,721 | 100.00% | 340 |
| Rhodia Brasil LTDA | 369,823 | 100.00% | 230 |
| Rhodia China Co LTD | 49,000 | 100.00% | 43 |
| Rhodia Polyamides Co Ltd | 2,925,780 | 59.40% | 24 |
| Rhodia Ibéria | 2,792,500 | 100.00% | 39 |
| Sopargest | 19,997 | 99.99% | 17 |
| Rhodia Silica Korea Co Ltd | 2,597,810 | 100.00% | 9 |
| Rhodia New Zealand | 1,499,999 | 100.00% | 2 |
| Rhodia Hong Kong | 55,999 | 100.00% | 1 |
| Rhodia de Mexico SA de CV | 283,053,127 | 100.00% | - |
| Rhodia Holding Ltd | 546,088,254 | 100.00% | - |
| Other companies held at more than 50% | | | 5 |
| Total foreign subsidiaries | | | 1,135 |
| Total subsidiaries held at more than 50% | | | 2,112 |
| Subsidiaries held at 50% or less | | | |
| French subsidiaries | | | - |
| Foreign subsidiaries | | | - |
| Total subsidiaries held at 50% and less | | | - |
| **Total equity investments** | | | **2,112** |

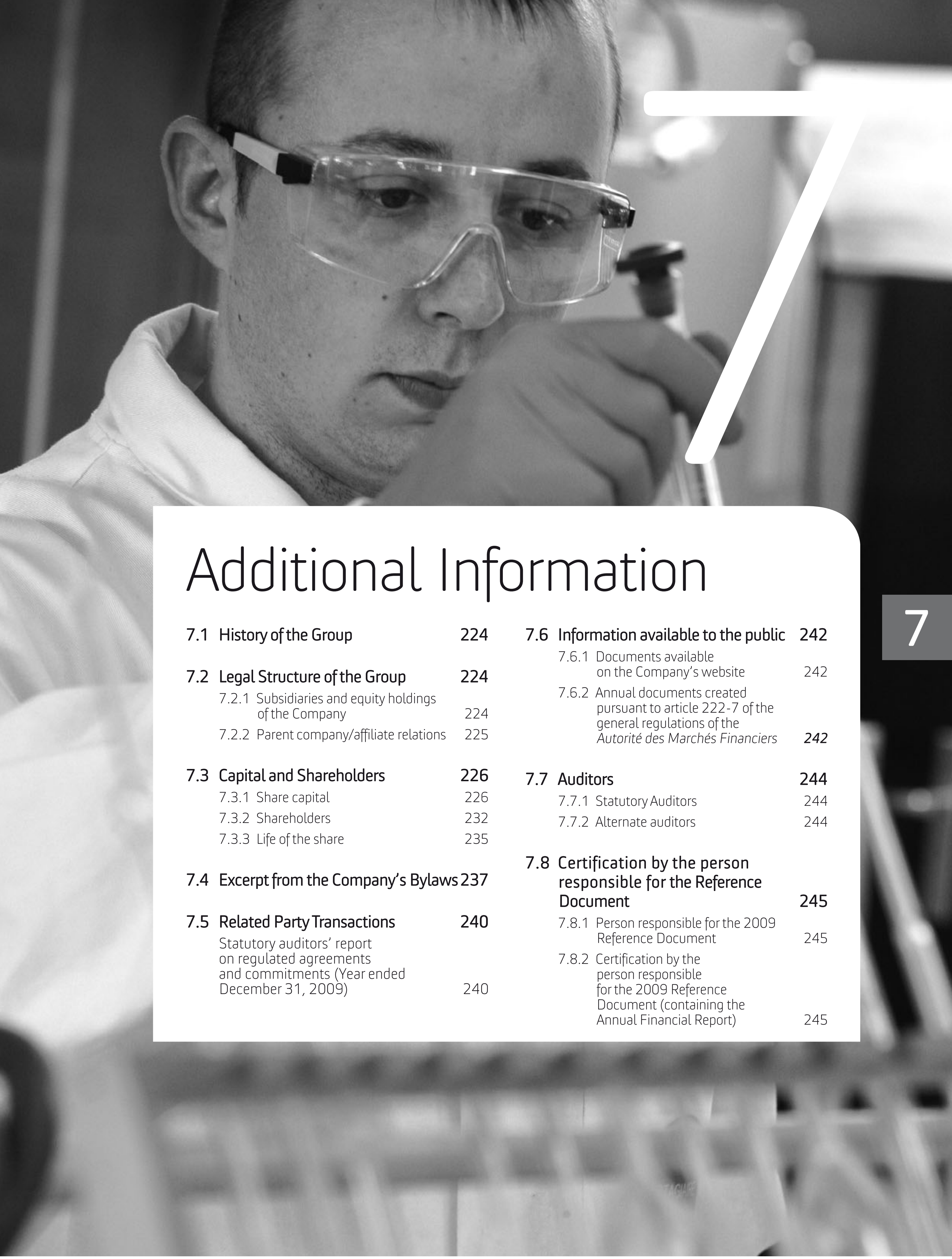
### 6.5.3.2 Marketable securities

| Mutual funds | Number held | Unit value *(in euros)* | Value at December 31, 2009 |
|---|---|---|---|
| **1. BMTN** | | | |
| Société Générale BMTN TR 61 | 43 | 171,060 | 7 |
| Société Générale BMTN TR 68 | 16 | 191,869 | 3 |
| Société Générale BMTN TR 81 | 209 | 163,943 | 34 |
| Société Générale BMTN TR 84 | 52 | 174,728 | 9 |
| **2. Banking deposits, certificates of deposit and shareholder interests** | | | |
| Société Générale | | | 146 |
| Natexis | | | 25 |
| **3. Sicav (investment company) and FCP (unit trust)** | | | |
| Natexis tréso | 1,510 | 100,035 | 151 |
| CIC UNION + | 135 | 183,675 | 25 |
| CAAM TRESO 3 MONTHS | 39 | 1,023,517 | 40 |
| HSBC MONEY SELECT | 77 | 103,332 | 8 |
| **Total UCITS** | | | **448** |
| Own shares held by Rhodia | 1,121,784 | 7.08 | 8 |
| Purchase options of the Company's shares | 1,010,000 | 2.07 | 2 |
| **TOTAL MARKETABLE SECURITIES** | | | **458** |

## 6.5.4 COMPANY 5 YEAR FINANCIAL SUMMARY

(Articles R. 225-81, R. 225-83 and R. 225-102 of the Commercial Code).

| | 12/31/2009 | 12/31/2008 | 12/31/2007 | 12/31/2006 | 12/31/2005 |
|---|---|---|---|---|---|
| **Period end date** | 12 months | 12 months | 12 months | 12 months | 12 months |
| **I. Share capital at year-end** | | | | | |
| Share capital *(in thousands of euros)* | 1,213,045 | 1,213,045 | 1,204,414 | 1,204,186 | 1,176,717 |
| Number of shares | | | | | |
| • ordinary (1) | 101,087,068 | 101,087,068 | 100,367,831 | 1,204,186,174 | 1,176,716,541 |
| • priority dividend | | | | | |
| Maximum number of shares to be created: | | | | | |
| • by conversion of bonds | | | | | |
| • by subscription right | | | | | |
| **II. Results of operations** *(in thousand of euros)* | | | | | |
| Sales excluding tax | 7,798 | 5,676 | 1,197 | 595 | 12,702 |
| Profit before tax, investments, depreciation amortization and provisions | (164,728) | 497,422 | 140,102 | 326,577 | (400,485) |
| Income tax (including net gain under the Group's tax consolidation regime) | 25,049 | 91,160 | 71,149 | 24,356 | 13,476 |
| Participation of employees | | | | | |
| Depreciation, amortization and provisions | 20,190 | (229,667) | (165,803) | (132,426) | (288,899) |
| Net profit for the year | (119,489) | 358,915 | 45,447 | 218,507 | (675,908) |
| Distributed profit | - | - | 25,092 | - | - |
| **III. Earnings per share** *(in euros)* | | | | | |
| Earnings per share after tax and investments and before depreciation, amortization and provisions | (1.38) | 5.82 | 2.10 | 0.29 | (0.33) |
| Earnings per share after tax, investments, depreciation, amortization and provisions | (1.18) | 3.55 | 0.45 | 0.18 | (0.57) |
| Dividends | - | - | 0.25 | - | - |
| **IV. Employees** | | | | | |
| Average number of employees | 37 | 30 | 7 | 8 | 24 |
| Payroll *(in thousands of euros)* (2) | 11,758 | 11,647 | 3,413 | 4,921 | 12,204 |
| Employee benefits (social security, social services) *(in thousands of euros)* (2) | 3,537 | 2,931 | 1,633 | 1,166 | 3,423 |
| *(1) Recapitulation of successive issuances of ordinary shares forming capital* | - | *719,237* | - | *27,469,633* | *549,134,383* |
| *Reverse share split (number of shares)* | - | - | *(1,103,818,343)* | - | - |
| *Capital increase with maintenance of preferential subscription rights* | - | - | - | - | *549,134* |
| *Increase reserved for employees (in thousands of euros)* | - | *8,631* | *228* | *27,470* | - |
| *(2) Including severance payments and post-employment benefits* | | | | | |



# 7 Additional Information

# 7.1 History of the Group

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

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

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

Rhodia became a listed company on June 25, 1998, when 32.7% of Rhône-Poulenc's stake in its capital was sold to the public. Starting from October 1999, Rhône-Poulenc, which became Aventis and then Sanofi-Aventis, progressively decreased its holdings in Rhodia's share capital, and Sanofi-Aventis later declared that on October 17, 2006, it had sold all its holdings in Rhodia.

# 7.2 Legal Structure of the Group

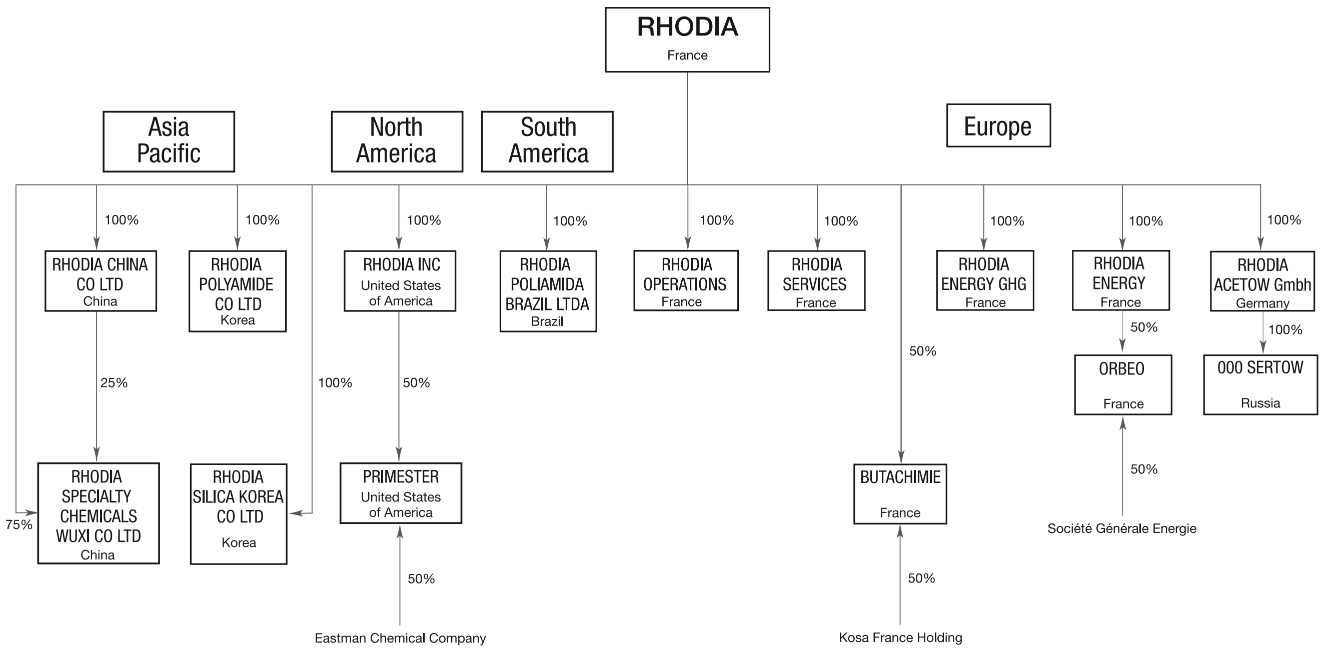
## 7.2.1 SUBSIDIARIES AND EQUITY HOLDINGS OF THE COMPANY

The table of the Company's subsidiaries and equity holdings is shown in Note 24 to the financial statements in Chapter 6.5.2.

The scope of consolidation of Rhodia at December 31, 2009, is shown in Note 37 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

In 2009, Rhodia did not establish an equity position in a French company within the meaning of article L. 233-6 of the Commercial Code.

The organizational chart below shows the simplified corporate structure of the Group in 2009 (including the main companies of the Group).






## 7.2.2 PARENT COMPANY/AFFILIATE RELATIONS

Rhodia is the holding company of the Group and, as a result, does not directly exercise any operational or industrial activities. As the parent company, Rhodia also provides Support, Consulting, Coordination and Management Services to Rhodia subsidiaries.

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

Rhodia maintains a "Parent-Affiliate" type relationship with its subsidiaries, the principal characteristics of which in 2009 are described in Rhodia's financial statements in Chapter 6.5.2. These include:

- centralized management of the Group's financing;
- re-invoicing of shared Services and assistance by Rhodia S.A to related enterprises for a total of €8 million in 2009;
- granting of guarantees by Rhodia S.A. in the framework of certain bank financings and/or operations contracts in favor of its subsidiaries;
- centralization of exchange and interest rate risks of the Group;
- centralized management of risks related to the commodities market; and
- management of French fiscal integration.

See Chapters 2.2 and 6.1.1 of this Reference Document for information on the activities of subsidiaries as well as Note 33.1 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document relating to transactions with joint ventures, associated companies and non-consolidated subsidiaries.

# 7.3 Capital and Shareholders

## 7.3.1 SHARE CAPITAL

### 7.3.1.1 Share capital at December 31, 2009

At December 31, 2009, Rhodia's share capital amounted to €1,213,044,816 divided into 101,087,068 ordinary shares with the nominal value of €12 per share, fully paid and of the same class. Rhodia's share capital did not change in the 2009 fiscal year.

The reverse share split took place on June 12, 2007. On that date, it was decided to consolidate 12 old shares with a nominal value €1 into 1 new share with a nominal value of €12. Shareholders had two years from the time of the reverse share split to claim their post-reverse split shares. This time limit ended on June 12, 2009, and the unclaimed shares were sold in the market at the average price of €6.1799 per share. The net proceeds of the sale will be held on behalf of such holders for ten years in a blocked bank account at BNP Paribas Securities Services. At the expiry of the 10-year period, the outstanding sums due to such holders will be transferred to the *Caisse des Dépôts et Consignations* (the Deposit and Consignment Office), and will remain at the holders' disposal subject to the 30-year statute of limitations period, after which the sums revert to the Republic of France.

During this two-year period and in accordance with article 18 of the Company's bylaws, every pre-reverse split share entitled its holder to one (1) voting right and every post-reverse split share to twelve (12) voting rights, such that the number of voting rights attached to the shares of the Company would be proportional to the part of the capital that they represented. As of the end of this post-reverse split period, each share again entitles its holder to one (1) voting right.

The historical development of the share capital is found in Chapter 7.3.1.7 below.

In addition, a resolution related to the reduction of share capital, by reducing the nominal value of shares from €12 to €1, will be submitted to vote at the next General Meeting of Shareholders planned for April 28, 2010.

### 7.3.1.2 Securities not representing capital

As the Company's bylaws do not grant this power to shareholders, the Board of Directors has the authority to issue bonds.

Rhodia did not issue any bonds in 2009.

Detailed information of the different prior and existing loans is found in Chapter 6.1.2 above.

### 7.3.1.3 The Company's acquisition of treasury shares

This chapter includes information that can be found in the description of the program pursuant to article 241-2 of the General Regulations of the *Autorité des Marchés Financiers* and the disclosures required in accordance with the provisions of article L. 225-211 of the Commercial Code.

#### Rhodia's transactions with its own shares during 2009

| | |
|---|---|
| Number of shares | |
| • purchased | 0 (1) |
| • sold/transferred | 667,019 (2) |
| Average price *(in euros)* | |
| • purchase | - |
| • sales transfer | - (2) |
| Transaction fees *(in euros)* | - |
| Number of shares held at December 31, 2009: | 2,131,784 |
| • treasury shares (3) | 1,121,784 |
| • call options | 1,010.000 |
| Percentage of its own capital | 2.2% |
| Valuation of portfolio at December 31, 2009 (4) | €10,031,622 |

*(1) The Company purchased call options in 2009, as detailed in the table below.*
*(2) All treasury shares used were transferred in accordance with free allocation of share plans.*
*(3) Nominal value of shares, €12.*
*(4) Estimated value at purchase.*

| | Open positions at December 31, 2009 | | | |
|---|---|---|---|---|
| | Open positions upon purchase | | Open positions upon sale | |
| | Call options purchased | Forward purchases | Call options sold | Forward sales |
| Number of shares | 1,010,000 | - | - | - |
| Average maximum maturity | 2 years | - | - | - |
| Average exercise price *(in euros)* | 5.61 | - | - | - |

During 2009, the Company transferred 667,019 shares (0.66% of capital) pursuant to free share allocation plans, which the Board of Directors authorized at its meetings held on January 15, 2007 and July 30, 2007.

All treasury shares and call options held by the Company were assigned to the share allocation or transfer objective under stock option plans or allocations of free shares or any other form of allocation to employees, former employees or officers of the Company and its subsidiaries within the meaning of articles L. 225-180 or L.233-16 of the Commercial Code.

The shares repurchased by the Company were not subject to any reallocation or other purpose than that provided for during their repurchase.

Since January 1, 2010, the Company has not purchased any treasury shares or options on treasury shares.

At December 31, 2009 and March 17, 2010 the number of treasury shares held by the Company thus amounted to 1,121,784 (representing 1.11% of capital).

## Description of the program subject to authorization at the combined Annual Shareholders' Meeting of April 28, 2010

### *Legal framework*

A new share repurchase plan will be put to a vote at the combined Annual Shareholders' Meeting to be held on April 28, 2010 as resolution 7th, pursuant to the provisions of European Regulation no. 2273/2003 of the European Commission dated December 22, 2003, article L. 451-3 of the Monetary and Financial Code and article 241-2 of the General Regulations of the *Autorité des Marchés Financiers*. This authorization would supersede the one voted on by the combined Annual Shareholders' Meeting of May 20, 2009.

### *Breakdown per objective for shares held and open on derivatives*

See above.

### *Objectives of the share repurchase program*

In accordance with the share repurchase program to be submitted to the combined Annual Shareholders' Meeting on April 28, 2010, Rhodia plans to repurchase its shares (or have them repurchased) with a view to the following allocations stipulated by the authorization granted by the General Meeting to:

- retain the shares and as required sell, transfer or exchange them pursuant or subsequent to any corporate acquisitions, in accordance with accepted market practices and applicable regulations;
- ensure liquidity and make a market for the Company's shares by an Investment Service provider within the framework of a liquidity agreement in conformity with a professional Code of ethics charter recognized by the *Autorité des Marchés Financiers*;
- cancel all or a portion of shares acquired;
- allocate or sell shares in the context of option plans for subscription to or purchase of shares or free allocation of shares or any other form of allocations to employees, former employees or officers of the Company and its subsidiaries within the meaning of articles L. 225-180 or L.233-16 of the Commercial Code;
- deliver shares at the time of the exercise of rights attached to securities giving access to Company share allocations by redemption, conversion, exchange, submission of a warrant or by any other means;
- comply with any other practice that might become accepted or acknowledged by the law or by the *Autorité des Marchés Financiers* or any other objective that shall be in compliance with the regulations in force.

### *Maximum portion of share capital, maximum number and characteristics of equity securities*

The maximum portion of share capital for repurchase which could be authorized by the combined Annual Shareholders' Meeting to be held on April 28, 2010 under the share repurchase program has been set at 10% of the shares comprising the Company's share capital on date of repurchase, representing, for informational purposes, 10,108,706 shares at March 17, 2010.

Pursuant to article L. 225-210 of the Commercial Code, the number of shares that Rhodia can hold at any given time may not exceed 10% of the shares constituting the share capital of the Company at the date in question.

### *Maximum authorized unit purchase price*

The maximum unit price should not exceed €30 (and the maximum amount for these transactions should not go over €303,261,180); however, this purchase price could be adjusted by a decision of the Board of Directors, specifically to adjust the maximum purchase price stated above in the event of a capital increase by incorporating reserve funds, free allocation of shares to shareholders, splitting or reverse share splits, or any other transaction involving the Company's equity in order to factor in effect of these transactions on the share price.

### *Characteristics of the shares and repurchase methods*

- Ordinary shares listed on Euronext Paris (Compartment A).
- Identification: RHA.
- Code ISIN: FR0010479956.

The acquisition, sale, transfer or exchange of these shares can be carried out by any means, including by direct negotiations, transfer of share blocks, takeover bids, by the use or exercise of any financial instrument, derivative, in particular by implementing options transactions such as buying and selling options, either directly or through a Financial Service provider pursuant to the applicable regulations.

### *Term of the share repurchase program*

The share repurchase program shall last 18 months from the combined General Meeting to be held on April 28, 2010, ending on October 28, 2011.

## 7.3.1.4 Authorizations and uses

Summary table of current authorizations:

| Transactions/Securities | Maximum nominal amount of issuance | Use (date) | Duration of the authorization (and expiration) |
|---|---|---|---|
| Repurchase of the Company's shares, General Shareholders' Meeting 5/20/2009 – 15th Resolution | 10% of the capital Purchase price: ≤ €30 | See Chapter 7.3.1.3 above | 18 months (11/2010) |
| Capital reduction of the stated capital by cancelling treasury stock, General Shareholders' Meeting 05/20/2009 – 17th Resolution | 10% of the capital | None | 24 months (05/2011) |
| Free allocation of shares to employees and managers (article L.225-197-1 and following of the Commercial Code), General Shareholders' Meeting 5/20/2009 – 18th Resolution | 1% of the capital (at the date of the allocation(s)) Based on performance criteria | None | 26 months (07/2011) |
| Allocation of options for subscription or purchase of shares (article L.225-177 and following of the Commercial Code), General Shareholders' Meeting 5/20/2009 – 19th Resolution | 1% of the capital (at the date of the allocation(s)) Based on performance criteria | None | 26 months (07/2011) |

Summary table of authorizations expired during the year:

| Transactions/Securities | Maximum nominal amount of issuance | Use (date) | Expiration date |
|---|---|---|---|
| Repurchase of the Company's shares, General Shareholders' Meeting 5/16/2008 – 12th Resolution | 10% of the capital Purchase price: ≤ €45 | 1,792,137 shares purchased * | May 2009 |
| Capital reduction of the stated capital by cancelling treasury stock, General Shareholders' Meeting 05/20/2009 – 13th Resolution | 10% of the capital | None | May 2009 |
| Capital increase, all types of stock with shareholders' preferential subscription rights, General Shareholders' Meeting 5/3/2007 – 10th Resolution | Capital = €600 million Loans = €800 million | None | July 2009 |
| Capital increase reserved for participants in a Company savings plan, General Shareholders' Meeting 5/3/2007 – 14th Resolution | €50 million, nominal value | None | July 2009 |
| Free allocation of shares to employees and managers (article L.225-197-1 and following of the Commercial Code), General Shareholders' Meeting 5/3/2007 – 16th Resolution | 2% of the capital (at the date of the allotment(s)) | 235,110 allotted shares (07/2007) ** 1,023,960 allotted shares (03/2008) *** 762,400 allotted shares (03/2009) **** | May 2009 |
| Allotment of options for subscription to or purchase of shares (article L.225-177 and following of the Commercial Code), General Shareholders' Meeting 5/3/2007 – 17th Resolution | 1% of the capital (at the date of the allotment(s)) | 1,010,000 share purchase options allocated (05/2009) ***** | May 2009 |

** See Chapter 7.3.1.3 above.*

*** Of which 92,355 shares as part of the "2+2" plan and 142,755 as part of the second plan known as"4+0" in the framework of a global plan for the free allocation of shares to 15,674 employees.*

**** Pursuant to plans for the allocation of performance shares authorized by the Board of Directors at their meeting on March 17, 2008 (see Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document).*

***** Pursuant to plans for the allocation of performance shares authorized by the Board of Directors at their meeting held on March 16, 2009 (see Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document).*

****** Pursuant to the share purchase option plan authorized by the Board of Directors at its meeting held on May 20, 2009 (see Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document).*

Authorizations that will be put to a vote at the General Meeting of shareholders scheduled for April 28, 2010 (upon first notice of meeting) are presented in the following table:

**SUMMARY TABLE OF AUTHORIZATIONS TO BE REQUESTED AT THE NEXT GENERAL SHAREHOLDERS' MEETING**

| Transactions/Securities | Maximum nominal amount of issuance | Duration of the authorization (and expiration) |
|---|---|---|
| Repurchase of shares<br>7th Resolution | 10% of the capital<br>Purchase price: ≤ €30 | 18 months (11/11) |
| Capital reduction of the stated capital by cancelling treasury stock<br>8th Resolution | 10% of the capital | 24 months (05/12) |
| Capital increase, all types of securities with a preferential subscription right<br>10th resolution | In capital = €600 million (or €50 million in the event of approval of the 9th resolution)<br>In loan = €800 million | 26 months (07/12) |
| Capital increase, all types of securities without a preferential subscription right<br>11th resolution | In capital = €180 million (or €15 million in the event of approval of the 9th resolution)<br>In loan = €800 million | 26 months (07/12) |
| Increase in the number of shares to issue in the case of a surplus of requests<br>12th resolution | Up to a maximum of (i) 15% of the initial issue and (ii) of the ceiling set in the delegation used | 26 months (07/12) |
| Capital increase reserved for participants in a Company savings plan<br>14th resolution | €36 million nominal (or €3 million in the event approval of the 9th resolution) * | 26 months (07/12) |
| Capital increase reserved for employees outside of the Company savings plan<br>15th resolution | €36 million nominal (or €3 million in the event approval of the 9th resolution) * | 18 months (11/11) |
| Free allocations of shares to employees and managers (L. 225-197-1 and pursuant to the Commerical Code)<br>16th resolution | 1% of capital (at the date of allocation(s))<br>Conditonal upon the attainment of performance conditions (except for 0.25% of the share capital) | 26 months (07/12) |

* *The two delegations for the reserved capital increases are subject to a maximum of €36 million nominal (or €3 million in the event of appoval of the 9th resolution related to the reduction of share capital).*

## 7.3.1.5 Shares, securities giving access to capital, options for the subscription or purchase of shares and free allocation of shares

### Summary of the existing authorizations

#### *Authorization to reduce share capital by canceling shares held by the Company*

The combined Annual Shareholders' Meeting of May 20, 2009 authorized the Board of Directors, for a period of 24 months to cancel, in one or more times, within a limit of 10% of the Company's share capital, by 24-month period, all or part of the shares held by the Company and to reduce the resulting share capital.

#### *Authorization to make allocations of performance shares to certain officers and employees of the Group or certain categories among them*

The General Shareholders' Meeting held on May 20, 2009 authorized the Board of Directors to allocate, up to a maximum of 1% of the share capital as of the date of the decision, performance shares. The shares potentially allocated could be existing shares or shares to be issued by the Company.

The beneficiaries of the allocations could be the employees of the Company and of the companies and economic interest groups that are related to the Company within the meaning of article L. 225-197-2 of the Commercial Code as well as certain officers.

The authorization provides that the allocation of shares to their beneficiaries can only be at the end of:

- a two-year vesting period, with the minimal duration of the obligation of conservation of the shares (holding period) by the beneficiaries starting from the time of delivery of the shares also being set for two years; or
- a vesting period with a minimal duration of four years, with the holding period thus being eliminated.

The Board of Directors could provide for vesting and holding periods longer than these minimal periods.

The authorization provides, moreover, that these allocations must be subject to certain conditions of economic performance.

This authorization is valid for a period of 26 months and supercedes the one conferred by the General Shareholders' Meeting of May 3, 2007.

Detailed information concerning the different plans for the allocations of performance shares currently available in Rhodia is found in Chapter 4.3.4 above as well as in Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

#### *Allocation of options for subscription or purchase of shares*

The General Shareholders' Meeting of May 20, 2009, authorized the Board of Directors to approve, up to a maximum of 1% of the share capital at the date of the decision, in one or more times, options giving right to the subscription of new shares of the Company or the purchase of existing shares of the Company related to the repurchases made by the Company.

The beneficiaries would be the employees, or certain of them, of the Company and companies or economic interest groups that are related to it directly or indirectly within the meaning of article L.225-180 of the Commercial Code, as well as certain officers.

This authorization is valid for a period of 26 months and puts an end to the one conferred by the General Meeting of shareholders of May 3, 2007.

Detailed information on the option plans for subscription to shares currently available in Rhodia is found in Chapter 4.3.4 above as well as in Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

### Transactions carried out in 2009

#### *Allocations of performance shares to the benefit of certain managers and employees of the Group carried out in March 2009*

See Chapter 4.3.4 on the "stock subscription or purchase plans and allocation of performance shares" above as well as Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

#### *Allocation of purchase of share options carried out in May 2009*

See Chapter 4.3.4 on the "stock subscription or purchase plans and allocation of performance shares" above as well as Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

### Securities giving access to Rhodia's capital

#### *Bonds with the option to be converted and/ or exchanged into new or existing shares of the Company (OCEANEs)*

On April 27, 2007, Rhodia issued OCEANEs for a total nominal amount of €595 million, due January 1, 2014 and bearing annual interest at 0.5%. The OCEANE bonds carried a 13.22% redemption premium. They include a repurchase option that may be exercised by Rhodia under certain conditions.

Following the reverse share split of the Company's shares and consecutive adjustments on the dilutive instruments of the Company, one OCEANE gives the right to obtain one share of the Company with the nominal value of €12.

At December 31, 2009, there were 12,372,661 outstanding OCEANEs.

#### *Subscription Warrants*

At December 31, 2009, there were 215,193 outstanding subscription warrants.

Following the reverse share split of the Company's shares and consecutive adjustments on the dilutive instruments of the Company, 12 subscription warrants give the right to the subscription of one post-reverse split share with the nominal value of €12.

These subscription warrants were issued within the context of the capital increase reserved for employees and executed on June 30, 2006 and have been attributed for the benefit of the employees of Rhodia's subsidiaries located in Germany, in place of a subscription discount, in order to offer them the economic equivalent of what was received by employees of the subsidiaries located in other countries. These warrants are held by the Common Fund for Placement of the Enterprise "Zukunft 2006" (*Fonds Commun de Placement d'Entreprise*), the employees of Rhodia's subsidiaries located in Germany having subscribed to this transaction for the reserved capital increase hold shares in this fund.

## 7.3.1.6 Stock subscription options

At December 31, 2009, the options on the capital of the Company were as follows:

- OCEANEs (see Chapter 7.3.1.5 above);
- option plans for subscription or purchase of shares described in Chapter 4.3.4 above as well as in Note 34 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document;
- share warrants (see Chapter 7.3.1.5 above).

In addition, the allocation of performance shares, as described in Chapter 4.3.4 as well as in Note 34 to the consolidated financial statements in Chapter 6.4.2 above of this Reference Document, can result in the issuance of new shares.

### 7.3.1.7 History of the share capital

| Date | Amount of the Capital | Number of Shares (nominal value) | Nature of the transaction |
|---|---|---|---|
| 12/31/2006 | €1,204,186,174 | 1,204,186,174 (€1) | |
| 06/2007 | €1,204,231,992 | 100,352,666 (€12) | 1/ Exercise of options for the subscription of shares: capital increase of €45,828 by the issuance of 45,828 shares with a nominal value of €1 per share<br>2/ Reverse share split: an exchange of 12 shares with the nominal value of €1 per share for one share with a nominal value of €12. |
| 12/2007 | €1,204,413,972 | 100,367,831 (€12) | Exercise of options for the subscription of shares: a capital increase of €181,980 by the issuance of 15,165 shares with a nominal value of €12 per share. |
| 01/2008 | €1,213,031,484 | 101,085,957 (€12) | Plans A and B for the free allocations of shares 2006: a capital increase with a nominal value of €8,617,512 by the issuance of 718,126 new Rhodia shares with a nominal value of €12 per share (because of the end of the acquisition period) |
| 12/2008 | €1,213,044,816 | 101,087,068 (€12 ) | Exercise of options for the subscription of shares: a capital increase of €13,332 by the issuance of 1,111 shares with a nominal value of €12 per share. |
| **12/31/2009** | **€1,213,044,816** | **101,087,068 (€12)** | |

## 7.3.2 SHAREHOLDERS

### 7.3.2.1 Distribution of capital and voting rights

Changes in holdings of Rhodia's shares over the past three years are described in the following table:

| | **December 31, 2009 (1)** | | | December 31, 2008 (1) | | | December 31, 2007 (1) | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Number of shares** | **% capital** | **% voting rights** | Number of shares | % capital | % voting rights | Number of shares | % capital | % voting rights |
| JP Morgan Asset Management | 7,722,290 | 7.64 | 7.73 | 3,836,673 | 3.80 | 3.86 | 2,327,717 | 2.32 | 2.32 |
| Capital Group Companies, Inc. | 5,120,833 | 5.07 | 5.12 | 12,626,821 | 12.49 | 12.72 | 8,449,470 | 8.42 | 8.42 |
| Axiom International Investors LLC | 3,849,612 | 3.81 | 3.85 | - | - | - | - | - | - |
| Wellington Management Company, LLP | 1,571,786 | 1.55 | 1.57 | 10,062,086 | 9.95 | 10.13 | 6,799,116 | 6.77 | 6.77 |
| Henderson Global Investors Ltd. | 888,872 | 0.88 | 0.89 | 5,298,423 | 5.24 | 5.34 | 4,593,185 | 4.58 | 4.58 |
| Other foreign institutional investors | 42,359,201 | 41.90 | 42.37 | 24,681,367 | 24.42 | 24.86 | 46,750,712 | 46.58 | 46.58 |
| French institutional investors | 14,492,603 | 14.34 | 14.50 | 21,953,412 | 21.72 | 22.11 | 15,224,528 | 15.17 | 15.17 |
| Individuals | 20,221,395 | 20.00 | 20.23 | 16,865,429 | 16.68 | 16.98 | 12,876,666 | 12.83 | 12.83 |
| Employees (L. 225-102 C. com.) | 3,738,692 | 3.70 | 3.74 | 3,974,054 | 3.93 | 4.00 | 3,346,437 | 3.33 | 3.33 |
| Treasury shares | 1,121,784 | 1.11 | 0.00 | 1,788,803 | 1.77 | 0.00 | - | - | - |
| **TOTAL** | **101,087,068** | **100** | **100** | **101,087,068** | **100** | **100** | **100,367,831** | **100** | **100** |

*(1) Sources: Euroclear France and Capital Precision*

To Rhodia's knowledge, the shares registered directly with the Company and subject to a pledge represent less than 1% of its share capital.

The principal events that have occurred relative to the control of the share capital of the Company since January 1, 2009, are as follows:

- by letter dated March 13, 2009, supplemented by a letter dated March 16, Capital Group International - CGII, acting on behalf of funds under its management, declared having crossed below the holding threshold of 5% of capital and voting rights on March 12, 2009, following the sale of Rhodia shares on the market and holding, on behalf of the funds, 5,007,052 Rhodia shares representing 60,084,624 voting rights, i.e. 4.95% of the Company's capital and voting rights;
- *Société Générale* made the following declarations to the Company and to the *Autorité des Marchés Financiers*:

– by letter dated March 20, 2009, having, directly or indirectly, crossed above the holding threshold of 5% of capital and voting rights on March 6, 2009, as a result of an acquisition of Rhodia shares on the market in the framework of its trading activities and holding 5,662,575 Rhodia shares on March 13, 2009, representing 67,950,900 voting rights, i.e. 5.60%, of the Company's capital and voting rights,

– by letter dated 15 April, 2009, having, directly or indirectly, crossed below the holding threshold of 5% of capital and voting rights on April 10, 2009, as a result of a sale of Rhodia shares in the framework of its trading activities and holding, directly or indirectly, 4,307,660 Rhodia shares representing 51,691,920 voting rights, i.e. 4.26%, of the Company's capital and voting rights,

– by letter dated June 25, 2009, having, directly or indirectly, crossed above the holding threshold of 5% of capital and voting rights on June 22, 2009, as a result of an acquisition of Rhodia shares in the framework of its trading activities and holding, directly or indirectly, 5,131,647 Rhodia shares representing 61,579,764 voting rights, i.e. 5.08%, of the Company's capital and voting rights,

– by letter dated August 4, 2009, having crossed below the holding threshold of 5% of capital and voting rights on July 30, 2009, as a result of a sale of Rhodia shares in the framework of its trading activities and holding, directly or indirectly, 4,651,954 shares representing the same number of voting rights, i.e. 4.60% of the Company's capital and voting rights;

- by letter dated June 12, 2009, Wellington Management Company, LLP, acting on behalf of its clients for which it provides management, declared having crossed below the holding threshold of 5% of capital and voting rights on June 11, 2009 following the sale of Rhodia shares and holding, on behalf of said clients, 4,699,585 Rhodia shares representing 56,395,020 voting rights, i.e. 4.65% of the Company's capital and voting rights;
- by letter dated June 12, 2009, JP Morgan Asset Management (UK) Limited, controlled by JP Morgan Chase & Co, acting on its own behalf and that of a subsidiary exercising management activity on behalf of third parties, declared having crossed above the holding threshold of 5% of capital and voting rights on June 11, 2009 following the acquisition of Rhodia shares and holding 5,864,359 Rhodia shares representing 70,372,308 voting rights, i.e. 5.80% of the Company's capital and voting rights;
- by letter dated March 15, 2010, Capital Research and Management Company ("CRMC") declared having crossed below the holding threshold of 5% of capital and voting rights on March 11, 2010, as a result of a divestment of Rhodia shares on the market and holding 4,625,333 Rhodia shares representing a proportional number of voting rights, i.e. 4.58%, of the Company's capital.

To Rhodia's knowledge:

- the percentage of the capital and voting rights held by the members of the Board of Directors and the Management Committee of Rhodia is not significant;
- no shareholder, other than those indicated in the table above, directly or indirectly, holds more than 5% of the capital or the voting rights of Rhodia.

## 7.3.2.2 Different voting rights

There are no double voting rights.

Following the reverse share split of the Company (see Chapter 7.3.1 above), the shareholders had a two-year period beginning from the start of the consolidation operations, or until June 12, 2009, to claim the post-reverse split shares (each with the nominal value of €12) and to exchange them for 12 pre-reverse split shares (each with the nominal value of €1). As a result, during this two-year period and in accordance with article 18 of the Company bylaws, any pre-reverse split share will entitle its holder to one (1) vote and any post-reverse split share to twelve (12) votes, so that the number of votes attached to the Company's shares will be proportional to the part of the capital that they represent.

As of June 12, 2009, the voting right is attached exclusively to post-reverse split shares. Accordingly, since this date, each share entitles its holder to one voting right.

## 7.3.2.3 Employee shareholding

### The Group Savings Plan (PEG)

The PEG gives employees of the Group companies that belong to this plan the option of making voluntary payments and of investing their share of profit sharing plans. The PEG provides access to various corporate mutual funds, some of which serve to make capital increases reserved for the employees of the Group companies that belong to that PEG, those investment funds then being invested in Rhodia shares.

The Rhodia PEG is made up in particular of various corporate mutual funds (FCPE), some of which have invested in Rhodia shares. The regulations of the FCPE invested in Rhodia shares provide for the exercise through their supervisory boards, at General Shareholders' Meetings, of the voting rights attached to the Rhodia shares held by each of those FCPEs.

### Employee Shareholders' Stake in Rhodia's Capital

As of December 31, 2009, the total number of shares held by employees of the Company, as defined in article L.225-102 of the Commercial Code, breaks down as follows:

| | |
|---|---|
| FCPE Rhodia 2000 | 1,050,000 |
| FCPE Actions Rhodia | 741,000 |
| FCPE Rhodia International | 61,300 |
| FCPE Avenir 2006 | 1,301,566 |
| FCPE Aspire 2006 | 267,164 |
| FCPE International Aspire 2006 | 65,152 |
| FCPE Avvenire 2006 | 24,284 |
| FCPE Zukunft 2006 | 52,527 |
| Rhodia shares directly held by employees through the PEG | 175,699 |
| **TOTAL NUMBER OF SHARES HELD BY EMPLOYEES, REPRESENTING 3.7% OF RHODIA'S CAPITAL** | **3,738,692** |

As the Employee Shareholders' stake in the Company's capital has been greater than 3% since 2006, the General Meeting held on May 20, 2009 appointed Mr Jacques Khéliff as the Director representing Employee Shareholders.

## 7.3.2.4 Change of control

To Rhodia's knowledge, no shareholders' agreement or any clause of any agreement containing preferential terms for selling or purchasing Rhodia shares was reported to the *Autorité des Marchés Financiers*. Nor were any concerted actions noted.

In addition, the information below is provided within the framework of and for the purpose of complying with the provisions of article L.225-100-3 of the Commercial Code involving implementation of the guidelines regarding takeover bids:

- the structure of the Company's capital is described in Chapter 7.3.2.1;
- there are no restrictions in the bylaws on the exercise of voting rights and the transfers of shares or clauses of agreements brought to the attention of the Company in application of article L.233-11 of the Commercial Code (see also Chapters 7.3.2.2 and 7.4);
- the direct or indirect shareholdings in the capital of the Company of which it is aware pursuant to article L.233-7 (declaration of crossing of thresholds) and article L.233-12 of the Commercial Code are described in Chapter 7.3.2.2;
- no shareholders have special rights of control;
- the control mechanisms provided for in the shareholding system for the personnel of the Company are presented in Chapter 7.3.2.3 of this Reference Document;
- as far as the Company is aware, there are no agreements among shareholders that may entail restrictions on the transfer of shares and on the exercise of voting rights in the Company;
- there are no rules specific to the Company applicable to the appointment and replacement of members of the Board of Directors or to the amendment of the bylaws of the Company of a nature to have an impact in case of a takeover bid;
- the powers of the Board of Directors regarding the issue or repurchase of shares appear in Chapter 7.3.1.3;
- the agreements entered into by the Company which could be terminated in case of a change in control of the Company and which the Company deems capable of having an impact in case of a takeover bid are:

– the securities note related to the issuance of bonds with an option of conversion and/or exchange for new shares or shares to be issued, made in April 2007 (presented in Chapter 6.1.2 above) mentions that the change in control of the Company could result in an early redemption of all or some of those bonds, at the option of the bondholders,

– the *"new RCF"* syndicated line of credit, described in Chapter 6.1.2 above, mentions that a change in control of the Company could result in an early repayment of the line of credit, at the option of the lenders and under certain conditions,

– the *"Floating Rate Note"* issuance described in Chapter 6.1.2 above mentions that a change in control of the Company could result in an early redemption of those notes, at the option of the noteholders and under certain conditions,

– the North American receivables securitization program put into place with HSBC, presented in Chapter 6.1.2 above, mentions that a change in control of the Company could entail an early termination of the program, at the option of HSBC under certain conditions;

- the agreements that provide for indemnity for certain members of the Management Committee (to the exclusion of the Chairman and Chief Executive Officer) in the case of a change in control are described in Chapter 4.3.1 above.

### 7.3.2.5 Stock transactions of Rhodia's executives

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

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

Pursuant to article 223-26 of the General Regulations of the *Autorité des Marchés Financiers*, it has been stated that no transaction was declared by the Chairman and Chief Executive Officer and other Directors of Rhodia or persons related to them in 2009.

Please note that the following table shows the transactions carried out on the security and declared by the CEO and the other Rhodia Directors, or persons related to them since the beginning of 2010:

| Name of Director | Date of declaration | Reference to AMF Decisions and Information (available on the AMF website) | Description of transaction | Date of transaction |
|---|---|---|---|---|
| Person related to Yves René Nanot | January 20, 2010 | 210D0339 | Acquisition of 600 shares at unit price of €14,135 | January 11, 2010 |

## 7.3.3 LIFE OF THE SHARE



Rhodia shares have been listed on Euronext Paris (Compartment A) in Paris since June 25, 1998.

Furthermore, Rhodia shares are listed in the United States in the form of level 1 privately negotiable ADRs traded-over the-counter on the International OTCQX. Each ADR is representative of one American Depositary Share (ADS), representing itself a Rhodia share. Every holder of such ADRs can, at any time, either sell its ADRs or convert them into Rhodia shares, which are the underlying shares, by settling the expenses of the conversion with the depository. In this latter case, the ADR which represented the Rhodia S.A. share is cancelled. At December 31, 2009, there remained 667,167 outstanding ADRs, representing 0.7% of the Company's capital.

### Identification sheet for Rhodia S.A. shares

Code ISIN: FR0010479956

Code Bloomberg: RHA FP

Code Reuters: RHA.PA

Share eligible for SRD (Service for Deferred Payment): yes

Share eligible for PEA (Plan for savings of shares): yes

### Identification sheet for Rhodia S.A. ADR

Ratio: One ADR for one share of Rhodia S.A.

Code ISIN: US7623972061

Code Bloomberg: RHAYY US

Code Reuters: RHAYY.PK

The tables below describe the development in 2009 of the prices and volume of transactions in shares of Rhodia S.A. listed on Eurolist of Euronext Paris and the ADRs of Rhodia S.A. quoted on the International OTCQX.

## Shares of Rhodia S.A. listed on eurolist of Euronext Paris

| | Closing Price | | Volume of transactions (daily average) | |
|---|---|---|---|---|
| *(in euros)* | High | Low | Number of shares | Amount of Capital |
| January 09 | 5.005 | 3.328 | 2,029,533 | 8,602,632 |
| February 09 | 3.92 | 2.738 | 1,494,502 | 4,826,127 |
| March 09 | 2.931 | 2.13 | 1,774,956 | 4,424,304 |
| April 09 | 4.415 | 2.82 | 1,931,308 | 7,447,670 |
| May 09 | 6.499 | 4.909 | 2,037,914 | 11,228,787 |
| June 09 | 6.854 | 5.035 | 1,555,405 | 9,237,411 |
| July 09 | 7.649 | 4.533 | 1,943,810 | 11,311,835 |
| August 09 | 8.818 | 7.557 | 1,640,191 | 13,338,611 |
| September 09 | 10.425 | 7.898 | 1,676,134 | 15,824,144 |
| October 09 | 13.025 | 9.662 | 2,504,930 | 28,218,252 |
| November 09 | 12.47 | 10.43 | 1,974,312 | 23,042,534 |
| December 09 | 12.61 | 11.915 | 773,830 | 9,479,342 |
| January 10 | 13.89 | 12.7 | 1,201,626 | 16,159,539 |
| February 10 | 13.965 | 11.995 | 1,340,212 | 17,531,954 |
| March 10 *(through March 17)* | 15.34 | 14.525 | 1,195,958 | 17,949,005 |

*Source: Bloomberg*

## American Depositary Receipts (ADR) of Rhodia S.A. listed on the international OTCQX

| | Closing Price | | Volume of transactions (daily average) | |
|---|---|---|---|---|
| *(in dollars)* | High | Low | Number of shares | Amount of Capital |
| January 09 | 7.06 | 4.25 | 2,983 | 15,177 |
| February 09 | 5.04 | 3.46 | 9,784 | 38,731 |
| March 09 | 4.09 | 2.52 | 6,082 | 19,166 |
| April 09 | 5.9 | 3.75 | 3,239 | 17,865 |
| May 09 | 9.15 | 6 | 2,990 | 21,649 |
| June 09 | 9.85 | 7 | 3,425 | 29,765 |
| July 09 | 11 | 6.29 | 4,108 | 32,220 |
| August 09 | 12.76 | 10.85 | 2,153 | 25,492 |
| September 09 | 15.35 | 11.48 | 2,749 | 39,670 |
| October 09 | 19.46 | 14.15 | 3,616 | 62,008 |
| November 09 | 18.5 | 15.08 | 2,827 | 49,504 |
| December 09 | 18.2 | 17.35 | 1,752 | 31,274 |
| January 10 | 20.15 | 17.66 | 3,291 | 61,366 |
| February 10 | 19.39 | 16.25 | 2,898 | 51,536 |
| March 10 *(through March 17)* | 21.05 | 19.85 | 1,305 | 26,591 |

*Source: Bloomberg*

# 7.4 Excerpt from the Company's Bylaws

## 7.4.1 COMPANY NAME

The Company's name is Rhodia.

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

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

## 7.4.3 DATE OF INCORPORATION AND TERM

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



## 7.4.4 REGISTERED OFFICE – REGULATIONS – LEGAL FORM

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

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

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

## 7.4.5 CORPORATE PURPOSE

Pursuant to article 3 of the bylaws, the purpose of the Company, in France as well as abroad, is, either directly or indirectly, to:

- perform transactions in the fields of chemistry, fibers and polymers;
- research, develop, manufacture, transform, market and supply products and goods, and to license, acquire, and transfer all industrial and commercial property rights;
- make investments in any form whatsoever, in particular through the formation of new corporations, contributions, subscription, purchase of stock or interests in any business, groups or corporations relating directly or indirectly to the corporate purpose and, if appropriate, for any other purpose;
- issue any guarantee, first demand guarantees, surety bonds and other security interests in compliance with the provisions of current laws and regulations, in particular to any company or entity of the Group, in connection with their activities, as well as the financing or re-financing of their activities. The contracting of any loan and, in general, the use of any method of financing, in particular, by the issue or, where applicable, by the subscription of financial instruments, with a view to facilitating the financing or re-financing of the Company's operations;
- as a parent company, to provide support, consulting, coordination and management services to Rhodia subsidiaries;
- as well as, in general, all financial, commercial, industrial, civil, real property, personal property transactions or services that may be directly or indirectly related to one of the specified purposes or to any similar or related purpose or which is liable to further the development of the Company's assets.

## 7.4.6 RIGHTS, PREFERENTIAL RIGHTS AND RESTRICTIONS ATTACHED TO THE COMPANY'S SHARES (ARTICLE 9 OF THE BYLAWS)

Each share entitles the holder thereof to a proportionate ownership in the assets of the Company and in the proceeds after liquidation equal to the *pro rata* portion of the registered capital represented by such shares.

All securities which represent or will represent part of the registered capital will be included as registered capital for tax purposes. Thus, all duties and taxes which, for whatever reason may become payable by certain holders upon distribution of capital, either during the existence of the Company or at liquidation, will be allocated among all securities representing capital at the time of such distribution or distributions, with the result that, after taking into account the unredeemed nominal value of the securities to the extent of their respective rights, all present or future securities will confer upon the holders thereof the same effective benefits and the right to receive the same net amounts.

Whenever it is necessary to possess a certain number of shares in order to exercise a right, it shall be up to holders that do not possess such number to group together and, if necessary, to purchase or sell the requisite number of shares or rights.

## 7.4.7 MODIFICATION OF THE SHAREHOLDERS' RIGHTS

Any modifications of the voting rights attached to the shares are regulated by law, the Company's bylaws do not provide for specific provisions.

## 7.4.8 GENERAL SHAREHOLDERS' MEETINGS (ARTICLE 18 OF THE BYLAWS)

Ordinary or Extraordinary Shareholders' Meetings are called and deliberated in accordance with the law.

Meetings are held at the registered office or any other place specified in the notice for meeting.

The right for shareholders to personally attend Shareholders' Meetings, or to do so through a proxy holder or by mail, is subject to the registration of the shares in the name of the shareholder or the intermediary registered on his behalf (as provided for by law) by midnight (Paris time) on the third business day prior to the meeting:

- for registered shareholders: in registered securities accounts maintained by the Company;
- for bearer shareholders: in bearer securities accounts maintained by an authorized intermediary, as provided for by the applicable regulations.

A shareholder who does not have his domicile in France, within the meaning of article 102 of the Civil Code, may be represented at ordinary or extraordinary meetings by an intermediary registered in accordance with the conditions provided for by current law and regulations. Said shareholder shall then be deemed to be present at said meeting for the calculation of the quorum and majority.

Subject to the qualifications provided for by regulations, and in accordance with the procedures established therefore by the Board of Directors, shareholders may attend and vote at any shareholders' or special meetings by videoconference or any electronic telecommunication or remote transmission means in accordance with applicable laws and regulations. In such event, an electronic signature may be provided using a process that meets the requirements listed in the first sentence of the second paragraph of article 1316-4 of the Civil Code. The shareholders shall then be deemed present at said meetings for the calculation of quorum and majority.

The shareholders, in accordance with the conditions defined by current regulations, may send their proxy vote form or mail vote form for all ordinary or extraordinary meetings, either on paper, or by remote transmission by decision of the Board of Directors published in the notice of meeting and the notice to attend the meeting.

To be accepted, all ballots and proxies must have actually been received at the Company's principal office or at the location stated in the meeting notice no later than two days prior to the date of the Shareholders' Meeting, except if a shorter period is stated in the meeting notice or required by mandatory provisions reducing said period.

Instructions given by electronic means that contain a power of attorney or a proxy may be received by the Company in accordance with the conditions and within the time limits defined by the current regulations.

The meeting's proceedings may be transmitted live by videoconference and/or by remote transmission. Where applicable, reference shall be made thereto in the notice of meeting and in the notice to attend the meeting.

The Chairman of the Board of Directors or, in his absence, a Director specifically delegated for said purpose by the Chairman presides over the meetings. Failing that, the meeting shall appoint its own Chairman.

The duties of tellers are fulfilled by the two members of the meeting with the highest number of votes and who accept said duties.

The officers of the meeting appoint the secretary, who may be chosen among non-shareholders.

An attendance sheet, drawn up in accordance with the law, is kept at each meeting of the Annual General Meeting. Said attendance sheet, duly signed by the shareholders and proxies, shall be certified true by the officers of the meeting.

Each meeting participant shall have as many votes as shares held or represented, subject to statutory limitations. Until two years after the start date of the reverse split transactions described in the notice of reverse share split published by the Company in the *Bulletin des Annonces Légales Obligatoires* pursuant to the resolution adopted at the May 3, 2007 Shareholders' Meeting, all pre-reverse split shares give their holder the right to one (1) vote and all post-reverse split shares to twelve (12) votes, so that the number of votes generated by the Company's shares will be proportionate to the portion of equity they represent.

At the request of one or more members of the meeting representing by themselves or as proxies at least one tenth of the capital present or represented at the meeting, a secret ballot shall be held.

Minutes of the meetings are drawn up and copies thereof are certified in accordance with the law.

The right to vote attached to the share belongs to the beneficial owner at Ordinary Shareholders' Meetings, as well as at extraordinary or special meetings.

## 7.4.9 CHANGE OF CONTROL

Neither Rhodia's bylaws nor any other internal documents contain any provision for delaying, deferring or preventing a change of control.



## 7.4.10 THE CROSSING OF THRESHOLDS

Aside from the legal obligation to inform about the holding of a certain fraction of the share capital or voting rights and to make all necessary declarations in compliance with the law, as from the date of the General Shareholders' Meeting of April 28, 2006, nothing in the bylaws or other internal documents requires the holder of the shares to inform Rhodia about owning any fraction of the share capital.

*The declarations on crossing the thresholds of ownership made to the Autorité des Marchés Financiers and to Rhodia are described in Chapter 7.3.2 above.*

## 7.4.11 MODIFICATION OF SHARE CAPITAL

Any modification of the share capital or of the voting rights attached to the shares is subject to applicable legal requirement; the bylaws do not contain any specific rules.

# 7.5 Related Party Transactions

See Chapter 7.2.1 of this Reference Document as well as Note 33 (Transactions with related parties) to the consolidated financial statements appearing in Chapter 6.4.2 below.

In addition, the Special Report of Statutory Auditors on the regulated agreements and undertakings is presented below.

## STATUTORY AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS (YEAR ENDED DECEMBER 31, 2009)

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements and commitments.

### 1. Agreements and commitments authorized during the year already approved by the Shareholders' meeting and the execution of which continued during the year

In accordance with article L.225-40 of the French commercial Code *(Code de commerce)* we have been advised of agreements and commitments which have been previously authorised by your Board of Directors. These agreements and commitments, described hereafter, have already been mentioned in our report on March 19th, 2009 and were approved by your Shareholders' meeting of May 20th, 2009.

We are not required to ascertain whether any other agreements or commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article R.225-31 of the French Commercial Code, to evaluate the benefits arising from these agreements and commitments prior to their approval.

*We performed the procedures we considered necessary in accordance with professional guidance issued by the national institute of auditors (Compagnie nationale des commissaires aux comptes), relating to this engagement. Our work consisted in verifying that the information provided to us is in agreement with the underlying documentation from which it was extracted.*

#### *Agreement relating to the mandate of the Chairman and Chief Executive Officer (Président-Directeur Général)*

Directors concerned by the agreement or commitment : Mr Jean-Pierre Clamadieu

The Board of Directors, on the occasion of the meeting held on March 16, 2009, decided to authorize the conclusion of an agreement with Mr. Clamadieu, providing for a non-compete and non-solicitation clause, as well as certain undertakings and advantages in the context of the performance of his mandate as Chairman and CEO *(Président-Directeur Général)* and, as the case may be, the termination thereof. Such undertakings were formalized by an agreement relating to the mandate of the Chairman and CEO.

This agreement, presented and approved at the May 20, 2009 Shareholders' Meeting, provides for a non-compete and non-solicitation undertaking by Mr Clamadieu for a period of 2 years after the termination of his mandate as Chairman and CEO. As consideration, Rhodia undertakes to pay Mr. Clamadieu, for a period of two years as from the termination of his duties, a quarterly gross compensation of € 220,000. It also provides that Rhodia shall grant Mr. Clamadieu an advantage in kind consisting of a complementary health and life insurance policy. Finally, this agreement confirms the conditions of application of the Supplemental Retirement Plan for officers and directors (" RSD "), of which Mr. Clamadieu is a potential beneficiary; and provides that, in the event of termination of his duties as Chairman & CEO, the rights attached to the share free attribution and subscription or purchase options that Mr. Clamadieu benefit or will benefit from will be maintained.

## 2. Continuing agreements and commitments which were entered into prior years

Moreover, in accordance with the French Commercial Code, we have been informed of the following agreements and commitments, which were approved during previous years and which were applicable during the period:

### *2.1. Employment agreement of a Director*

Director concerned by the agreement or commitment: Mr Jacques Khéliff

According to his employment contract, Mr. Jacques Khéliff, Director and Vice President for Sustainable Development of the Rhodia Group, is still receiving a to fix annual compensation amounting to € 200,000.

### *2.2. Guarantee authorized pursuant to a program of securitization of commercial loans*

On December 21st, 2004, Rhodia S.A. and certain of its European subsidiaries concluded a series of contracts with a French bank putting into place a five year program for the securitization of commercial debt, for a maximum financing amount of € 300 million. In particular, Rhodia S.A. committed itself to guarantee the payment of any amount due by its subsidiaries as part of this program.

At December 31, 2009, the amount of financing obtained under this program amounted to approximately € 41 million.

Neuilly-sur-Seine and Paris La Défense, March 11, 2010

Statutory Auditors

| PricewaterhouseCoopers Audit | KPMG Audit |
| --- | --- |
| | *Division of KPMG S.A.* |
| Christian Perrier | Denis Marangé |

# 7.6 Information available to the public

## 7.6.1 DOCUMENTS AVAILABLE ON THE COMPANY'S WEBSITE

The following documents are available on the Company's website (www.rhodia.com):

- the present Reference Document filed with the *Autorité des Marché Financiers* as an Annual Report;
- financial press releases; and
- bylaws.

Documents and information concerning the Company can be also requested at Rhodia's registered office located at Immeuble Cœur Défense, Tour A, 110 esplanade Charles de Gaulle, 92400 Courbevoie (phone number: + 33 (0) 1 53 56 64 64).

## 7.6.2 ANNUAL DOCUMENTS CREATED PURSUANT TO ARTICLE 222-7 OF THE GENERAL REGULATIONS OF THE *AUTORITÉ DES MARCHÉS FINANCIERS*

Pursuant to article 222-7 of the General regulations of the *Autorité des Marchés Financiers*, the following list sets forth the information disclosed by Rhodia since January 1, 2009 (in addition to the information included in Chapter 7.6.1).

### List of Press Releases

During 2009 and until the publication of the present document, the following press releases have been published on the Company's website (www.rhodia.com) or in the Legal Information section of the website:

| | |
|---|---|
| 1/12/09 | Rhodia to acquire McIntyre Group: another step in its profitable growth strategy |
| 1/15/09 | Jean-Yves Dubreuil appointed Director of Human Resources, France and European Labor Relations |
| 2/17/09 | Rhodia and Dow Corning confirm first target for joint silica/silane development activity |
| 2/25/09 | Fourth quarter and full year 2008 results |
| 3/2/09 | Rhodia completes McIntyre Group acquisition |
| 3/2/09 | Rhodia Launches High-Flow Flame-Retardant Technyl® Polyamide Products Specifically for Connectors |
| 3/4/09 | Emmanuel Butstraen appointed President of Rhodia Silcea |
| 3/20/09 | Rhodia presents plans to boost its competitiveness in France |
| 3/20/09 | Information relating to the combined Shareholders' Meeting of May 20, 2009 |
| 3/20/09 | Resolutions proposed to Annual Shareholders' Meeting |
| 3/24/09 | Rhodia files its Annual Report 2008 |
| 3/30/09 | Rhodia launches new waterborne paint additives |
| 3/30/09 | Rhodia presents its new high-performance and eco-friendly solvent: Rhodiasolv® Iris |
| 3/30/09 | Rhodia and Inoplast break new ground by creating the first polyamide reinforcement beam for truck radiator grilles |
| 4/2/09 | Rhodia and Millet target a global cooperation for recycling of polyamide |
| 4/20/09 | Rhodia extends its range of skin & hair care solutions with expanded cleansing & conditioning portfolio |
| 4/20/09 | Rhodia introduces plant-based Jaguar® C500 for healthy-looking hair with weightless volume |
| 4/20/09 | Rhodia unveils its high performance surfactant system Miracare® SLB for hair care applications |
| 4/24/09 | Rhodia and IFP join forces to optimize oil reserve extraction |
| 5/5/09 | Rhodia to cease operation of its polyamide production line in Mississauga, Canada |

| | |
|---|---|
| 5/6/09 | First Quarter 2009 results |
| 5/14/09 | Rhodia announces the signature of three agreements with its employees' representatives |
| 5/14/09 | Henri Poupart-Lafarge joins Rhodia Board of Directors |
| 5/20/09 | Rhodia receives the first European Emission Reductions Unit (ERU) |
| 5/20/09 | Combined Annual Meeting Of Rhodia Shareholders |
| 5/26/09 | Rhodiasolv® Iris, a new eco-friendly solvent, registered in Europe, the USA, Australia, Japan, South Korea, and China |
| 6/15/09 | Jean-Christophe Sciberras appointed Director of Human Resources, France and Worldwide Labor Relations |
| 6/16/09 | Notice to holders of non-consolidated Rhodia's shares |
| 6/24/09 | Rhodia receives France's 2009 Pierre Potier Prize for its Rhodiasolv® Iris solvent |
| 6/29/09 | Rhodia acquires minority partner's shareholding in Rhodia Thai Industries and reinforces position in Asian surfactants market |
| 7/2/09 | Bertrand Leroux appointed Director of Compensation & Benefits |
| 7/6/09 | Rhodia enters into fast growing biogas market |
| 7/29/09 | Second quarter 2009 results |
| 7/31/09 | Rhodia 2009 Half Year Report now available |
| 9/15/09 | With Technyl Star® AFX, Rhodia breaks new ground by creating the first polyamide reinforcement beam for radiator grilles |
| 9/15/09 | Rhodia responds to new EU regulations on tires with Zeosil® Premium |
| 9/16/09 | Rhodia recognized as one of the front-ranking chemical companies worldwide in the area of social and environmental responsibility |
| 9/22/09 | Rhodia's Automotive Offer: more innovation, less $CO_2$ |
| 9/22/09 | Rhodia launches Eolys PowerFlex™: the response to new fuel types, for cleaner and more economic diesel vehicles |
| 9/23/09 | Rhodia and its Polyamide 6.6 have been chosen for under-the-hood applications in biofuel engines |
| 10/9/09 | Customer information - Rhodia is compelled to declare Force Majeure on its Polyamide value chain |
| 10/21/09 | Rhodia Acetow Announces a Worldwide 8.5% Price Increase for Rhodia® Filter Tow |
| 10/21/09 | Customer Information: Attempted fraud uses Rhodia name in North America consumer hoax |
| 11/4/09 | Third quarter 2009 results |
| 11/26/09 | Rhodia enriches its product offering with an economical new ecological and organically sourced polyamide |
| 12/1/09 | Rhodia's Jaguar® HP 120 makes it easy to formulate Hydro-Alcoholic Hydrating & Antibacterial Hand Gels |
| 12/11/09 | Rhodia introduces Rhodiasolv® STRIP new eco-friendly core ingredient for safe, high performance and flexible paint stripping formulations |
| 12/8/09 | French and Brazilian company chairmen share their energy to combat climate change |
| 1/14/10 | Rhodia Adds Three Initial Functionalities to its MMI Confident Design™ technology for Predicting the Mechanical Behavior of Filled Polymers |
| 1/28/10 | The ICC arbitration tribunal confirms Rhodia's rights in the dispute against Invista |
| 2/01/10 | Rhodia signs an agreement with its trade unions for the appraisal and analysis of psychological risks |

## List of documents published in BALO (Bulletin des Annonces Légales Obligatoires)

The information below is available on the Company's website (www.rhodia.com) and on the official website of the *Autorité des Marchés Financiers* (www.amf-france.org).

| | |
|---|---|
| 03/20/2009 | Notice of meeting – Shareholders Meeting |
| 04/20/2009 | Notice of meeting – Shareholders Meeting |
| 06/24/2009 | Periodic publication – Annual financial statements |
| 01/03/2010 | Notice of meeting – Shareholders Meeting |

# 7.7 Auditors

## 7.7.1 STATUTORY AUDITORS

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

63, rue de Villiers
92200 Neuilly-sur-Seine

Represented by Mr Christian Perrier

appointed on April 29, 2003 with a mandate, renewed at the Shareholders' General Meeting of May 20, 2009 and that ends at the close of the Shareholders' General Meeting called to approve the financial statements for the year ended December 31, 2014.

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

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

Represented by Mr Denis Marangé

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

## 7.7.2 ALTERNATE AUDITORS

Mr Yves Nicolas

63, rue de Villiers
92200 Neuilly-sur-Seine

appointed on April 29, 2003 with a mandate renewed at the Shareholders' General Meeting of May 20, 2009 and which ends at the close of the Shareholders' Meeting called to approve the financial statements for the year ending on December 31, 2014.

Mr Jean-Paul Vellutini

1, cours Valmy
92923 Paris La Défense Cedex

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

The table of the Statutory Auditors' fees is found in Note 35 to the consolidated financial statements in Chapter 6.4.2 of this Reference Document.

# 7.8 Certification by the person responsible for the Reference Document

## 7.8.1 PERSON RESPONSIBLE FOR THE 2009 REFERENCE DOCUMENT

Jean-Pierre Clamadieu, Chairman and Chief Executive Officer.

## 7.8.2 CERTIFICATION BY THE PERSON RESPONSIBLE FOR THE 2009 REFERENCE DOCUMENT (CONTAINING THE ANNUAL FINANCIAL REPORT)

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

I hereby certify, to the best of my knowledge, that the financial statements presented in this Reference Document were prepared in conformity with the applicable accounting standards and provide accurate information about the assets, financial position and profits of the Company and the consolidated Group of companies, and that the Management Report incorporated in the present Reference Document (including the Reconciliation Table below) provides an accurate picture of the business developments, profits and financial position of the Company and the consolidated Group of companies, as well as a description of the principal risks and uncertainties that these companies face.

I have received an audit completion letter from the Statutory Auditors in which they state that they have verified the information regarding the financial position and financial statements presented in this Reference Document and that they have reviewed the entire Reference Document.

The Statutory Auditors have issued a report on the profit projections presented in Chapter 6.3 of this reference document. The report is included in Chapter 6.3.

The historical financial information presented in this document is covered in the Statutory Auditors' reports contained in chapter 6.4, concerning the consolidated financial statements, and chapter 6.5, concerning the statutory financial statements.

Chairman and Chief Executive Officer

Mr Jean-Pierre Clamadieu

# Correlation tables

## Reconciliation table (referring to financial and management reports)

In order to facilitate the reading of the annual financial report (Article L. 451-1-2 of the Monetary and Financial Code and Article 222-3 of the General Regulations of the Autorité des Marchés Financiers) and the corporate management report of Rhodia (Article L. 225-100 and seq. of the Commercial Code) incorporated in this Reference Document, the following reconciliation table allows the identification of the chapters comprising the annual financial report.

The information from Rhodia's annual financial report is set forth in entries 1, 3, 5, 6, 7, 8 and 9 of the table below.

The information from Rhodia's corporate management report is set forth in entries 1 to 3 of the table below.

The Information that is not applicable to the Rhodia Group is indicated with "N/A".

| | Information | References to the sections of the 2009 Rhodia Reference Document |
|---|---|---|
| **1** | **Company management report of the Board of Directors** | |
| 1.1 | Business activities of the Company during the past year, and if applicable, of its subsidiaries and affiliates | 2.1, 6.1 and 6.2.1 |
| 1.2 | Profits of the Company, its subsidiaries and affiliates by business sector | 6.1 and 6.2.1 |
| 1.3 | Important events between the end of the financial year and the date on which the management report is presented | 6.3.1 |
| 1.4 | Issues and future prospects | 6.3.2 |
| 1.5 | Research and Development activities | 2.3 |
| 1.6 | Analysis of the changes in the business, results and financial situation | 6.2.1 |
| 1.7 | Key financial performance indicators | 1.2 |
| 1.8 | Key indicators regarding the environment and personnel | 3.2 and 3.3 |
| 1.9 | Description of the principle risks and uncertainties | 5.2 and Notes 26, 28.4 and 24 to the consolidated financial statements |
| 1.10 | Information on the use of financial instruments and the Company's objectives and policy regarding the management of financial risks | 5.2.5, 5.2.6 and Notes 26, 28.4 and 24 to the consolidated financial statements |
| 1.11 | State of employee participation in the share capital | 7.3.2.3 |
| 1.12 | Total compensation and any fringe benefits granted to each corporate officer | 4.3 |
| 1.13 | List of the positions and functions exercised by each corporate officer, corporate governance | 4.1.1.2 |
| 1.14 | Social and environmental impact | 3 |
| 1.15 | Information on the Company's policy regarding the prevention of technological accident risks, the Company's ability to cover its civil liability for material harm and personal injury resulting from certain classified installations, and methods designed to ensure indemnification of victims in the event of a technological accident for which the Company is held liable | 5.2.1, 5.2.2 and 5.3 |
| 1.16 | Dividends distributed during the past three financial years | 6.2.3 |
| 1.17 | Information relating to stock repurchase plans | 7.3.1.3 |
| 1.18 | Information on the Company's shareholders | 7.3.2 |

| | Information | References to the sections of the 2009 Rhodia Reference Document |
|---|---|---|
| 1.19 | Transactions by directors and officers with respect to their Rhodia shares | 7.3.2.5 |
| 1.20 | Detailed calculation and results of the adjustment of the bases for converting or exercising securities giving access to the capital and stock subscription or purchase options | 7.3.1.5 |
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# Correspondence table (to the sections of Annex I of the Commission Regulation no. 809/2004)

In accordance with Article 28 of the European Council regulation 809/2004, the following information is included by reference in this reference document:

- the consolidated financial statements for the year ended December 31, 2007 and the report of the statutory auditors related to the financial statements for the year ended December 31, 2007 that are found in the Company's reference document filed with the *Autorité des Marchés Financiers* on March 31, 2008 under the number D.08-0182, on pages 124 to 195 and 128 respectively;
- the consolidated financial statements for the year ended December 31, 2008 and the report of the statutory auditors related to the financial statements for the year ended December 31, 2008 that are found in the Company's reference document filed with the *Autorité des Marchés Financiers* on March 24, 2009 under the number D.09-0150, on pages 121 to 190 and 123 respectively.

Information considered irrelevant to the Rhodia group are marked as "N/A".



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The report of the Chairman of the Board of Directors was approved by the Board of Directors at its meeting of February 23, 2010.

It was prepared based on Article L. 225-37 of the Commercial Code as modified by Law No. 2008-649 concerning various provisions for adapting French company law to European Community legislation.

This report indicates the corporate governance code which Rhodia follows voluntarily, and if applicable, explains why Rhodia has deviated from certain provisions of the code.

It reflects the composition and the criteria for preparing the work of the Board of Directors, and indicates the limitations the Board has placed on the powers of the Chairman and Chief Executive Officer, as well as the principles and rules it has enacted to determine the compensation and benefits granted to corporate officers.

This report also specifies the special procedures relating to the participation of shareholders in the general shareholder meeting.

Lastly, it reviews internal control and risk management procedures put in place by Rhodia, and specifically, procedures relating to the preparation and handling of the financial and accounting information for the individual and consolidated financial statements.

The content of the report by the Chairman of the Board of Directors is presented in the following sections of this document.

| Information | References to the sections of the 2009 Rhodia Reference Document |
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