

## Fitch Revises Rhodia's Outlook to Stable; Affirms at 'BB-'

Fitch Ratings-Frankfurt/London-26 February 2010: Fitch Ratings has today revised the Outlook on France-based Rhodia S.A.'s (Rhodia) to Stable from Negative and affirmed the company's Long-term Issuer Default Rating (IDR) and senior unsecured ratings at 'BB-', respectively.

The rating action reflects the continuous sequential recovery in volumes and pricing in Rhodia's Polyamide and Silcea's divisions in H209, resulting in strong free cash flow generation, reduced net financial indebtedness and credit metrics exceeding Fitch's initial forecast for FY09. While visibility, especially for the second half of 2010, is limited and uncertainties remain, particularly with regard to European markets, the Stable Outlook also reflects Fitch's improved expectations for the current year. In particular the polyamide market is expected to remain tight in 2010 due to maintenance shutdowns at key producers and continued favourable demand trends especially in Asia and Brazil.

Rhodia's performance in H209 benefited from the group's exposure to the Latin American and Asian automotive markets where demand rebounded from record low levels in H109. Profitability was also aided by low raw material prices compared to 2008 levels, and EUR120m of cost savings realised during the year. The group further reduced its capital expenditures by over 30% and suspended dividend payments in order to preserve cash. Group sales showed a 15.4% decline to EUR4.0bn in FY09 while the recurring EBITDA margin dropped to 12.1% from 13.9%. Reported net leverage (net debt/EBITDA) increased slightly to 2.1x at FYE09 compared with 2.0x at FYE08.

The agency expects Rhodia could achieve in FY10 a more than 25% higher recurring EBITDA (compared to EUR487m in FY09) in continuation of the trends seen in the second half of 2009, and driven by strong performance in emerging markets where the group achieves around 45% of its sales. Fitch forecasts that Rhodia will achieve positive free cash flow also in FY10, however, it is anticipated to be substantially below the record levels seen in FY09. The agency further expects a stable or slightly reduced net leverage in FY10.

Rhodia's ratings continue to reflect its diversified business profile, its relatively moderate financial leverage as well as its comfortable liquidity position. Furthermore, Rhodia does not face significant debt maturities before end-2013. The group's diversified product portfolio - with product sales to a broad spectrum of consumer and industrial markets - helped mitigate the sharp downturn. The downturn saw the group endure volume decreases in Polyamide and Silcea, driven by the exposure to auto, electronics, housing and textile end-markets. This was partly offset by the profit generation in Acetow, supplying the cigarette filter industry, and in Eco Services, a North American sulphuric acid business and the group's Energy division, which trades Rhodia's Carbon Emission Rights (CER).

Fitch notes that Rhodia's CER monetisation strategy results in substantial EBITDA contribution. FY09 EBITDA margin excluding the Energy division was only 8% and 10% in FY08. Fitch remains cautious given the inherent price volatility of CERs and uncertainties about the sustainability of the CER programme under equal terms beyond 2013. It focuses its analysis mainly on the utilisation of the CER proceeds (e.g. if used for debt repayments or acquisitions). Fitch also notes Rhodia's substantial pension deficit, which has increased to EUR1.6bn due to changes in actuarial assumptions in FY09. While the yearly cash outflow is expected to remain broadly stable around EUR110m these cash outflows continue to burden cash flows and coverage ratios. The agency understands that in FY10 no exceptional contributions have to be made.

Rhodia's liquidity position is comfortable in Fitch's view. Rhodia had EUR791m of cash and cash equivalents on-balance sheet at FYE09 and access to a largely undrawn, secured EUR600m revolving credit facility (EUR543m undrawn at FYE09, EUR57m utilised for letters of credit) maturing in 2012. In addition, Rhodia has access to a EUR240m securitisation programme with over 80% availability at FYE09. Fitch expects headroom under the RCF covenants which were reset in April 2009 to remain comfortable. In FY09 management maintained a strong focus on improving its working capital management, as well as cash preservation in a difficult operating environment. In this respect Fitch assumes that working capital trends will reverse to some extent in FY10, reflecting the pick-up in

business. The agency also includes in its forecast assumptions, in line with management guidance, up to EUR250m in capital expenditures, EUR25m in dividend payments, equal sized cash outflows for pensions compared to the previous year and small- to medium sized bolt-on acquisitions.

Applicable criteria, 'Corporate Rating Methodology', dated 24 November, 2009 is available at [www.fitchratings.com](http://www.fitchratings.com).

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