

Profitable & Sustainable growth : financing

Bernard de Laguiche
CFO of the Solvay group



SOLVAY INVESTORS DAY
September 26, 2007



Growth strategy & execution



BUSINESS CONTEXT





- **Finance management**

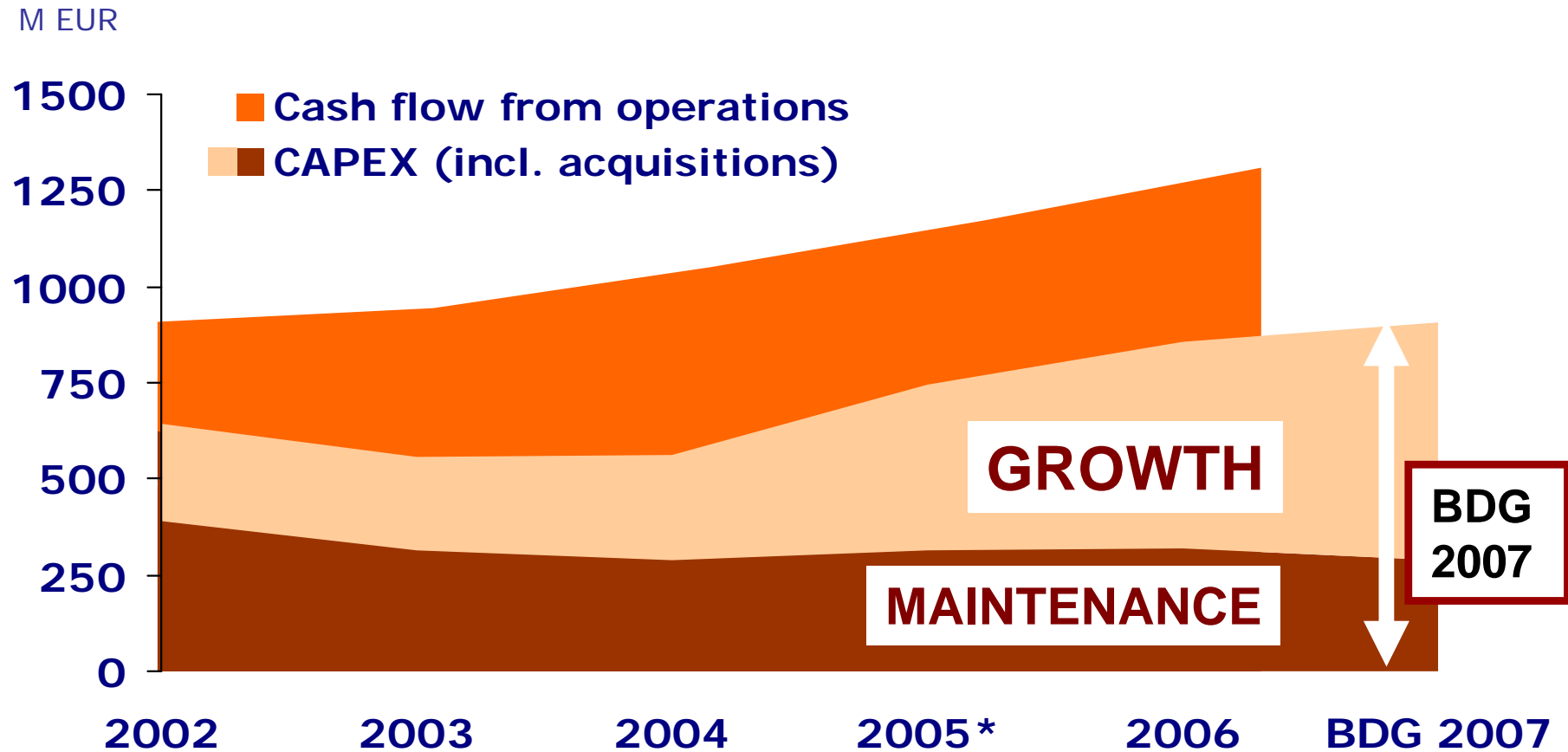
- Building the future for our shareholders

Cash Enhancement Finance management



- Sound financial structure
- Tax optimization
- Working capital efficiency
- Low level of currency mismatch
- Finances/HR standardization
- Risk management

Discipline in cash use → reinvested in future growth



* excluding the acquisition of Fournier (EUR 1.2 Bn)

Strong balance sheet



B/S summary

M EUR	2006	At the end of June 2007
Fixed assets	5803	5823
Net Working capital	1192	1692
Investment and Share	790	785
External loans	82	107
Total Invested Capital	7868	8407
Equity	-4456	-4710
Provisions	-2431	-2345
Deferred taxes	369	366
Taxes payable / receivable	-5	-52
Dividends	-89	-4
Net debt	-1257	-1662
Total Financing	-7868	-8407
ROE (%)	19.4	16.7
Debt / Equity (%)	28.2	35.3

- **target :**
net debt/equity not durably exceeding <45%
→ **June 2007 : 33%**
- **Stable rating**
→ **single A (S&P's, Moody's)**
→ **P1 (S&P's, Moody's)**

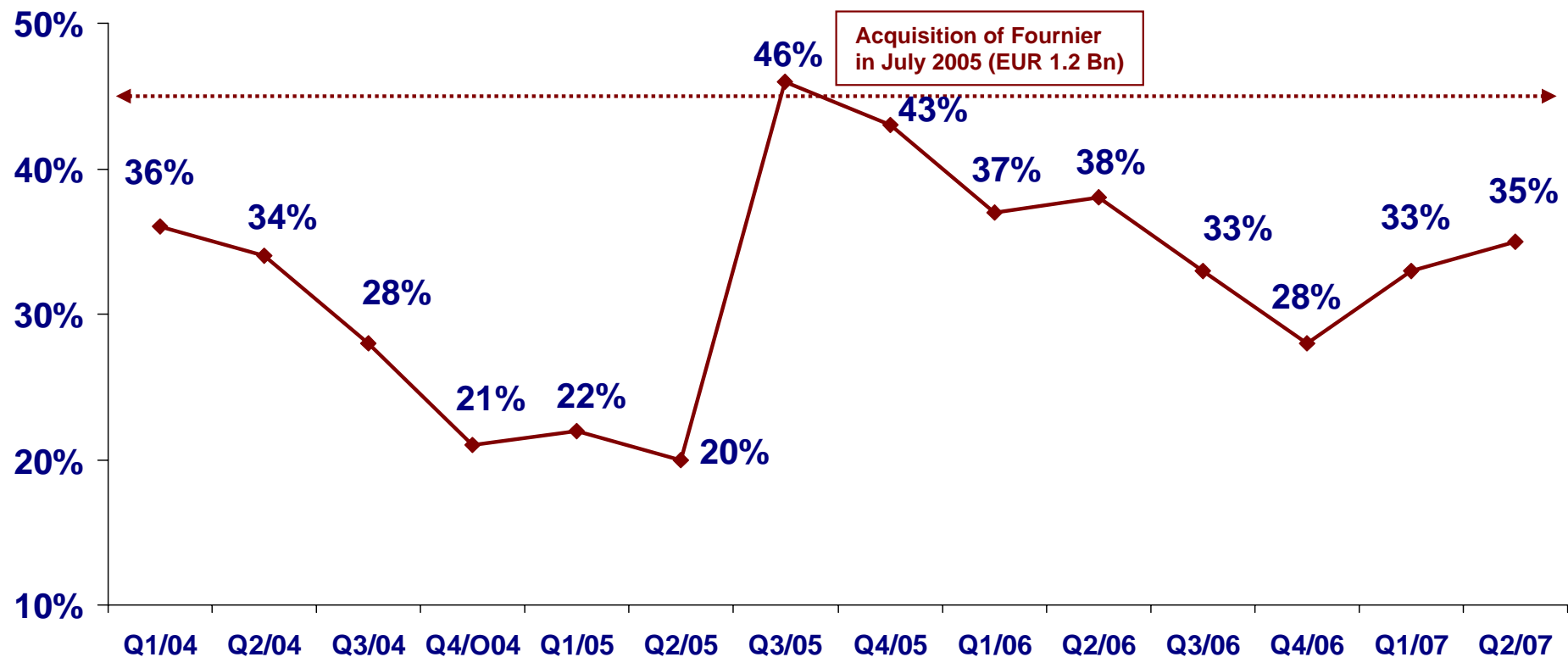


Efficient management of net debt

End of June 07 :

- 85% of financial debt at a fixed rate of 5.5% (duration > 8 years)
- coupon rate of 5.1% (Interest charges/average gross debt)

Target : net debt/equity not durably exceeding 45%



Financial resources flexibility



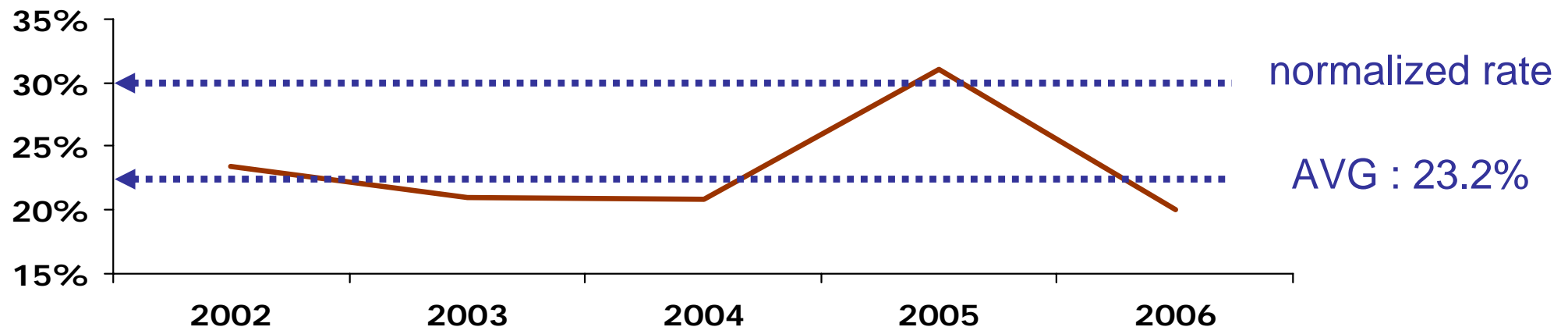
- **Cash flow (2006)
from operating activities** **EUR 1,400 M**
- **Existing borrowings :** **EUR 1,300 M**
- **Additional resources :**
 - ➔ **Commercial paper** **USD 500 M**
 - ➔ **Bank credit lines :** **EUR 1,250 M**
(EUR 850 M - 2011, EUR 400 M - 2013)
- **Financial participations**

Tax optimization



- **Average effective tax rate last 5 years: 23.2%**
- **Normalized medium term tax rate: 30%**
- **Short term dynamics:**
 - ➔ lower corporate tax rates lead to adjustments in tax assets & thus higher rates in the short term

Effective tax rate

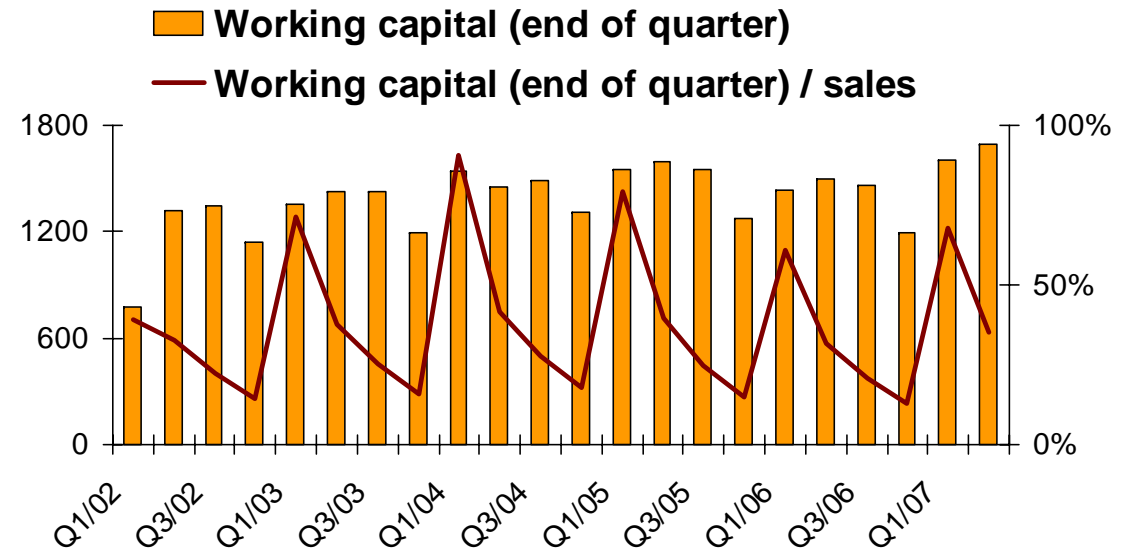


Efficient management of working capital



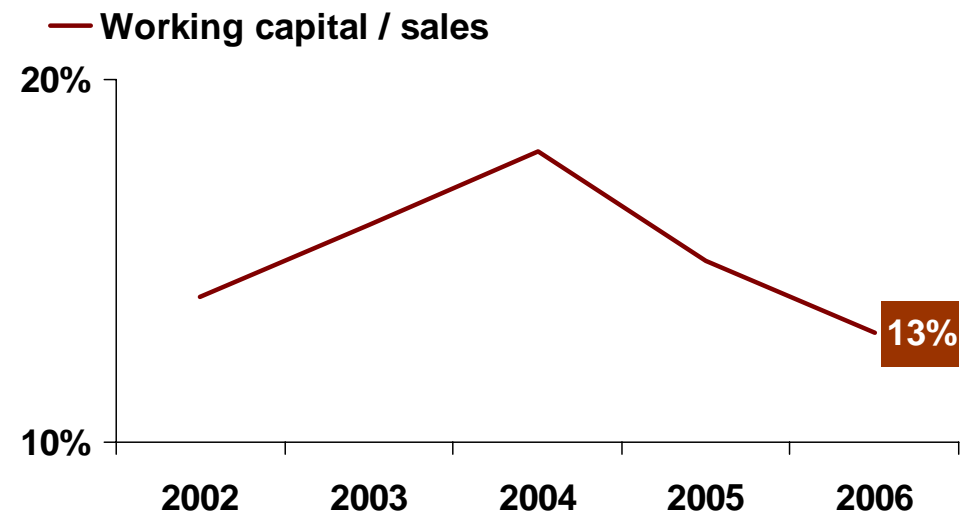
■ Working capital seasonality

- ➔ High point in Q2
- ➔ Low point in Q4



■ Efficient management

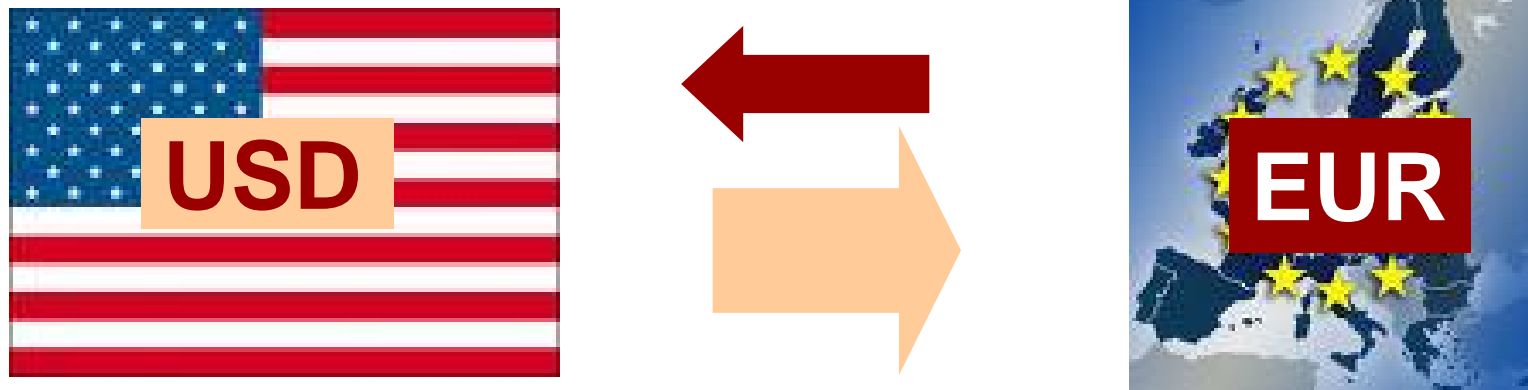
- ➔ working capital/sales : decreasing trend





Low level of currency mismatch

Transactional risk : Group's main exposure in Pharma / EUR-USD



Net USD flows 2007: ~ 750 MUSD

- Hedging 2007: 53%
- Hedging 2008: 34%

Balance sheet risk: when converting in EUR the assets and liabilities of the subsidiaries in another currency zone

- no hedge needed according to "Value at Risk" analysis.

Finance/HR standardization “3S” Project



- Optimize and standardize Finance and HR processes
- Concentrate the back office activities in Lisbon
 - ➔ Finance : close the books, accounts receivable, accounts payable, treasury, travel and professional expenses
 - ➔ Human resources : payroll, cost planning, hiring, training, international transfers, performance evaluation, compensation, cost planning, pensions
- Start-up of the 3S Center in Lisbon in September 2005 with a progressive migration up to end of 2007 with 210 employees on board
- The 3S project will allow a cost reduction of EUR 27 M as from 2008
- Total expenses of EUR 43 M from 2006 to 2008

Risk management



■ Risk examples and “mitigation efforts” per risk category

Category of Risk	Mitigation efforts - examples
Market & Growth – Strategic Risk	Strategy process including periodic reviews and rolling five year plans
Supply Chain and Property Risk	Policies and risk control programs, energy management, raw material integration
Regulatory, Political and Legal Risk (incl. IPR and legal ownership)	Compliance, internal and external legal resources, IP management, joint ventures
Corporate Governance and Risk with Internal Procedures	Code of Conduct, compliance organization, hiring procedures, training
Financial Risk	Management of forex, interest rate and pension funding exposures; provisions, insurance
Product Risk	Quality assurance and control, R&D, product stewardship, REACH implementation, innovation, venture capital funds
Risk to People	Policies and risk control programs, stringent safety programs, contractors, hazardous chemicals transports
Environmental Risk	Policies and risk control programs, internal expertise, remediation
Information and IT Risk	User training, internal and external IT resources, contracts
Reputation Risk	Good management, control practices and systems, communication, long-term relationships



Risk Management and Insurance

- **Centrally managed** by Competence Center Risk Management & Insurance
 - Buys insurance cover for Solvay S.A. and subsidiaries
 - Insurance advice to JVs Inergy and Pipelife – in cooperation with other parent
- **Global Programmes:**
 - Property Damage & Business Interruption – buildings, equipment
 - Transport
 - Construction
 - Liability – Public and Products
 - Credit (through business in CICC)
- **Self-insurance**
 - Solvay's "Captive" re-insurance company Blair takes most of the Property and Liability risk
- Insurance **broker / insurance companies** worldwide



- Finance management
- **Building the future for our shareholders**



Stable shareholder base

→ core asset in executing our long term strategy

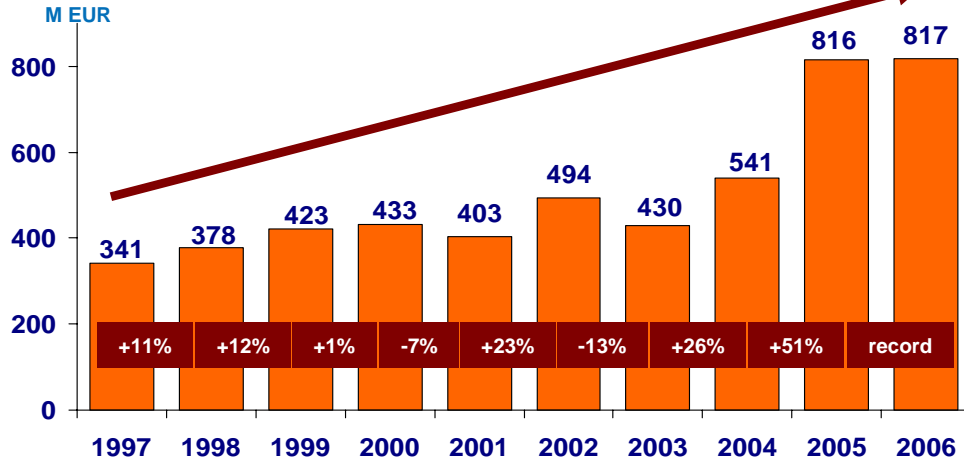
- Shareholding structure
70 % free float, Solvac 30% stable shareholder
- Market capitalization: EUR 8.5 Bn (Sep. 2007)
- A clear dividend policy



Delivering on financial targets

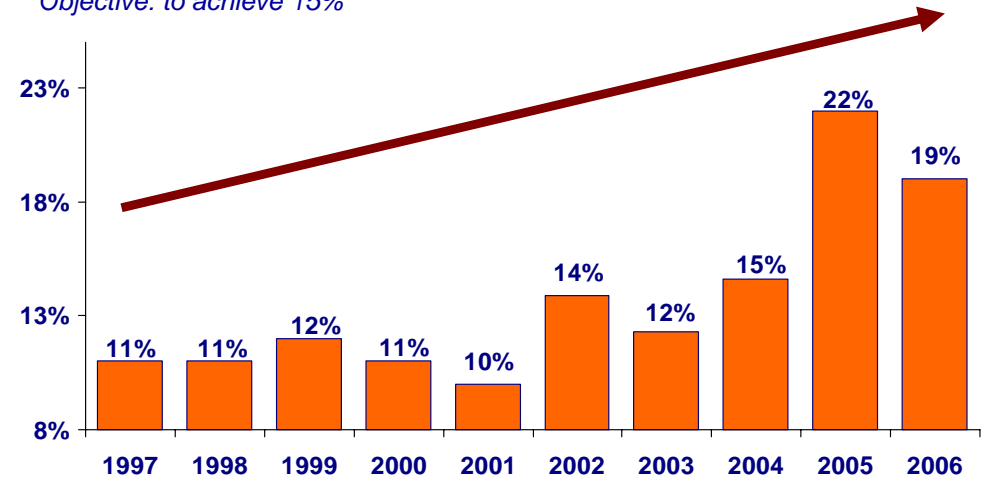
NET PROFIT

Objective: average annual growth of 10%



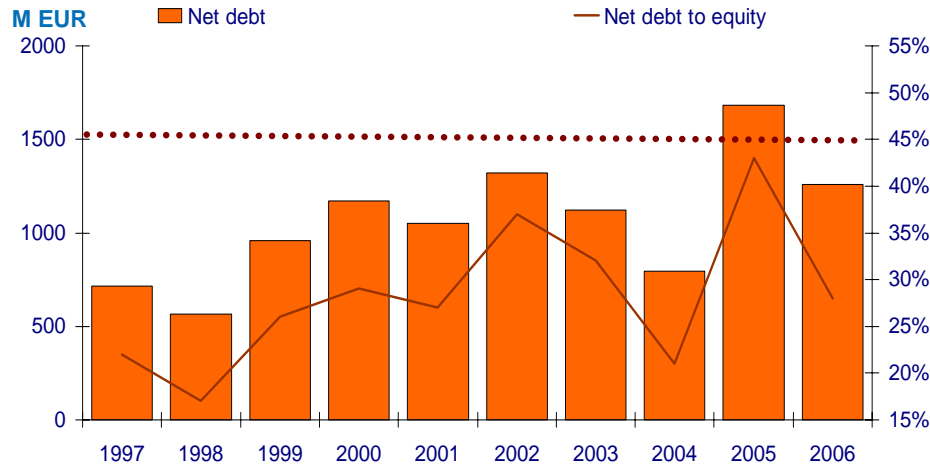
RETURN ON EQUITY

Objective: to achieve 15%



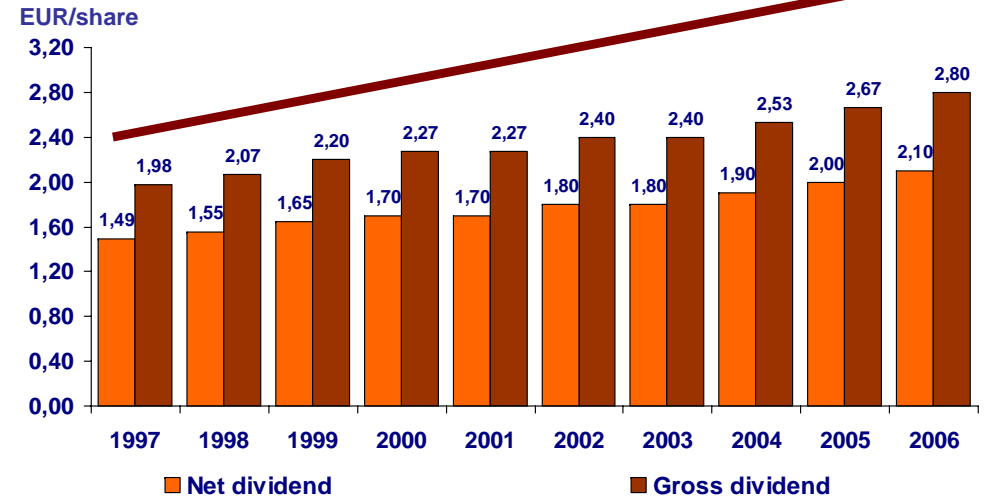
NET DEBT TO EQUITY

Objective: not to exceed durably 45%



DIVIDEND POLICY

Increasing our dividend whenever possible, and if possible, never reducing it

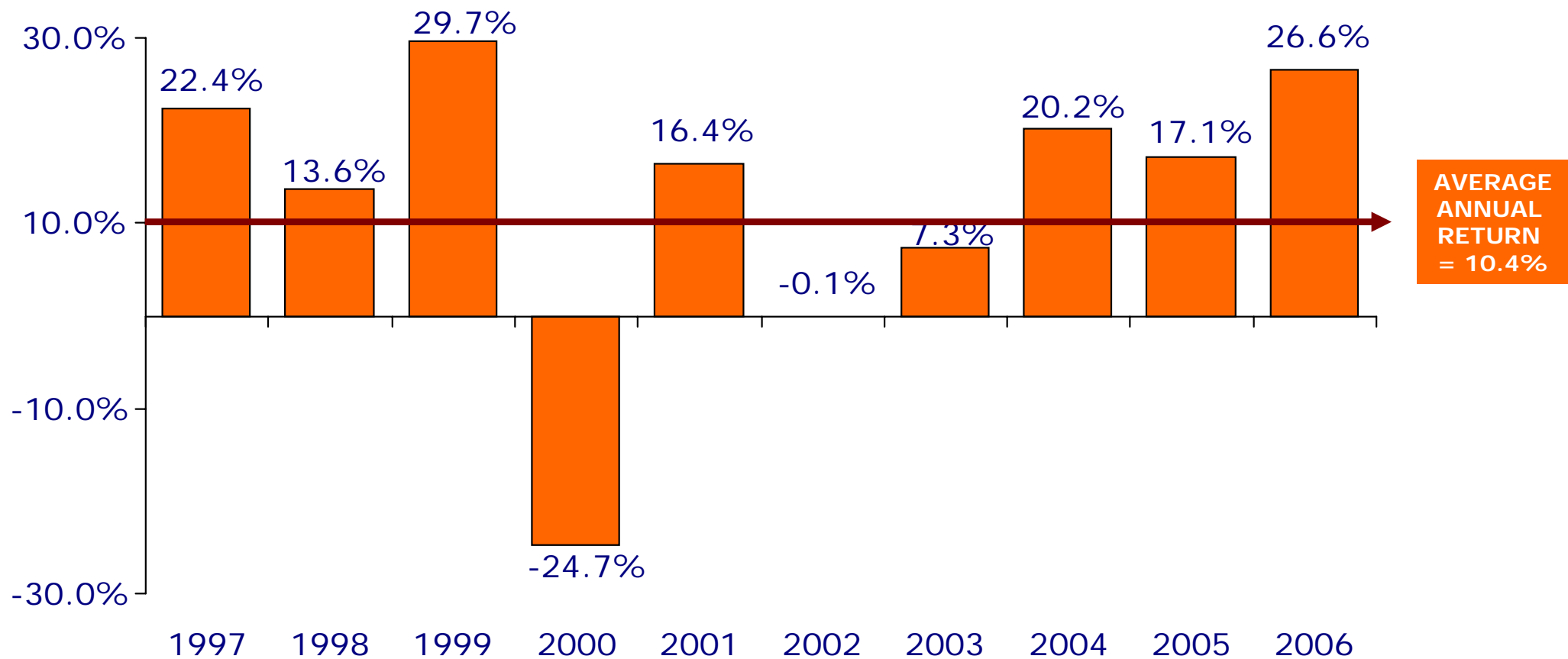


Annual return on Solvay share 1997-2006



Annual return

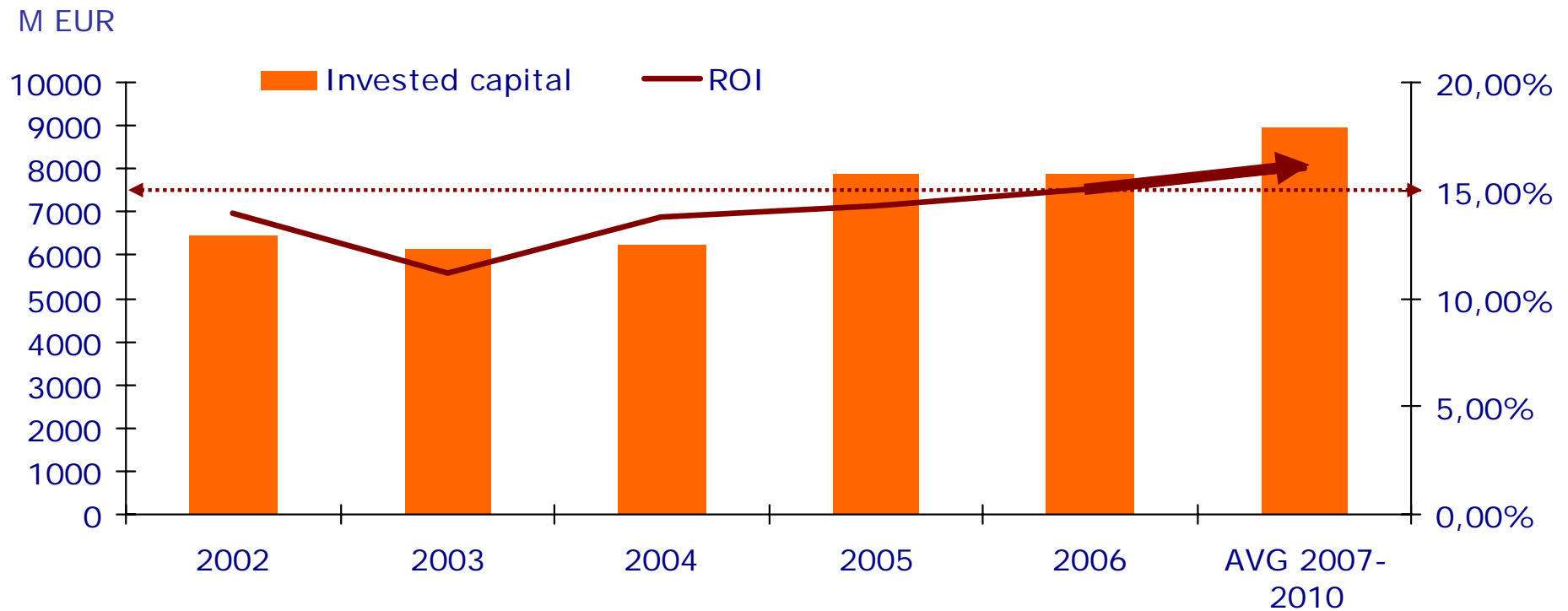
= growth (in %) of stock market price + dividend yield (in %)



Return on invested capital



- **ROI** (REBIT / invested capital (=investments+working capital))
 - ➔ **Target : ROI of 15%**
- **Invested capital**



Conclusion



**DYNAMIC MANAGEMENT OF OUR HEALTHY
FINANCIAL STRUCTURE
TO ACHIEVE OUR LONG TERM TARGETS**

Resulting in long term value creation

“To the extent that any statements made in this presentation contain information that is not historical, these statements are essentially forward-looking. The achievement of forward-looking statements contained in this presentation is subject to risks and uncertainties because of a number of factors, including general economic factors, interest rate and foreign currency exchange rate fluctuations; changing market conditions, product competition, the nature of product development, impact of acquisitions and divestitures, restructurings, products withdrawals; regulatory approval processes, all-in scenario of R&D projects and other unusual items. Consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can be identified by the use of words such as "expects," "plans," "will," "believes," "may," "could" "estimates," "intends", "goals", "targets", "objectives", "potential", and other words of similar meaning. Should known or unknown risks or uncertainties materialize, or should our assumptions prove inaccurate, actual results could vary materially from those anticipated. The Company undertakes no obligation to publicly update any forward-looking statements”



a Passion for Progress®