



# **SOLVAY** Opportunities & Challenges

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**SOLVAY INVESTORS DAYS**  
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## **(1) Short Term Industry Opportunities & Challenges**

(2) Financial Levers of Management

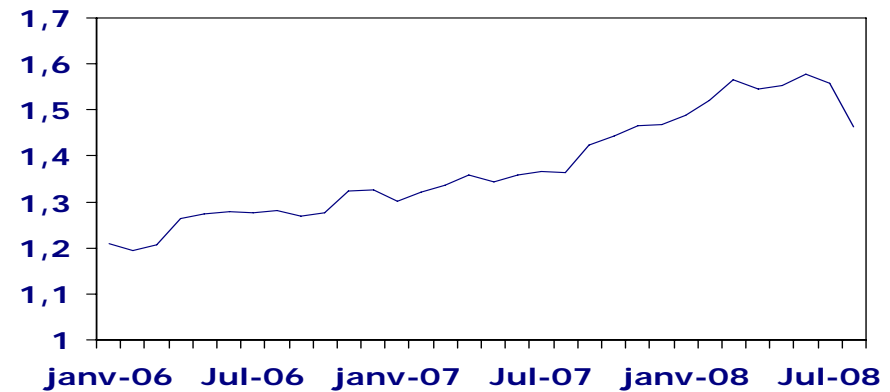
(3) Long Term Value Creation

# Short Term Industry Opportunities & Challenges



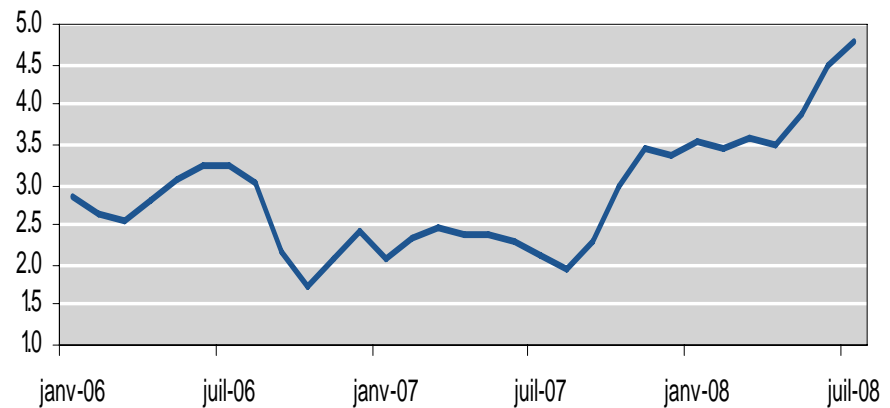
- Rising costs vs. pricing power
- Strong EUR
- Financial crisis
- Inflation
- Uncertainties of demand evolution

EUR / USD (2006 - 2008)



%YoY

OECD Inflation



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# Rising costs versus pricing power

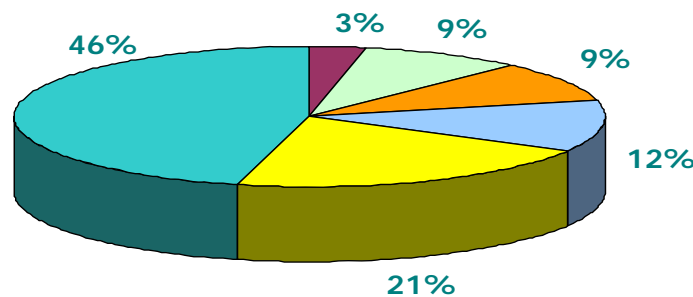
## SOLVAY

- largely integrated in its main raw materials
- partly integrated in
  - ✓ Energy (10% of HY08 Group's sales)\_mainly in Chemicals Sector
  - ✓ Ethylene (6% of HY08 Group's sales) for PVC production

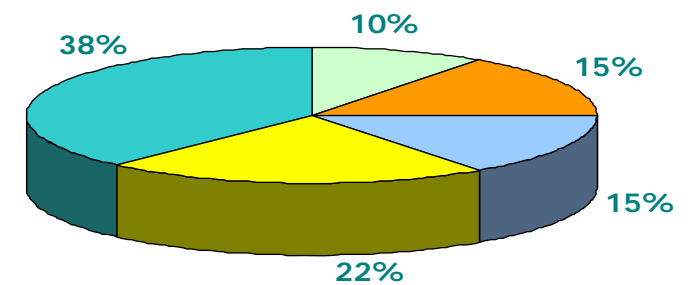
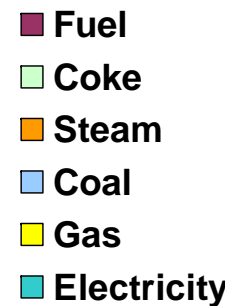
## Management levers :

- ✓ Sales price increases (PVC, caustic soda) to reflect input cost rise
- ✓ Pro-active energy management (cogeneration units, set up of a dedicated company Solvay Energy, ...)

Energy cost split 2003 vs. latest estimate 2008



2003



2008est.

Solvay's energy expenses 08:  
+/- EUR 1.1 bn

# Rising costs versus pricing power



## Management levers (cont'ed) :

### ■ Cost control & industrial restructurings

2007/2008 reduction of ~2,000 FTEs

#### ■ Pharmaceuticals

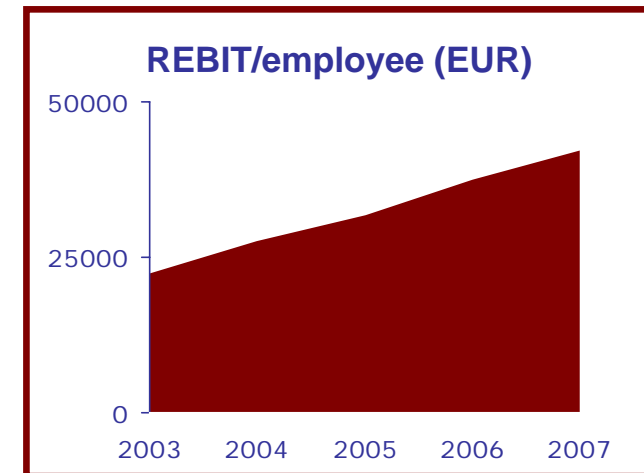
Inspire program

#### ■ Chemicals

Chloromethane unit (Bussi, Italy);  
restructuring of Girindus (Germany) :  
sale of activities in Kuensebeck);  
Restructurings in fluorinated  
commodities (5 sites in Italy, Spain &  
Germany)

#### ■ Plastics

Vinyls (Benvic®, Belgium); Inergy  
Automotive Systems (Japan & Canada),  
Specialty Polymers & Pipelife (Spain)



### ■ European backoffice functions (HR & Finance) centralized in Portugal

➔ Yearly cost savings of EUR 27m as from 2008

# Solvay's Financing



→ No major maturity before 2011

		<u>2011</u>	<u>2013</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>
<b>1. <u>Net debt:</u></b>		1.6				
Of which EMTN issues		1.0		0.5		0.5
Hybrid issue		0.5			0.5	
with fixed rates		1.6		(duration : 7.9 years)		
<b>2. <u>Undrawn commitments:</u></b>		1.9				
CP (unused)		0.7				
Revolving credits (unused)		1.2	0.8	0.4		

→ **End of June 2008**

Financial debt covered up to 94% (fixed rate of 5.2%; duration of 7.9 years)

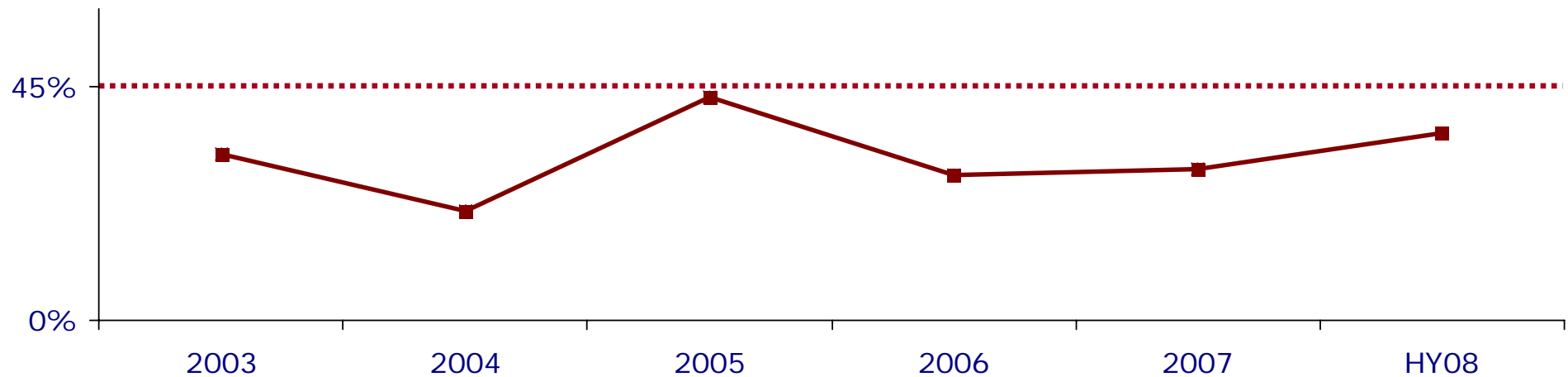
# Sound financial structure



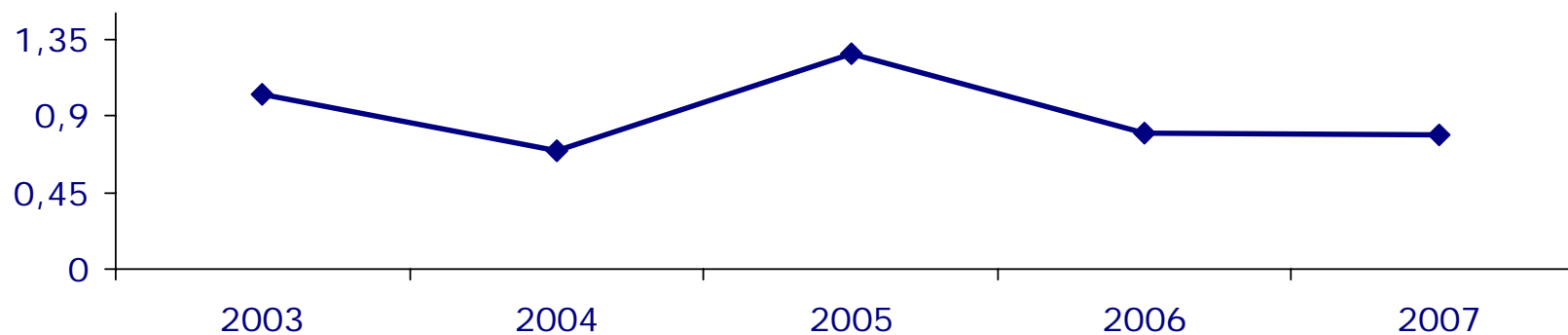
- Stable short & long term single-A ratings
- Negative outlook following Fournier acquisition only in 2005

## Net debt to equity

Objective : not to exceed durably 45%



## Net debt/REBITDA





# Sound Financial Structure & market pricing

READY FOR TOMORROW



## Credit spreads (bps)



— Itraxx Financial Senior 5YR

— Solvay SA

# Forex management



- Centralized & strictly controlled at Group level
- Operating companies financed in local currency after swaps
- On balance no Forex risk on net non-EUR debt
- Balance sheet risk : yearly reassessment based on V@R analysis – no coverage until now
- Up to 75 % of expected yearly Forex transaction exposure is covered
- Structural long position of +/- USD730m in 2008
- Rule of thumb Forex impact (based on 2007 figures)  
10% USD/EUR change => EUR 37m REBIT impact

*(EUR million)*

**Result of coverage**

**2006 2007 HY08**

**+4    +16    +9**

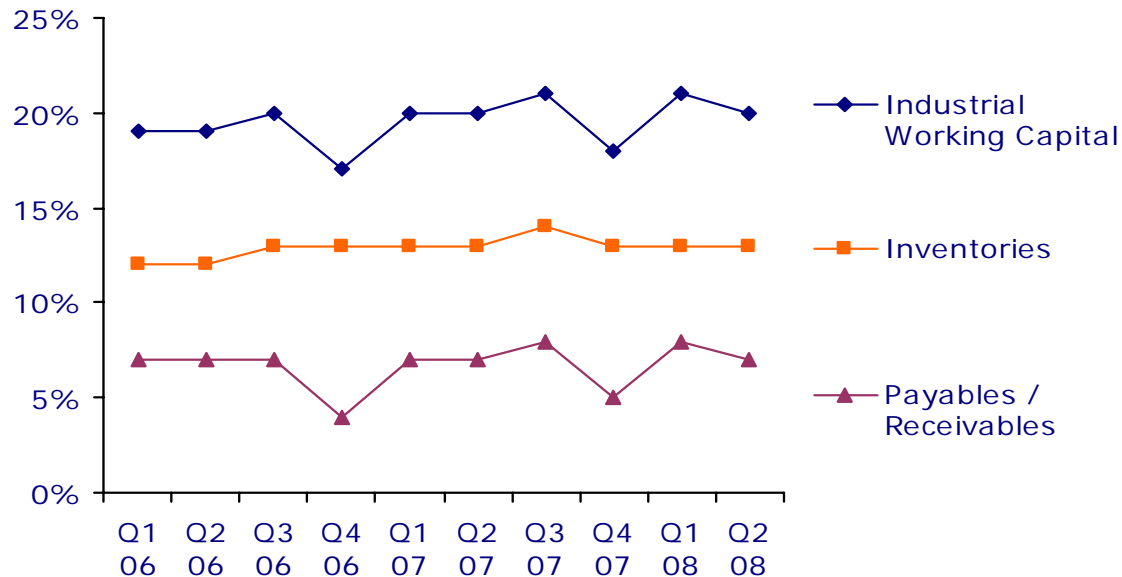
**SOLVAY**



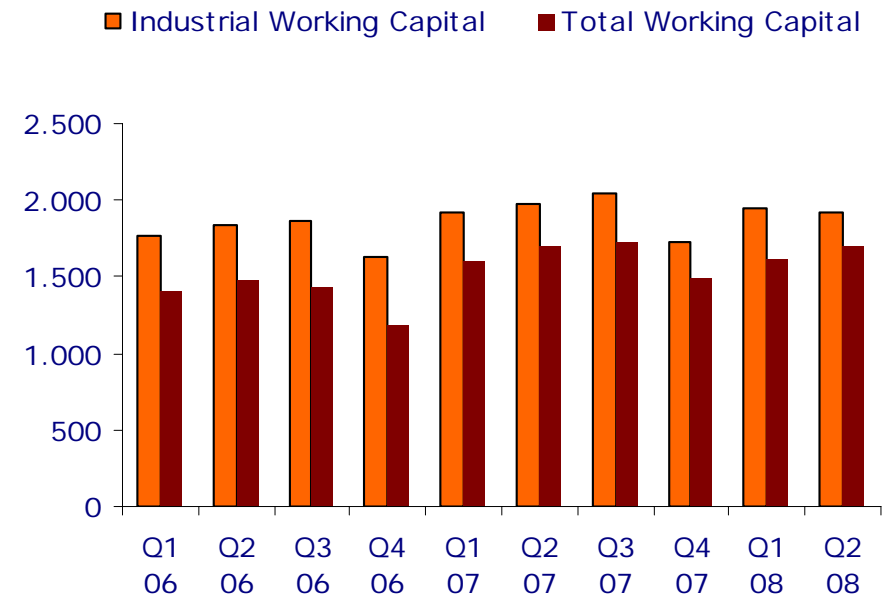
# Strict Working Capital Management

- Important management lever
- Growth in Emerging Markets impacts Working Capital significantly

Working Capital in % of Sales



Working Capital in EURm



# Strict Working Capital Management (2)

READY FOR TOMORROW



## Financials flows:

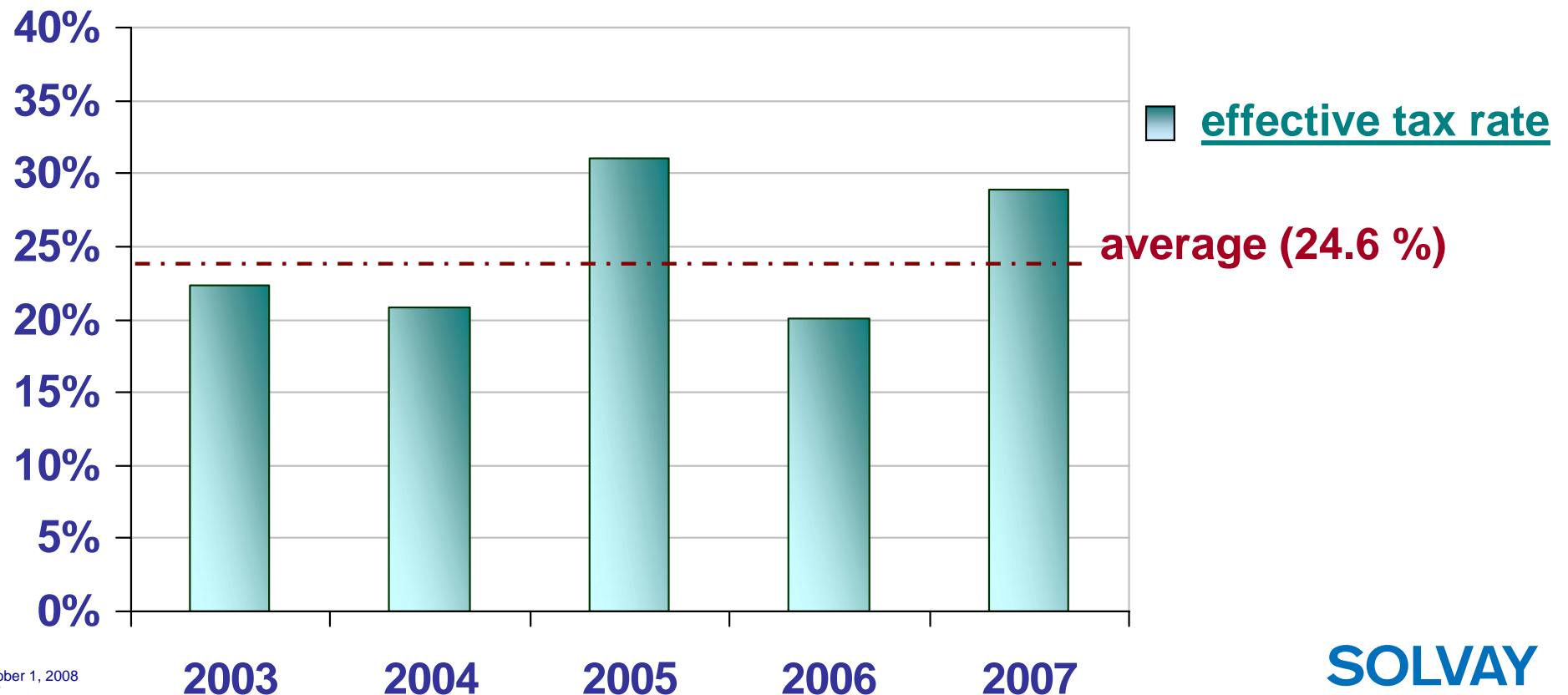
Centralized within Solvay CICC (In house bank)

- **Cash in (collections)**  
more than 60% of receivables are centrally managed by the Group Credit Management; further increasing
- **Cash out (payment to suppliers)**  
to be extended to all types of payments

# Tax Optimisation



- Effective tax rate last five years: 24.3%
- Effective tax rate guidance 30%
- Discrepancies mainly resulting from internal reorganizations, capital gains and dividends



# Additional financial assets



→ Marked-to-market through equity

## Stakes in Fortis and Sofina

<i>(M EUR)</i>	<u>End 2007</u>	<u>HY08</u>
Book Value	303	169
Dividend Income	24	10
Number of shares		
- Fortis <i>(million shares)</i>	15.7	15.7
- Sofina <i>(million shares)</i>	0.25	0.25

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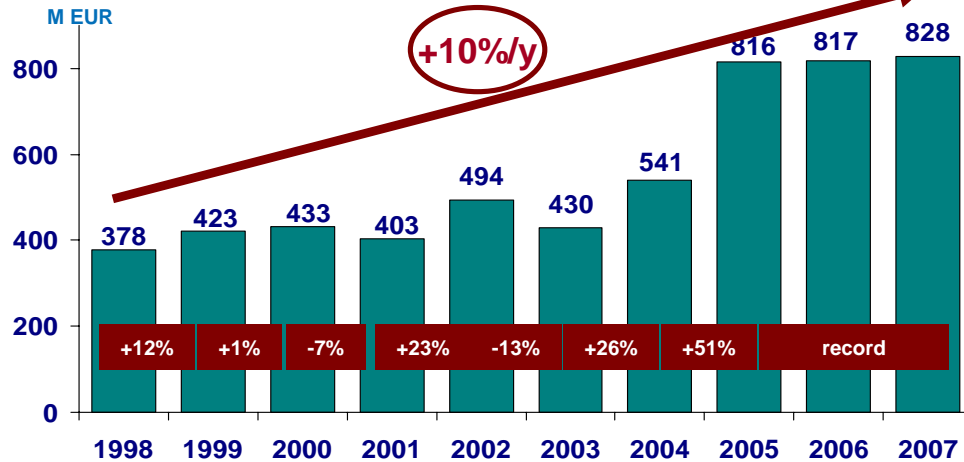
**(3) Value Creation**



# Management Commitment to Financial Targets

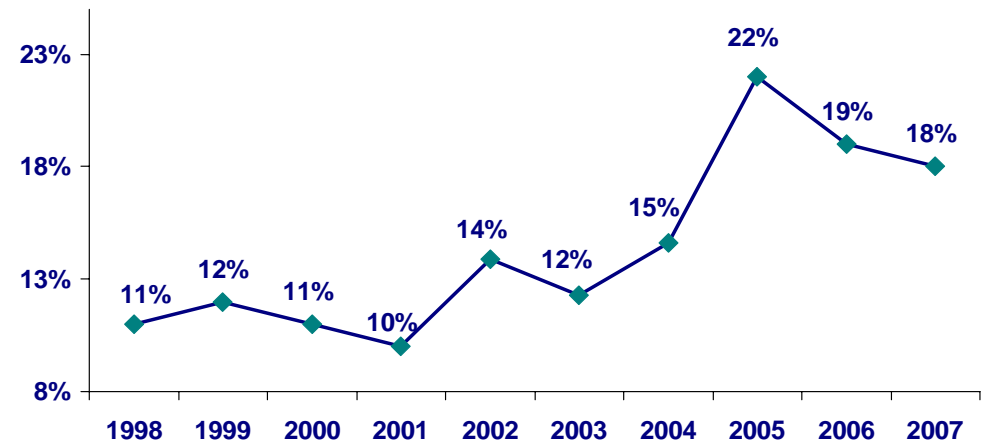
## NET PROFIT

Objective: average annual growth of 10%



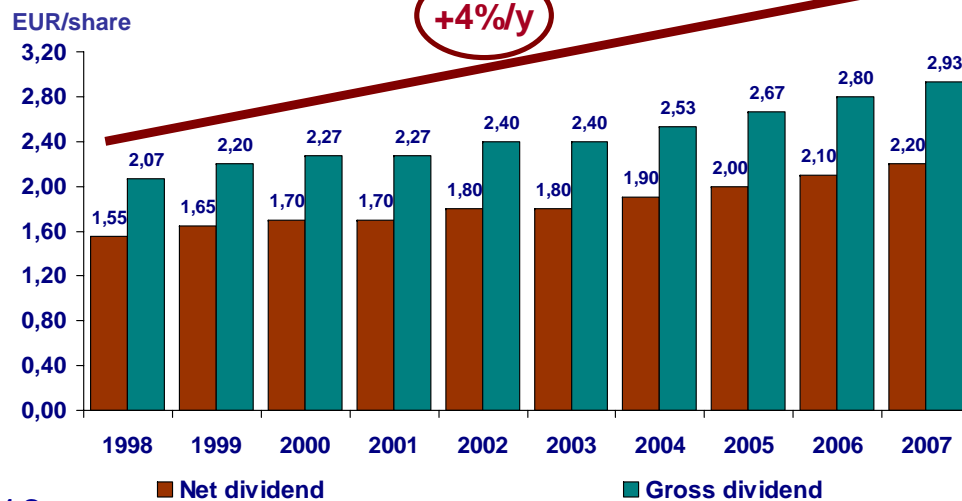
## RETURN ON EQUITY

Objective: to achieve 15%



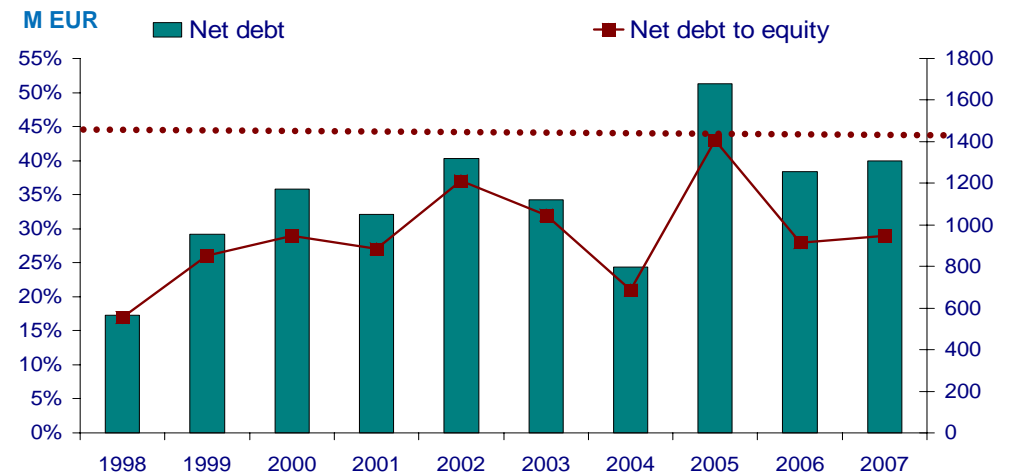
## DIVIDEND POLICY

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



## NET DEBT TO EQUITY

Objective: not to exceed durably 45%





# Value creation (1)



- Financial targets cover growth, return and balance sheet strength
- Management focus on REBITDA growth & invested capital
- Sound balance sheet versus business risks & external threats

# Value creation (2)

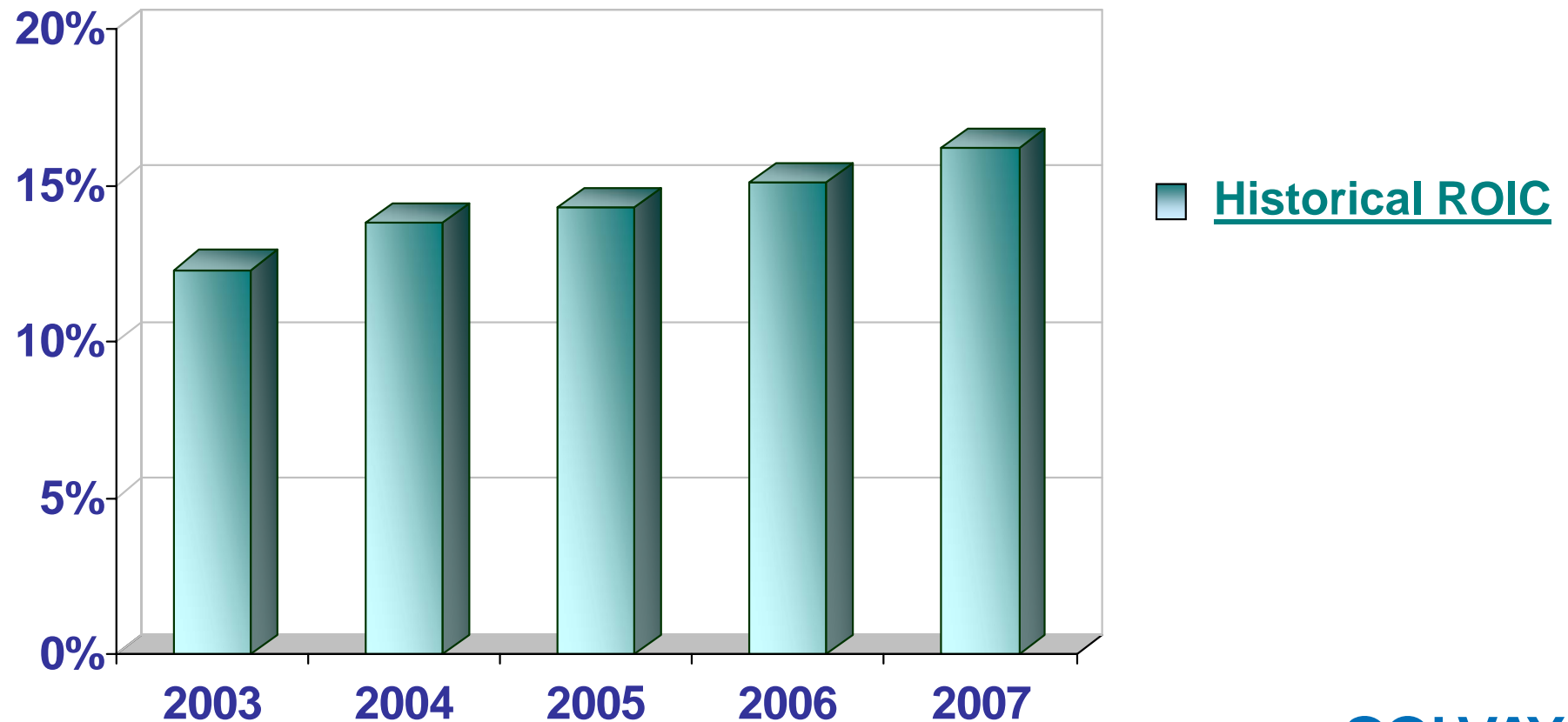


■ Risk free rate	4.5%
■ Market risk premium	6%
■ Beta	0.85
■ Debt	20% of market capitalization
■ Tax rate	30%
■ WACC	8.4%

# Value creation (3)



- CAPEX decisions : post-tax IRR  $>$  10%
- Pre-tax ROIC : 15%





# Discount rates by business and country risk premiums

	Discount rate projects
<b>Inergy &amp; Pipelife</b>	8,90%
<b>Pharma</b>	9,10%
<b>SBU Specialty Polymers, Soda Ash, ...</b>	8,80%
<b>SBU Vinyls, Fluor, ...</b>	9,80%

Moody's rating	from A3 to Aaa	from Ba1 to Baa1	from Ba2 to Ba3	from B3 to B1	Caa1 and below
Country risk category	Belgium, Germany, France, Spain, The Netherlands, ...	Brazil, Bulgaria, Egypt, India, Mexico, Russia, Thailand, ...	Turkey, Vietnam, ...	Argentina, Philippines, Ukraine, ...	Ecuador, Moldova, Paraguay
Country risk premium	0%	1.5%	3%	4.5%	7%



# Shareholder Return

*(Average yearly figures)*

	Return	Pay-out	Gross Dividend Yield
YTD <sup>(1)</sup>	-10.2%	31.0%	3.2%
Last 5 years <sup>(2)</sup>	+9.8%	35.4%	3.0%
Last 10 years <sup>(3)</sup>	+9.0%	39.6%	3.2%

<sup>(1)</sup> : Until Sep 25, 2008, with net dividend

<sup>(2)</sup> : 1998 – Sep 25, 2008, with net dividends

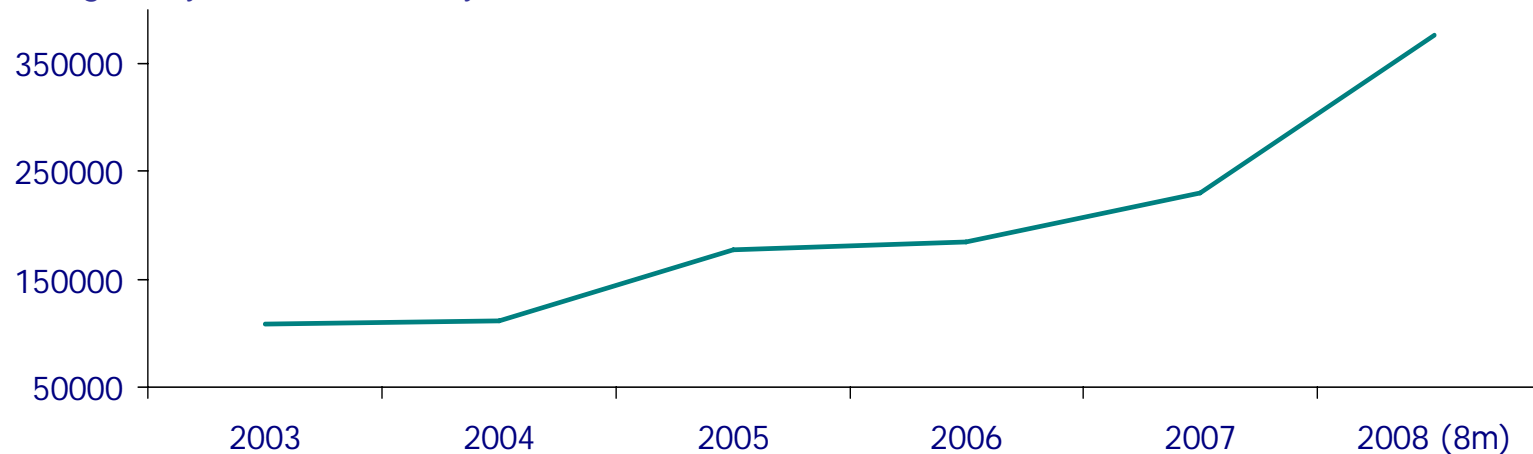
<sup>(3)</sup> : 2003 – Sep 25, 2008, with net dividends

# Factors Distorting our Valuation



## ■ Liquidity & free float underestimated

Average daily volume of Solvay shares



- Hybrid discount
- Specialty Polymers potential undervalued
- Perceived low growth potential of Chemicals and Plastics activities
- Discount for emerging market growth projects

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