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# Managing Challenges

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It is with confidence in its potential that the Solvay group is today managing unprecedented challenges. Unprecedented as they may be in their combination and scope, this is not the first time since it was founded in 1863 that Solvay has faced a major economic crisis. But today the Group is committing itself - resolutely and with a long term vision - to Sustainable Development, in order to provide viable answers to the challenges that the planet must meet to ensure its continued existence.

Solvay closed 2008 with a robust balance sheet and a solid financial structure, both major factors in ensuring its longevity. The debt/equity ratio is just 34%, with no significant debt repayment scheduled before 2014.

While Group sales have remained stable compared with 2007, operating results did not escape the effects of the crisis, suffering a 19% drop in 2008 – compared to the record profits of the preceding year – to EUR 965 million. The Chemicals and Plastics Sectors suffered significant energy and raw material cost increases, only partially compensated for by sales price increases, before being confronted by a contraction in demand in the fourth quarter.

The Pharmaceuticals Sector, for its part, posted record operating results, thanks to the vigorous growth of its primary products and to the success of its strategy of geographic expansion.

After four years of rising profits, reaching record levels, the Group's net income for 2008, at EUR 449 million, is well down on that of 2007. Apart from the lower operating result, it has suffered a EUR 309 million impairment loss on the shares held in Fortis. This latter factor explains why the Return on Equity (9%) is below the Group objective of 15%, after exceeding it for the past four years.

## Ready today

Solvay has always sought to be part of the flow of history. Beginning in early 2008, we began preparing actively for the pending crisis – which we guessed would be severe. We consolidated our strong points and reinforced our competitiveness.

In this context, we continued during the year to reorganize the fluor chemicals activities to ensure their future. We have withdrawn them from commodities markets that are suffering from excess capacity, have increased their competitiveness and are developing more innovative specialties. The joint venture in automotive fuel systems, Inergy Automotive Systems, had already begun to take painful but essential measures in preparation for a market downturn.

The Pharmaceuticals Sector continued in 2008 to implement its "INSPIRE" plan. As well as refocusing our therapeutic priorities, this program will improve the efficiency of the pharmaceuticals business with a series of measures with a cumulative savings effect of EUR 300 million a year by 2010. At the end of 2008 we had achieved 80% of this objective.

Apart from increasing our competitiveness, in 2008 we positioned ourselves to search for growth where it can be found, with a view to sustainable and profitable expansion.

This determination is perfectly illustrated, in our Chemicals Sector, by the acquisition of the Alexandria Sodium Carbonate Company in Egypt. This is the first time in our Group history that we have set foot in the Middle East, in a young economy with strong growth prospects. In Europe, we completed the construction of our hydrogen peroxide megaplant near Antwerp (Belgium), which introduced a new Solvay high-productivity technology that we are persuaded will change the face of the H<sub>2</sub>O<sub>2</sub> market.

In 2008 our Plastics Sector launched production units in China, Russia and India. Major measures were also taken to extend our Vinyls activity. Vinythai's Map Ta Phut (Thailand) site is now a fully integrated world-class production unit, providing maximum competitiveness in a dynamic market. In South America, major initiatives have been taken at Solvay Indupa's Argentine and Brazilian production units.

In the Pharmaceuticals Sector, sales of our main medicinal products continue to improve, in particular with impressive growth in emerging markets, which now represent around a fifth of the Sector's sales. We have also been working towards the market introduction of TRILIPIX™, our new-generation fenofibrate recently approved by the US authorities. During 2008, Solvay also successfully bid for the Belgian biotech company Innogenetics, bringing into the Group technology and know-how that will permit the faster development of better targeted, more effective and safer drugs.

### More distant challenges

Beyond the short-term challenges, during 2008 Solvay was keen to project itself far into the future. This year the Group's Executive Committee focused its biennial strategic meeting on Sustainable Development and on a long-term vision. For we are convinced that our professions – chemistry and life sciences – will provide viable answers to the challenges that humanity must meet today in order to secure a harmonious tomorrow. We are already working on this, in particular by re-examining our R&D and business portfolios. We are also constantly seeking to improve our energy efficiency and minimize our carbon dioxide emissions in the longer term.

In the shorter term, Solvay will introduce a dozen or so new initiatives, including, for example, a subsidiary dedicated to managing energy and CO<sub>2</sub>.

In our fields, energy efficiency is an essential success factor, while also permitting us to reconcile our Sustainable Development objectives with short-term competitiveness. Major projects along this line were already announced in 2008, in particular power plants fuelled by biomass or secondary fuels (sorted waste).

One Sustainable Development-related initiative that influences our business in the short term is the pre-registration of our products under the European REACH regulation. This we successfully completed by the end-November 2008 deadline.

The Solvay group has established clear long-term objectives. These are essential to map out our path in the short term, to help us set priorities, and, if necessary, to define any sacrifices that the contingencies of the crisis may impose on us.

### Confidence

Our balance sheet is solid – and we intend it to remain so. For this reason, we consolidated our long-term debt at a propitious moment, on good conditions. To preserve the Group's solidity, the Executive Committee has also asked that a series of appropriate measures be reinforced from autumn 2008 onwards. Investment expenditure will be refocused in 2009 on ten or so major strategic projects, with other projects advancing at a slower pace. Our working capital will be controlled more tightly, and our commercial and administrative expenses reduced. Finally, we will continue to adapt production rates to market demand.

Our competitive plants, competent employees and culture of innovation together with the value of our products for our customers will help cushion the shocks and will enable us to bounce back all the more strongly. In this way we hope to continue to merit the trust of our shareholders and everyone supporting our activities.



Christian Jourquin  
Chairman of the  
Executive Committee



Aloïs Michielsen  
Chairman of the  
Board of Directors