

Solvay
Thursday, 30th July 2009
3.00 pm CET
Chaired by Christian Jourquin

This text constitutes a free written transcription of the content of the conversations held during the conference call on Solvay's 2009 half year results; such transcription has been made for convenience purpose only. As a consequence, neither Solvay SA, nor any of its affiliates, makes any warranty, express or implied, in particular as to the content, the accuracy, the comprehensiveness or otherwise the use of the said transcription, nor incur any liability for any reason whatsoever in connection therewith.

To the extent that any statements made in this transcription contain information that is not historical, these statements are essentially forward-looking. The achievement of forward-looking statements contained in this transcription 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"

Christian Jourquin

Good afternoon Ladies and Gentlemen, and welcome to this conference call on Solvay's half year results. I am Christian Jourquin.

I am joined by my colleagues of the Executive Committee, Bernard de Laguiche, our Chief Financial Officer, Jacques van Rijckevorsel, Group General Manager of the Plastics Sector and Werner Cautreels, Group General Manager of the Pharmaceuticals Sector, as well as Vincent De Cuyper, Group General Manager of the Chemicals Sector.

I will start with a brief comment on our HY09 results. Bernard de Laguiche will follow with some more details on the financials. After that, we will open it up for a Q&A session.

The operating result of the Group showed good resilience in the 2nd quarter. REBIT decreased to 306 million Euro in HY09 due to the global crisis. It rose by 15% to 164 million Euro, compared to the 1Q09 but was lower than that of 2Q08 given the circumstances.

The main industries we supply with our chemicals and plastics products like building, car, glass, electronics, pulp & paper are still severely hit by the crisis. This has forced us to reduce production by roughly one quarter across most of our chemicals units and roughly a third in our plastics operations to control inventories. Our total sales decreased by 14% in HY09 and by 12% in 2Q09.

Solvay's resilience is based on its geographic spread, its activity and its customer diversification and the strict measures we have taken to cope with a challenging economic environment. The impact of these measures on HY09 results can be summarized as follows:

First: at constant scope and USD exchange rate, the fixed production costs and the commercial and administrative costs decreased altogether by a total amount of around EUR 75 million.

Second: the number of full time equivalents decreased by some 1,000 people, mainly in Europe.

Third: industrial working capital decreased by 333 million Euro compared to June 2008.

And fourth: our significantly lower CAPEX budget of 638 million for the FY09 still holds as we stick to a strict control at all levels.

This illustrates how we manage the current business for cash.

In our Pharmaceuticals operations, sales increased by 4% in HY09, and by 11% in 2Q09. The continued growth of our main drugs more than compensated for the impact of generic competition on Marinol® and timing effects in the sales of Trilipix™. R&D efforts were slightly lower in halfyear and accounted for 17.1% of pharma sales.

REBIT decreased by 16% to 206 million Euro. If one excludes the miscellaneous income of EUR 71 million in HY08 figures, total REBIT of our Pharmaceuticals Sector rose in HY09 by 18%.

The strategic review of our pharma activities continues. No comments can be made before the analysis is completed, and I will stake later on to this statement.

In difficult market circumstances, sales of the Chemical Sector declined by 8% in HY09 and by 11% in 2Q09. Throughout the 2nd quarter, we experienced a significant drop in caustic soda prices, as well as price pressures on the other chemicals products, including soda ash. REBIT for HY09 is down by 10%. However, REBIT for 2Q09 is up by 26% compared to 2Q08 and by 18% compared to 1Q09, mainly thanks to the strict control of fixed costs.

Demand in Vinyls and Specialty Polymers is severely hit by the crisis. Volumes in Specialty Polymers decreased by 30% compared to HY08 but prices remain stable. In Vinyls, volumes were down by 10% and margins were squeezed. Our Asian operations benefited from strong demand in China.

Compared to HY08, sales our Plastics operations decreased by 31% and REBIT dropped to EUR 8 million. Our strategic focus of strengthening our competitive position and diversifying our exposure over three different continents pays off and leads to a positive REBIT.

I'd like to ask Bernard to continue with some financial elements. Bernard, the floor is yours...

Bernard de Laguiche

Thank you Christian. From a financial perspective, I would like to highlight three items:

- ♦ First: this time, foreign exchange had a positive impact on REBIT. After hedging the net impact was EUR 17 million at Group level and EUR 10 million for Pharmaceuticals.
- ♦ Second: working capital decreased by 438m Euro compared to the level reached at the end of HY08. As Christian already mentioned, our industrial working capital decreased by 333m Euro. Net debt to equity stands at 39.5%.
- ♦ And finally, our tax charges decreased significantly due to lower results and to some tax credits linked among others to R&D investments. We continue to stick to our medium term tax guidance with a tax rate below 30% and in line with last year.

Christian Jourquin

Thank you so much Bernard.

Let me conclude with our outlook statement for the full year 2009:

"As announced, the Pharmaceuticals Sector will achieve in 2009 a higher operating result than last year.

Chemicals and Plastics showed good resilience thanks to their competitive positions and to the measures taken, but the market conditions remain difficult.

Full year operating result of the Group will be lower than last year."

On that note, I want to open it up for questions. Operator, can we have the first question?

Questions and Answers

Question 1

Three quick questions on Pharma if I may; TRILIPIX™ can you remind us of the economics you have in the compound? Astra today posted a 33% increase in CRESTOR I just saw. Also do you have an idea of how many patients in that target indication, namely dyslipidemia are already on TRILIPIX™ and TRICOR®? Secondly I wondered if you can confirm when you expect the change in the treatment guidelines for statins based on JUPITER. Is that still planned for November and what do you expect there? And lastly, on vaccines, can you tell us what incremental sales you expect for this year. Thank you.

Werner Cautreels

Yes I will try to address all four questions. The Certriad™ economics, I think we have explained that earlier but let me repeat it. The difference is that we do not have co-promotion rights. We will get a straight royalty to total sales and those are single digit royalties. In terms of the influenza sales, we had a good season this year and we are back on the growing curve as we had before last year and may I remind you that last year was a difficult year for everybody because the strains were growing slowly. I think compared to last year the increased output is about 40%. The next two questions are difficult because those are questions, especially the JUPITER and the Crestor™ one is typically Astra Zeneca, we don't own the product. So it is something that I cannot really comment in detail on. In terms of the number of patients on TRILIPIX™ and TRICOR®, I don't have that number in front of me but what I can say is the following: that the true products as they are now in parallel in the market, we do have increased patient exposure and that the two together have increased compared to what was a single product last year. And I believe that is expressed by the Abbott numbers also which reported in the first half of 09 a 6% increase. Perhaps to complete that, you know that the way we are compensated for that is not completely in phase with the in market sales from Abbott because we have a combination of royalties and also manufacturing for them, which means that towards the end of the year we will catch up on that and we will then be back in line with the growth of those two brands.

Question 2

I have a couple of questions; the first one is regarding chemicals and plastics. Almost all chemical companies experienced a better Q2 over Q1. Could you give us a little bit more colour on the trend Solvay experienced during Q2? What are your expectations for Q3 and in particular what do you expect regarding a potential summer dip? My second question is regarding the chemicals margin which was very strong in the second quarter. Maybe you can explain how you could reach these levels? My third question is regarding raw material impacts, what did you experience so far in chemicals and plastics. What do you expect for the second half of this year and in particular regarding prices, would you expect the prices to come under pressure? And what impact will weigh more: the decrease of raw material prices or the pressure on your prices? Thank you.

Christian Jourquin

I will make some global comments and then I will hand it over to my colleagues. I would say if you look today at the morphology of the crisis, we have the feeling that there is a change in the morphology of the crisis. I would say six months ago our perception was that the elasticity to price was practically zero. You could have decreased your price by 50, 60, 70% you wouldn't have sold one kilo more. Now the perception that we have is that there is more appetite for the quantities and that it is worth for producers to fight for the quantities. So I would say the good news is that apparently in the second quarter, you see some more demand for the quantity of the product but the bad news is that obviously there is and there will be more pressure on prices. Now, this is quite different region by region; globally what we see is that in Asia—the overall situation is improving and specifically when we look at the figures in China we see that year on year they are back on a growth rate of practically 8%. We have to be extremely cautious about this because we can suspect that a part of the improvement of the Chinese economy could be the result of increases in exports because we

see in a number of international markets and not just in Europe some Chinese product appearing. For South-America, we have the feeling that the situation remains quite favourable, specifically for Brazil. In the United States we see the first signals of a possible improvement; Europe is the only continent where the visibility of the situation is very, very limited indeed. Now your question about how it is possible that chemical companies show second quarter better results than forecast, I believe that if you look to the geographic footprint of the chemical industry, this has become over years much more international than it was in the past and so the geographic spread that we can experience - I guess that a number of our colleagues have the same experience - has a positive impact. This is a global comment and I would now ask my two colleagues of the chemicals and plastics to give maybe their view. Jacques, will you start?

Jacques van Rijckevorsel

Yes, Christian with pleasure. So there were many sub questions and I am trying here to summarise the major points that I understand. First Q2, do we see an improvement etc ? The quantity, let's start with the quantity, our experience is that there has been a trough during the Q2 and that we have seen some improvement at the end of the Q2 and that improvement still is there during July. It is maybe a little bit early to talk about the Q3 and the Q4 but anyway the situation, the trend is that there is no deterioration anymore and maybe a small improvement. That is a global picture because we are facing a patchwork of different situations in the world that can be region-wise but can also be sector-wise, for instance Asia is doing better as Mr Jourquin said, USA and South America are sending some positive signals. In Western Europe also there you have countries that are also sending something else but there are measures taken for instance to support the automotive industry then we need to see how long that can last. So that is for the quantity and my comments are valid both for the speciality polymers and for the vinyl business.

Now the price. I prefer to comment on the margins. Anyway in the speciality polymers we had no price decrease; the effect on the results is mainly a matter of volumes that I just commented. For the PVC it is more complicated because there the drivers for the margin are multiple. First there is a cost push, very clearly. Ethylene has increased a lot since the beginning of the year in Europe and the same for chlorine because we have experienced a decrease of the caustic soda. That is the cost push. Second driver is supply disruptions. We see that more suppliers are in outage that can be technical reasons, for instance in Scandinavia; that can also be for economic reasons, as for instance in Italy. And we also see across Europe, but also across other parts of the world, other or inst competitors that simply have given up trying to be on the market because the situation was not competitive enough. That is for the drivers. As a consequence, you have seen a general trend for price increases in PVC. Across the globe, everywhere, we have that trend, but there is a clear caveat now appearing that is China where you have PVC producers on acetylene that were out of the game until recently for competitive reasons, but we see that the best of them are coming back at the current price levels for PVC. We need to follow that very carefully. That might create a ceiling for the price increases that we just mentioned.

Now margins; margin-wise as I said, you have a combination of increase of ethylene, you have also a decrease of caustic soda and you have PVC price increases that are lagging behind the other phenomena. That means that we have a bit to catch up. We see that the margins were at the minimum during the Q2 and we see that those margins are slightly improving since then but again the key will be the difference of pace between PVC price and caustic soda price. So those were my comments.

Vincent De Cuyper

Some comments about the chemicals. So I will try to summarise maybe in two answers. The first question I understand is why is Q2 better than Q1 and how could you get so much better margins? Well, if you try to compare Q2 with Q1; first of all on volumes we have seen a decrease of the volumes in the soda ash activity and this is quite normal because it is a lagging industry compared with the other ones. If you look at the other products, caustic soda and peroxide, we have seen slightly better volumes in the second quarter compared to the first quarter and this is globally speaking so for the chemical sector, we talk about a 20%

decrease of volume in the first half, in fact it is slightly better in Q2 compared with Q1; so first explanation. On pricing, you know that we have strongly increased the price early in the year and in most of our activities the prices remained good during the second quarter as well, so no negative impact except for caustic soda where the price has decreased during the Q2. But in caustic soda we had good volumes. And then the final reason of the good margins in the Q2 is linked to the costs. We started to see an increasing effect of the cost reduction programme which has been implemented throughout the group in terms of fixed cost reduction and on the other side we have seen some first signs of raw material cost reduction as well as energy cost reduction.

The second question was linked to the Q3, the perspective and what will be the balance between potential price decrease and cost decrease. Well, I will give you my view today; as far as Q3 and later in the year is concerned, we do not see any significant improvement of the demand in Europe. We see some very slight improvement in the US and slight improvements in Asia but we do not expect a significant improvement in Europe in the second part of the year. So, quite stable volumes globally for the months to come. Yes, we are careful about the summer, it could have an additional effect to the crisis although July, although for July we do not see anything so far. Where we will see for August, nobody knows. And traditionally the Q4 is a weak quarter, but there is nothing special compared with the previous year.

In terms of cost reduction/price pressure, yes we acknowledge that there is some price pressure in the various products but we also see more and more the cost reduction effect and we had announced before that we would have a significant impact on energy cost reduction in the second part of the year. More than that is extremely difficult to say. Where the balance between the two effects will be is too early to clarify today.

Christian Jourquin

Thank you, Vincent. I would like to underline the impact of the fixed cost reduction. I mentioned earlier that for the total group we saved €75 million over the first half of the year. This means practically a headcount reduction of a 1,000 people over the first six months. It comes obviously on top of the efforts that we have done in previous years. And this has been an effort which has been shared between the three sectors, pharma contributed, plastics and chemicals contributed. So I would say the efforts continue, people are very much focused on cost cutting but at the same moment keeping the strategic projects that we have for the future.

Question 3

A couple of questions; first of all coming back on the trading conditions that you just elaborated on, for chemicals you mentioned that you do not expect any major improvement in Europe, nor in the other regions. So sequentially implying slightly growing volumes to maybe flat volumes, for instance in caustic soda, where prices in Q3 have declined versus the average of Q1 and also I would imagine the average of Q2 would imply then a softer quarter in terms of top line. Actually, basically my question is also do you see additional cost savings potentials going forward that could alleviate such trends? Or do you expect that the margin will sufficiently be supported by an acceleration of the energy cost declines, one which you already alluded to, that is maybe a first question. And then secondly on the vinyl, if I make some calculations it seems like the plastics the PVC business in the first half was loss making, is that a fair conclusion and could give maybe some feelings around that? Thank you.

Vincent De Cuyper

Yes. Correct you well understood my answer to the first question. We do see price reduction in caustic soda in Q3 and as I mentioned we do not see an improvement of the global demand in chemicals. So with some price pressure coming, I don't see an improvement of the top line in the months to come. That is obvious. Now as far as the margins are concerned, I can come back on the energy, there is some positive evolution on the energy price and maybe I can give some additional information. We commented in the results that the first half expenses in energy were still higher than the one in the first half of 2008 which is true but now if you look at the quarterly analysis in 1Q09 we were still significantly higher than 1Q08 with energy expenses on sales at the level of 11%. But in the 2Q09 this number was down to

9% of sales. So we start to see the first impact of the energy price decrease and we do expect that to continue in the third and fourth quarter. So regarding the margins what will happen depends on the evolution on the price in the various products, but we should have a positive impact from the energy costs which we should not under-estimate.

And you do not fear that clients will try to get that lower energy bill also in their end prices?

Vincent De Cuyper

Well it is done. In fact, when we see caustic soda prices going down, it is because the production costs of the producer are going down as well and they can afford to lower the price. That is also happening for soda ash in the second half of the year.

Jacques van Rijckevorsel

For the vinyl, for the first part of the year, you are right when you calculate that the business was in losses for the first six months. But we should give some details. This was not the case in Asia. To the contrary, the performances have been excellent there and by the way those are public data because it is a listed company. This was not the case in South America and in Europe, where we made losses, but that loss should also be evaluated against the background that first we reduced the production to cope with the volume decreases and second that we have also a cracker operation in France where the situation has been very difficult. This is also in the figures that you have seen.

And do you expect any improvement for the second half on the European side especially?

Jacques van Rijckevorsel

In Europe that was my general comment; we see that prices are increasing substantially. Of course ethylene is also increasing substantially and the question mark is the caustic soda price. If we can cope with the current price decrease in caustic soda, I think that the situation that was better in June; if we can take that situation and keep that situation indeed...but the question mark is caustic soda, absolutely.

Christian Jourquin

One point, I believe, which is interesting when you compare these prices with previous ones and I will remind you the crisis of '92, '93 where the group went to losses of, if I remember properly that were in the tune of €100 million (operational) over that time. That was with a decrease of turnover of 4% and this was mainly due to the plastic and the PVC sector. So you see the way we have restructured, re-profiling the portfolio over time and the resilience of the group activities is today much better with a diversification of portfolio, the restructuring of a number of sites and much more competitive.

Question 4

Most of my questions have been answered, but just on the pharma division; can you give us an idea of the—I mean you said vaccine is up 40%—sort of impact in terms of EBIT we should expect from that business? And you say you are trying to develop the new swine flu, whether it is feasible that you could potentially tap into that opportunity. On ANDROGEL®, can you give us an idea of when you expect generic competition and how severe you think that may be? And can I just clarify on PVC, because you are talking about pricing going up, margins improving but normally PVC is somewhat weaker in the fourth quarter. So are you sort of cautiously optimistic of improvement in the plastics performance in the second half? Can you just confirm that please?

Werner Cautreels

On pharma I can not give you a precise impact on EBIT. I repeat what I said earlier that the increase in output is about 40% and the margin is in the neighbourhood of 70% because this is tender business, so the margins are very good. In terms of our ability to enter into what you call swine flu which is H1N1, let me explain you what our approach is in terms of the different aspects of the business. What we do is we combine the medical needs as it is provided by WHO. That is one factor, the second factor is our available capacity and the third

one is of course our industrial objectives. The strategy we follow is the following: in accordance with WHO recommendation we continue to produce the seasonal vaccine in our egg based facility. That is true for the northern hemisphere and we will also do that for the southern hemisphere, approximately starting in a month from now. In the period between the northern hemisphere and the southern hemisphere, what we will do, we will run a number of feasibility studies to make a number of commercial scale batches of H1N1, which will allow us in case there would be a WHO emergency to indeed be ready to switch our egg based facility from the seasonal vaccine to the H1N1. So that is our approach for the egg based facility but we plan to continue to use that facility, full capacity for the seasonal vaccine.

Then on the cell based, the cell based factory we have completed all the work for the validation and what we are doing now is complete the paperwork. What we do in the cell based factory are the following: on the seasonal we have made clinical batches for the global development of the cell based seasonal. We also made commercial batches whose destination will be Russia and some of the CIS countries for this season. So that is on the seasonal vaccine. Then on H1N1 we will start clinical batches on H1N1 during the month of August and as a reminder, on H1N1 the whole industry we still need data on things like dose ranging and also response rates before we really understand what that product should look like. After that we will dedicate the available capacity on the cell based factory to produce indeed H1N1 antigen for commercial use. So that is I believe the complete story on the vaccines.

Then on ANDROGEL[®]; let me answer that as follows: We indeed did not, at this point in time, enter into IP litigation following the Paragraph IV announcement of Perrigo. I cannot further disclose details around what would be further IP or regulatory action that we can take because that is of a privileged nature. In terms of business, we have a strong brand and that brand differentiates itself also with the way we are dispensing the gel. The low volume product through which we have submitted the NDA in the first quarter of this year is not under this IP and so we expect regulatory approval of that in the next several quarters and that will then be the key of also our business strategy. We are also developing the oral formulation of testosterone replacement that we just sliced it in from Lipocine Inc. So on the summary of these above factors; we believe that ANDROGEL[®] will continue to provide a strong contribution to our revenue, notwithstanding the potential generic threats the timing of which we cannot predict.

Jacques van Rijckevorsel

What are our expectations for the coming months... It is obvious that the volatility currently is very high and it is difficult to give an idea for the future. Remember the last quarter 2008 that free fall that we saw on the market was absolutely unpredictable and unpredicted also. I would prefer to stay prudent on that. But what I can tell you is that we are acting; first we are constantly adapting ourselves to the situation. We adapt ourselves and we also adjust the productions and so on and so on, constantly. And second, we have a very aggressive cost and cash programme. We are monitoring, reducing inventories, working capital, CAPEX cost and so on; there we are very aggressive. We can control that and on that part of the result for the second half of 2009. I expect an improvement because the cost situation of the second part of the year will be better than what it was in the first part of the year. We are very strict on this and to tell you the inventory level that we have currently in the PVC is 11 days. It is an historical minimum that shows how aggressive we have been on the cost and cash programme. So this may not be sufficient for you but it is all what I can tell you.

Christian Jourquin

The worst that could happen is that if that people see improvement in business that we reduce the pace in being extremely prudent with our cash and with our cost exercise. You know the 1,000 people we were speaking about from the 1st January follow a restructuring that we did before for 18 months and that led to a headcount reduction of 1,700 people. So I would say in two and a half years that is a reduction of practically 2,700 people. Well we keep the pace on cost reduction, we stick to our CAPEX budget and certainly we follow our working capital very, very, very closely. What will happen in the business is what we mentioned in our outlook. Volatility and market conditions are such that it is very difficult to foresee precisely

what could happen. But I would say we were prepared for the worst, we remain prepared for the worst.

Question 5

I have got some questions, the two first ones are actually clarification on two answers you gave on the pharma and not being a specialist on the pharma I am afraid they will be relatively simple. INFLUVAC® you mentioned 40% output, is there a price difference depending on the strains? In other words should we expect therefore 40% higher sales for INFLUVAC®? Second on fenofibrates you indicated that there is some shipping difference that explains why H1 cells were a bit disappointed, what is the full year trend that you believe that you are going to achieve? So that is for the clarification on previous answers. Now getting into chemicals, I have a question on plastics for the second quarter, if I compare the volumes in the second quarter to other basic plastics producers in the sector. It seems from the figures you gave us that there is not a very mature sequential improvement of volumes in Q2 over Q1 when on the value chain of the plastics sector we have seen quite mature improvement in Q2 and I was wondering if that is a specific point for your portfolio of plastics or it is a deliberate choice of sacrificing the market share? And then the last question I have is whether you can quantify what is the net gas benefit you expect in the third quarter in chemicals given the lag effect?

Christian Jourquin

Sorry we missed the last part of your question.

We know the net gas prices are going down and we know there is a lag effect and I suppose you have a visibility on the benefit you will enjoy in Q3 from lower natural gas prices for the chemical business.

Werner Cautreels

On pharmaceuticals, first on the influenza vaccine; I mentioned indeed an increased output compared to last year of 40%. While there may be some price differences on a country by country basis on the average there is no material change from last year. So you can indeed apply just a straight calculation to compare also revenue. Regarding fenofibrates in the US; they should by the end of the year to a large extent follow the prescription changes reported by Abbott because over the year shipping delays actually average out and that should follow the prescription trend.

And what was the trend, sorry?

Werner Cautreels

The first half was an increase of 6% and that was the combination of TRICOR® AND TRILIPIX™ together.

Christian Jourquin

Vincent, the influence of natural gas?

Vincent De Cuyper

The gas price in Europe as well as in the US today is on the average 40% lower than it in 2008. Taking into account our inventories and the global economy which remains weak, where there are no significant increases of the demand, we do not expect a short term significant increase of the gas price. So the positive effect that we see today should remain and I think we are for a few months with a flat gas price situation. That is our forecast.

Jacques van Rijckevorsel

Of course I don't know your calculations but I have the figures here and we do not see a decline in volumes during the second quarter. I can tell you that this is for all the business units. We saw in the beginning of the quarter a stabilisation and an improvement towards the end of the quarter.

My point was more that for all the value chain we are seeing significant improvement in Q2 over Q1 and for you it seems it has been a stabilisation and I was surprised by that difference.

Jacques van Rijckevorsel

Yes, maybe it is due to the fact that we were in automotive for instance and that automotive started to stabilise or to improve at the end of the quarter, but globally I tell you there is no deterioration for sure and an improvement during the Q2.

And market share wise?

Jacques van Rijckevorsel

Market share wise it is difficult to have a tracing for all market share but what we are following as market share is that there is no deterioration.

Question 6

I would like first of all a clarification on your cost reductions of 75 million over the first half. You say you are keeping the pace, could you quantify perhaps how much more is in the pipeline for in the second half? Next in terms of demand could you give us some colour on any restocking or pick up; first in the energy business, are you seeing sales to car manufacturers pick up in Europe and/or North America and also demand pick up perhaps in pipe line central eastern European business? And as a last question perhaps you could run me through how the caustic soda business works a little bit, because I remember that over the first quarter you intimated a 20 to 30% drop in volume and I was wondering if you have been able to sell in the second quarter on prices closed over the first quarter price?

Christian Jourquin

The first question about fixed cost reduction, you know it is a compound of a number of factors. As I mentioned SG&A and fixed production costs, well I would say that in the second part of the year, traditionally you have more fixed cost than in the first part. And that is the one known effect of maintenance, during the summer season and I would say that is typical of the third and fourth quarter, but basically I would say we should more or less keep the same kind of advantage. But it is dependent obviously on the exchange rate, on the dollar because the impact of the dollar on fixed cost is quite significant. If you compare last year with this year, you see that the dollar is much stronger than it was last year. It is not a negligible effect. That is for the first question, the second part of the question, Vincent?

Vincent De Cuyper

I can maybe take the last part of the question concerning the caustic soda market. I understand it is difficult to understand. What is happening today in fact we confirmed that the caustic soda market is very weak because the main outlets which are the alumina industry and the pulp and paper industry are still extremely weak today. When you look at the publication of Harriman they are talking about demand in the USA that is down by 20% and they are even speaking about demand down by 25 to 30% in Europe. So what does it mean for the market? The equilibrium between the chlorine demand and the caustic soda demand has changed again and switched back to an excess of caustic soda on the market, meaning that the PVC market has been down but less down than the caustic soda applications. So this leads to an increase of inventories and of caustic soda and the excess of caustic soda is sold on the export markets at very low prices. The prices for the 3Q even mention at the level of US\$50 per tonne, which is very low. But on the other hand chlorine availability is lower and this is pushing up the PVC price. So this is the reason why the equilibrium of the caustic soda market has changed today.

Christian Jourquin

Maybe a last word about caustic, I would say that the elasticity or the volatility of caustic is extremely high. You have this kind of price because it is impossible to store caustic and when the tanks are full, producers have to get rid of the product. Once you get a better equilibrium the way prices are going up is at the same speed as they have come down. You have to quantify caustic and PVC together.

Jacques van Rijckevorsel

The other question was about the demand, the restocking and so on. Of course if we see the improvement in the demand today, the first question is what is the part of this restocking or possible restocking and what is really the underlying demand effect? Restocking it clear that currently with the price increases, at least in the PVC, you have people that are willing to increase their inventories, but as I said the product capacities are currently limited for the whole industry and even if restocking is a possibility I think that it is limited in the facts due to that limitation. Now the demand pick up, what we see for instance in the automotive is that demand is improving in the United States, in some countries and Europe for instance Germany and France, but there, there are incentives and also in Asia. We also see some improvements in the electronics. In the building industry we have something else coming from Europe and South America and to confirm that we see for instance with Pipelife; the volumes have been increasing constantly since the beginning of the year. That means that there we see that step by step the situation is improving and you are right to stress that that is mainly coming from Eastern Europe.

Question 7

I have one question on chemicals, please. On the price pressure that you mentioned in soda ash, I wondered if you could comment on whether you have had to readjust any of your annual contracts so far or is the pressure more among your shorter term contracts?

Vincent De Cuyper

I am surprised that the question comes so late. Yes, good question. We mentioned price pressure in most of the chemicals, including soda ash. So as you know we drastically increased the prices early 2009 and we had tough negotiation with the customers to do that because the expectation on the energy price was extremely difficult to define. So it is clear that in the market situation where the soda ash market is down by 20% and with the energy price going down, it was logical to accept with the customers to maybe review the prices mid year 2009 and this is what has been done by the market. You can read this in Harriman. They are talking about price adjustments which have been done starting from mid year of €10 to €20 per tonne in Europe and this is purely reflecting the fact that the market has pushed the price up very much early in the year and that now we are giving back a part of that increase in compensation for the decrease of the energy price.

Christian Jourquin

We should also mention the effect of demand in soda ash. When you listen to Jacques about quantities coming back in PVC, more or less half of the market in PVC is going to pipes. And I would say it is an early stage of the building. So is it renovation or new building? I would say PVC is at the upfront of any improvement in the building industry. The experience is that you have practically nine months to a year between improvements in PVC and improvement in soda ash. What we showed for instance is that the situation in quantity in soda ash deteriorated practically also nine months after it started deteriorating in PVC. So I would say the good signal I believe for this market is that the demand in PVC and in pipes is improving.

Question 8

Actually most questions have already been asked, but I think I have two left. Could you explain why the corporate and business support cost line has been increasing by a significant amount in Q2? And could you give us some more flavour on a reason for the most recent decision to stop research on SLV 340 and SLV 339?

Christian Jourquin

Thank you. So Bernard has also contributed in reducing substantially the costs by the corporate costs.

Bernard de Laguiche

On Corporate costs, I will give you the two main factors that explain the increase of corporate costs as well as from HY08 to HY09 and 2Q08 to 2Q09. The increase in both cases is more or less €10 million, 9 to 11 and there are two factors here. One is a special dotation to a pension fund we have in France due to projected revenue of that fund. This is a one off item. The other reason is that we have less margin on internal services mainly for the IT function and that is more of a recurring factor. If I want now to quantify these two factors, I would say the first one would have an impact of €8 million and the second one of around €5 million.

Werner Cautreels

On SLV339 and SLV340, these are two early stage projects in the franchise of pancreatic enzymes. The strategy we have is that on the long term or even on the very long term to see if we can replace the current product which is CREON® coming from animal sourcing, to replace that by non-animal sourced products coming from fermentation. We have a number of options in this approach. SLV339 completed some Phase I clinical work. SLV340 is in the pre-clinical stage. From the data we had we did see that those enzymes did not meet all the requirements in terms of their specific activity to be able actually to replace CREON®. So we stopped those and we continued some other approaches in the same franchise.

Question 9

I would like to come back to the soda ash market. You have elaborated on the price decline we see on the contract prices midyear. Looking on market data there are substantially lower prices and the contract prices possible from exports from China and through Black Sea ports. Are your clients that you have contracts with able to change from you as a supplier to these spot markets which are more liquid probably than in recent years and so it doesn't help you a lot that you have increased prices in soda ash in Europe by 20% and even 10 to 15% if you reduce the energy part of the contracts. So that is what I wanted to know, how the behaviour is.

Vincent De Cuyper

First comment; this is not something new. This is something which happened already in the last month. So the pressure coming from Black Sea and Chinese is something which happened in the second quarter in fact. It came from the Black Sea because of the depreciation of the local currencies compared to the euro leading to some imports from European customers from the Black Sea and also the Chinese producers who pushed up production and tried to reach new markets, export markets not only in Asia as usual but also in South America and even in Europe and in the US. So these phenomena are not new, we have favoured prices over volumes definitely, leading to adjustment of our production rate if necessary and this is what we intend to continue to do. Defend our margins and not our market share. But there is an evolution there because what happened in the Q2 taking into account that kind of aggression from the Chinese producers, the American producers had lost market shares in the Q2 and they decided to try to take back some market share in order to try to push back the Chinese producers and limit them to China. So we will see what is happening in the equilibrium of the spot market in the second half of the year.

Is there anything which concerns you regarding the Q3? If you are saying it is not a new phenomenon so then it means basically that you do not have to be worried about this development if looking on Q3 results in the chemical? Because I assume that still soda ash is by far the most important earnings contributor to you

Vincent De Cuyper

We always have to be careful anyway. As we mentioned the soda ash outlet is a laggard in the industry so we are certainly in the low period of the sales for the soda ash Q2 and it will remain that Q3 certainly, the flat glass industry is not going well. So Q3 will not be an easy quarter for the soda ash activity, certainly not.

Maybe one last question on the caustic soda which I have not really understood is what the price on average has been for Solvay in the second quarter? We have seen prices coming down dramatically just at the turn of the quarter, so in April, but as far as I know quite some

part of your business is also contracted on a quarterly basis. And the Q2 prices are still significantly higher than what we have seen on the spot prices and your business.

Vincent De Cuyper

Yes, you can never compare what is a spot price in caustic soda and the real sales price and basically following what Mr Jourquin said is that when there is any tonne of caustic soda overflowing you have to do something with that or you destroy it or you just dump it on the export market. And then this is why the export market price is going down very quickly, why some contract prices remain at a certain level on a quarterly basis. I think on average contract prices in Europe must have decreased between Q1 and Q2 by 100, €150 per tonne and I think they will further decrease probably between Q2 and Q3 by €100 per tonne. But these are estimates rather than anything else.

Christian Jourquin

Maybe a global comment about imports from countries that are today dumping their products: let's take the example of soda ash. Last year practically, as far as we know, the total of industry—at least that was the case for us—was running at 105% of the capacity. So we had a steep decrease early this year but that means that globally speaking and certainly when you see the imports/exports from countries like China, Croatia and so on, they were equilibrated in the past when the internal demand was high. Now the moment that you see the first signals of internal improvement in China, all the quantities that you see around the world—because it is not just in Europe that you see Chinese products. You have to expect that they will first be used internally, because China was not active specifically at the market for export. It was the same in PVC. So that is the reason why I said in the opening comments that the improvement in the growth of China partly is coming from these exports and not so much or not only internal improvement. You have to expect that step by step internal markets will improve in these countries and that you will have again a natural equilibrium that will be created.

Question 10

I have a question on your fixed cost. Could you break down the 75 million in first quarter and the second quarter? And secondly on Europe can you make some comments on what you see in different countries in the second quarter and maybe your outlook for the second half in Europe? Thank you.

Christian Jourquin

The first question, no we won't give this detail. Maybe I would suggest that we don't focus on countries, but on large regions because you have quite a difference between the Mediterranean countries like Spain, like Portugal, like Italy, UK and Ireland, Greece that are going through very difficult times. And I would say more the part of Germany, Eastern Europe where the perception that we have—and am I looking at my three colleagues—we have the feeling that the situation is better in these areas than in the Latin world if you accept to include UK and Ireland in the Latin context.

Question 11

My question is on the pharma side. First of all on TRICOR® could you please disclose the detailed performance of the product on the ex US and major region? Secondly on the guidance, to achieve your target it implies that you will deliver a strong H2 for the top line and is it a fair assumption to say that ANDROGEL® and CREON® will remain in the same vein as H1 at least in absolute terms? And regarding the costs line and the operating profit line: is it a fair assumption to say that INSPIRE and a better product mix will help or is there anything else? And the last one on the strategic review on pharma, could you be more specific on the timeline for the outcome? Thank you.

Christian Jourquin

I will start with the third question; I believe I was quite clear to say that we wouldn't make any further comment. You understand it is a very, very sensitive topic. We are working on a number of avenues and I can tell you that it is no secret that we won't have any holiday this

year. We are working consistently on reviewing all the options. We will come to a conclusion at the moment we have a clear view of the situation and the alternative that we have to analyse. I would say for me, before the fall, end of the fall, it will be extremely difficult for the management to have a clear view of what we could propose to the board. So I won't give any further comment and you will understand that if we would have comments to make that is first to our shareholders and our personnel.

So the next question about TRICOR®?

Werner Cautreels

Yes, let me address the other two questions. Perhaps a small correction; when I talk about the next numbers it is not TRICOR® but it is fenofibrate franchise in general because depending on the country and depending on where in the world, both the name but also the formulations are different. The US you have seen Abbott has reported an increase by 6% and I mentioned that by the end of the year we will be in line with whatever that increase is for the rest of the year, but today is something like that. In Europe we have a number of generics on the market and so there we lose some of the value but a bit more than 10%. In Asia/Middle East the product is doing very well and compared to last year that grew by 60%. The reason for that is that this product was launched in the number of countries recently and also it has taken up very well. In the rest of the world the product is growing by 43% and so altogether that means that the fenofibrate franchise with all its products will continue to grow. In terms of the guidance, yes indeed I think you already answered some of the—or you gave already a number of factors that contribute to that. For 2009 of course we do have a budget that is going from quarter to quarter and month to month and we are completely in line with what we had predicted and therefore the projections going forward are still in line with what we have predicted and there from comes the guidance. How do we get there? Yes indeed we believe that a number of products will continue to grow as they have done. That is true for ANDROGEL® in the US. That is true for CREON® globally, but with more an emphasis also in the US because we are not the only one of that class of products approved in the US and we will see a significant increase of market share. Fenofibrates I mentioned. DUODOPA® I have seen is growing by 40% and we expect that to continue and the influenza franchise I think I mentioned earlier. We continue to see growth in the emerging markets like the whole industry. And then yes indeed we continue to implement INSPIRE. And that will still contribute and the combination of all those factors indeed make us comfortable with the guidance that we have given.

Christian Jourquin

Thank you very much. So thank you for your attention and thank you for your questions. If there are no more questions the only thing I can say is enjoy a great summer, all of you. Thank you very much.