Solvay 2009 Results
Thursday, 18th February 2010
14:00 Hrs UK time
Chaired by Christian Jourquin

Christian Jourquin

Good afternoon Ladies and Gentlemen, and welcome to this conference call on Solvay's FY09 results. I am Christian Jourquin, CEO. I am joined by my colleagues Bernard de Laguiche, CFO, Jacques van Rijckevorsel, Group General Manager of the Plastics Sector and Vincent De Cuyper, Group General Manager of the Chemicals Sector.

I will start with a brief comment on our FY09 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.

Our total sales decreased by 11% in 2009 and by 3% in 4Q09. REBIT decreased to 905 million Euro in FY09 due to the global crisis but our operating result of the 4th quarter rose sharply in comparison with the same period of 2008.

We have benefited from significantly higher Pharmaceuticals results in line with the expectations of our INSPIRE program. The continued growth of our main drugs more than compensated for the impact of generic competition on Marinol® and lower stock levels of Trilipix™ in the States. Growth in emerging markets continued in line with previous years. R&D efforts were slightly lower in FY09 and accounted for 14.9% of pharma sales. REBIT rose by 27% to a record level of 649 million Euro. This significant increase reflects lower cost levels as well as the fact that assets held for sale are no longer depreciated in 4Q09. Furthermore, the EUR 17 million gain on the sale of Flammazine® is also included in 4th quarter REBIT.

In our Chemicals Sector, total volume is down by 13% and prices are on average stable while currencies had a positive impact of slightly less than 1% in 2009. This results in a 12% decline of our full year sales value and a 15% lower sales level in the 4th quarter. Sales volume started to slightly improve in the second part of the year. The price pressure on soda ash and hydrogen peroxide remains strong. Thanks to the reduction of fixed production costs and decline in energy expenses Chemicals Sector's REBIT rose by 3% for the year and more than doubled in the 4th quarter. The significantly lower energy expenses mitigated the impact of the lower volumes on 2009 results.

In our Plastics Sector, total volume is down by 11% and average prices decrease by 9% while we benefit from about 1% positive scope change in 2009.
Activities in Vinyls and Specialty Polymers are severely hit by the crisis, even if demand trends have gradually improved, in particular in Specialty Polymers. Volumes in Specialty Polymers decreased by 19% compared to 2008 but prices remain stable. However, we have seen gradual recovery in demand that started in 3Q09 and is now confirmed in the 4Q09. Excluding the seasonal impact European PVC volumes rose slightly in the 4Q09. However, lower PVC prices led to even lower margins. Our PVC results resisted better thanks to the attractive developments in the Asian markets. REBIT of the Plastics Sector dropped to 73 million Euro for the full year and rose to 27 million in the 4th quarter.

The resilience of the Solvay Group is the consequence of the strict measures taken to cope with a challenging economic environment. The impact of these measures on FY09 results can be summarized as follows:

First: at constant scope and USD exchange rate fixed production costs and commercial and administrative costs decreased by a total amount of around 225 million Euro. This cost reduction in the Chemicals and Plastics Sectors is mainly linked to fixed production costs and amounts to some 105 million Euro.
Second: the number of full time equivalents decreased by 1,630 people, mainly in Europe.

Third: industrial working capital decreased by 145 million Euro compared to the end of 2008.
And fourth: our significantly lower CAPEX of 567 million for the FY09.
Consequently, compared with 2008, cash flow from operating activities minus investment cash flow improved to EUR 600 million.

I'd like to ask Bernard de Laguiche 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: net debt to equity stands at 26% compared to 34% in December 2008. As a consequence of our strict CAPEX and working capital management, net debt decreased by EUR 264 million. We will continue our strict financial policy. Our CAPEX budget amounts to 673 million Euro for 2010.
- Second: tax charges decreased due to lower results and to some tax credits. We continue to stick to our medium term tax guidance with a tax rate below 30%.
- Third: financial charges were impacted by the funding cost in local currencies of our development in Eastern Europe and by the currently low yield on cash.

Back to you Christian.

Christian Jourquin
Thank you so much Bernard. The sale of our Pharmaceuticals business to Abbott was closed two days ago. We realized a net capital gain of 1.7 billion Euro. Now, having done a thorough analysis, our first priority is the industrial redeployment of the proceeds that creates value. As you know, we will avoid making any comments on the reinvestment of the proceeds before this actually takes place.
However, with the money in the bank, an investment program in treasury shares for up to 5.1 million shares has been put in place. Indeed, as temporary investment, an opportunistic investment in our own shares is more attractive than current low money market yields.

I want to conclude with two important elements.
First, the Board will propose at the AGM a gross dividend of 2.9333 Euro per share, stable compared to 2008.
And second, how we view 2010. Obviously, the focus will go to the optimal reinvestment after the disposal of the pharmaceutical activities. Thanks to its growth initiatives, its competitive positions and the measures taken in the last two years, Solvay is prepared in case of a longer crisis. Market conditions remain challenging.

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

Questions & Answers

Question 1.
Good afternoon; thanks for taking my questions. I had a few on chemicals and plastics. Could you give an indication on the soda ash market? You mentioned that in Europe the dynamics of that market are changing a little bit in the sense that from annual price the market is going more to quarterly pricing. Do you have any feeling on the dynamics of the market, whether that has an impact on the dynamics of the market and how you will respond to that? And, secondly, you mentioned that PVC margins in the fourth quarter were somewhat under pressure or that it was a challenging environment, a little bit maybe on your outlook going into 2010, what your feeling is on the market conditions for the PVC market and maybe also in the specialty polymers, given that that market has been benefiting from the automotive? And maybe some stimulus plans around the world, what you view is going forward in 2010 now that these programs have come to a fade out, how the energy and specialty polymers business will respond to that?

Christian Jourquin
So I will suggest that Vincent takes the first question on the soda ash.

Vincent De Cuyper
Yes, some comments on the soda ash market in Europe. Indeed, I think most of the players on the European market have changed their pricing policy in Europe and this is due to several factors. First of all, you know that last year the production rates have been significantly lower than the production capacity and we talk about an average rate of 70% meaning that there’s been significant price pressure for negotiation of new contracts for 2010. The market is speaking about a price reduction of between €30 and €40 per ton on the European market. So how did we answer to that? We answered to that by changing pricing policy and coming to various kinds of contracts, depending on the customers, but certainly most of the time being based on short-term, for two reasons. First, we want to be sure that there is no energy close in the pricing that at some time we could change our prices according to the evolution of the price of energy. And secondly, we see how the demand is evolving alongside 2010. You know that soda ash is quite late in the cycle and, in fact, the market started to decrease in soda ash activities during the first quarter of 2009, so we do not expect a recovery of demand in soda ash, in Europe at least, before the second half of 2010. So these are the main reasons why we’ve changed our strategy in terms of pricing.

Christian Jourquin
Maybe that’s about the impact of the dollar because a part of the sales of Europe are on spot price for export there, that should help us?

Vincent De Cuyper
Yes, that should help us for various reasons, first of all, because our exports which are in dollars, we would take advantage of a better conversion rate to Euro, but also the fact that we see less US products coming from Europe. We have observed that already at the end of 2009. Now the exports from the US, which are still high, are going mostly to China and Asia and less to Europe, which is also a little bit alleviating the pressure on the European market.

Christian Jourquin
You said less products from Europe. To Europe from...

Vincent De Cuyper
From US to Europe, yes, sorry.

Christian Jourquin
Okay, then the second question on PVC, maybe Jacques, you could highlight the different PVC situation through the different regions where we are active, because we have quite a positive compound of geographic footprint.

Jacques van Rijckevorsel
Yes, Christian, thank you. Indeed, two dimensions for the PVC. The first one is volumes, of course, and second one is spread. Then about the volumes, we saw last year a more difficult market in Europe, but the market globally stayed good in South America and in Asia, at least for Thai operations. At the beginning of this year we see that demand is coming back and, taking into account the tough winter, we could say that volumes are improving. Now, the margins suffered, are suffering, due to the ethylene price increase that we are experiencing everywhere in the world and that is of course due to the oil prices that increased and the tough winter. And all that made ethylene increasing the last month. That means that currently we are working on increasing our sales price everywhere. That can be in South America, that can be in Europe, that can be also in Thailand, and that is also happening.

The next question was about specialty polymers. There, I would say that since the end of the summer we have seen a positive improvement in the demand for specialty polymers in many applications. Remember that automotive, electronic, equipment, construction and all that are outlets for the specialty polymers and volumes are improving progressively and there the prices are much less cyclical, which means that the situation is really improving in the specialty polymers. Inergy Automotive System made a very important homework as far as competitiveness is concerned, and also with taking a new award and a new platform mainly by doing it in emerging countries. And that means that Inergy had a good year and the beginning of this year is also better than last year.

Christian Jourquin
Okay, so if that answers your question we could move to another question?

Question 2.
I have two questions, if I may. First of all, it is on pricing. You've given a little bit of colour on what you expect for soda ash, down €30 to €40 per ton. Perhaps you could give us a similar figure but for the caustic soda business? And the second, I think a lot of people tend to forget that you are running a business currently and are solely focusing on what are you going to do with the pharma money. Could you give us a timeline which you would expect something to be announced? Thanks.

Christian Jourquin
So maybe I will start with the second part of your question, which is probably the easiest one. Look, we've been very clear on that. It took us 40 years to build up our position in pharmaceuticals. We've been through a very thorough analysis of our strategic position, pharma versus our industrial activities and this process took more or less two years. You can understand that before stepping out of the pharma, the board was quite interested, to say the least, in what could be the reinvestment of the proceeds of the pharma in case of a sale. So what I can say today is that we have clear views about the markets where we would like to reinvest, that we

have clear understanding where companies are that could be interesting for reinvestment, but the money is in our pocket just for two days. That's the first element.

And the second, we are reinvesting for the long-term and not just for tomorrow. So the companies that could be interesting have to be analysed very thoroughly on, I would say, the different criteria that we have fixed for reinvestment. And we have to see through this time in this crisis in how far they present a good resistance and a good resilience through this time. And this is important because, from one side, we want to invest for the long term, but also at the same moment we want to secure the dividend for our shareholders. So we have to find the right compound in order not to overspend. I believe that with that I've given you an idea about the avenues that we can consider, but I won't go further at this moment because you have to understand that if I go further, the chance that I overpay is increasing exponentially. So I will keep silent on that.

Now your question about caustic soda. Vincent?

Vincent De Cuyper
Yes, some comments on the caustic soda market. You know that we mentioned that the rise of caustic soda would start probably after Q2, Q3 of last year and then in Q4 we saw already some price recovery. In Q4 the published prices by Harriman we're talking about a level of €280 to €300 per ton in Europe and export prices on spot basis slightly lower than $200 per ton. What's the present situation? Well, you have to know that in Europe the inventories closed at the end of 2009 at the lowest level of the year, which is a good sign, and that we see something of a pickup of demand in some important markets for caustic soda, like the alumina and the pulp and paper. This being said, the demand is still reasonably weak and there is no dramatic change in the demand, either in the US or in Europe, and this is why in Q1 in fact we, and the industry in general, have not been able to further increase the price of caustic soda. So for Q1 2010 we speak more or less about rollover price compared to Q4 2009 and clearly, at the present level of demand, it will be difficult to push up further the prices of caustic soda. Now, this being said, energy prices are still on the favourable side for us.

Question 3.
I have two subjects I'd like to talk about. The first one is about the investment of the cash, just to really understand why are you not buying more Treasury shares of the 5.1 million shares, or if you would buy more, what would be the conditions. Are you just waiting for the AGM to get approval to buy more shares? The second question is related to that. Can you just give an update whether you have started to buy shares already or is that really too early? And can I really understand the approach you have? Once you do reinvestments, when you do an acquisition, should we expect these Treasury shares to be sold back into the market or your intention is to cancel those shares? And lastly, the last question on that theme is what is the yield you are guiding, you suggest we should assume for the cash? The second theme I would like to talk about is about the investment. Usually you give a precise guidance about the capital expenditure for next year. I didn't see that in your slides and maybe I didn't look correctly. Can you just help us on what will be the capex for the core Solvay this year, and on the financial investments I think there are a couple of decisions you've taken of buying back minorities, acquisitions of soda ash company in Russia. If you could provide some details on that, it would be very useful. Thank you very much.

Christian Jourquin
I hope that I won't forget all the questions. But let's maybe start with the second one. Bernard is concentrating on the first questions. Actually, you will find in our document that you have I believe under your eyes, the capex for 2010, and that's on page five of the presentation where you see cost reduction, cash generation and the fourth square below gives you the decrease of capex for this year and illustrates the capex for next year. And actually it's a very good question because we want to keep segregated the industrial deployment of the proceeds of the pharma from, I would say, our running expenses. And you will notice that we practically stayed at the same level as in 2009. Why? Well, we want to avoid creating the expectation that we will spend a lot of money on new projects or that we could revisit the criteria we have for our investment. You know, we have very strict guidelines looking at the profitability of new projects and we won't change that just because we've cashed in a large amount for the pharma.

So, in our view, and that was something we shared with the financial community last year in January, our perception at that moment was that we could be heading for two years of difficult time, and you will remember that we made this comment a year ago. Actually, we see some improvement on the market, but not at the level that we can change our philosophy, so we stick to a very strict capital expenditure policy, we will continue to be very restrictive and very demanding in managing our working capital and the figure that you see there is what we can afford and what we could do, looking at the view that we have today on our business. And that's completely independent from the reinvestment for our pharma that should be an industrial long-term vision.

Now, that's the second question. On the first one, on the temporary reinvestment of the proceeds, Bernard, maybe you could elaborate a little bit?

Bernard de Laguiche
Yes, so for our Treasury share program. First of all, I would like to put it in context. And the context is the short-term reinvestment of our cash before any other strategic move is done. And for that, we have had two criteria. One is the preservation of our capital and the second one is the flexibility because we want to be able to dispose of this cash when required. And so within that context we decided to dedicate part of our investments to Treasury shares. This Treasury share program amounts to 6% of our outstanding capital[1]. And it is not our intention for the time being to change this guideline and to change the context of our reinvestment program. So that also answers the question, will you destroy these shares; the answer is no. Did you already buy? Well, there are financial market rules and according to these rules we will have to report when we acquire the shares and we will do so according to the rules of the Belgian market authorities. A mandate has been given for that since closing and information will be public in the required format. So these are my answers.

Question 4.
Good afternoon, thank you for taking my questions. The first is basically back on the capex. If I look on the capex you plan for 2010 then it is almost twice as high as depreciation, which is for a company that has quite some mature business, it's quite a lot. You have some big projects you are executing right now and they are mainly in the quarterly part as well, but looking forward mid-term, is this level for the two remaining segments something which you will have as a sustained investment, so then it is a strong growth process you have in these assets in your hand also mid-term? Secondly, you were saying in your presentation that you will have an additional

[1] Text corrected

*reporting line, a new sector, called New Business Development. Could you elaborate a little bit more on what you understand this in financial terms, how many sales or earnings we will see in that division? And last but not least, in soda ash could you please also say what in absolute terms the prices for the first quarter, as you said it is down €*30 to *€40 per ton but I do not know what the basis for this is. Thank you very much.*

Christian Jourquin
Okay, then maybe on the first question and the level of investment, I would like to remind you that we have this year a number of very important projects that are running. The first one is our Russian investment that should represent an important cash-out this year, and certainly the plant that we are building in Thailand for the HPPO joint venture in Thailand for propylene oxide. So we have, I would say, basically two large projects. We have also Epicerol project where we will have expenses this year and we voluntarily postponed some of these expenses last year. Now, these projects should generate, in the coming years, the appropriate cashflow.

If we look at the situation of our net debt to ratio equity today, which is 26%, we are far below the limit that we fixed and not to go over for a long time, which is, as you know, 45%. So we keep this perspective looking also at our expectation of net cashflow for this year.

On your question about soda ash, again, Vincent?

Vincent De Cuyper
Yes, just a quick comment. We do not comment on our pricing of course, but I can give you an indication of the price published by Harriman, which is available, and which is mentioning prices of soda ash in Europe, between €160 and €190 per ton, and in the US between $130 and $190 per ton.

Christian Jourquin
Maybe one element which is important for all our activities, I would suggest that you have a look at page seven of our presentation where you see the impact of energy on our bottom line, at least in proportion of our turnover. Then you will see that we've been, I would say for four years, at a level of 11% of the turnover plastics-chemicals. We had a steep increase last year when it went to 14.3% and I would say in 2009 still with a high impact in the first part of the year, we are back to 13%. And, as you know, we have a pro-active management energy. This is impacting obviously, in a good sense, the results of our chemical sector but also of our plastics sector. I believe it's important to put that in the context and not forgetting all the efforts done on the fixed costs.

The last question you had is, I would say, opening the avenues for the investment of the future and maybe Bernard could introduce the topic. Jacques van Rijckevorsel is the chairman of the New Business board so he can put some more colour on some these topics. So, Bernard, would you introduce the point.

Bernard de Laguiche
Yes, thank you for the question because indeed NBD or the New Business segment is an important segment in that it shows what are the new avenues for the group. And so our new segment, New Business Development, is made of two competence centres, one is new business and the other one is advanced technology. And these two competence centres manage four platforms and Jacques will go into the detail of these platforms. But what I would like to say is that these four platforms, have been selected as a response of Solvay to megatrends, and these

four megatrends are climate change and the impact of CO2 on our businesses and on our product portfolio. Number two, the scarcity of resources and certainly of fossil fuels and how we can respond to that, and number three and four is a shift of economic activity and the emergence of new consumers in emerging countries, mainly India and China. And, Jacques, maybe you can say what our four platforms are?

Jacques van Rijckevorsel
Thank you, Bernard. Yes, indeed, those megatrends are key for the selection of those platforms and you have on pages 15 to 17 of the presentation a description of those platforms. First, in the future businesses, we are looking at sustainable energies like fuel cells and you probably know that we have, since 2006, a joint venture with Umicore. That joint venture is Solvicore and they make membrane electrode assemblies for fuel cells. Then you also have read in the press a few weeks ago that we have decided to install a new plant of one megawatt electrical power in Antwerp, converting the hydrogen produced by the electrolysis into electrical power. And that is with our material.

Sustainable energy means also photovoltaic and we have works going in the direction of organic photovoltaic, that means the generation after the silicone based cells. And new batteries, you have probably also read that we have more projects in the lithium iron batteries that can be in the chemicals, in the plastics, and with other partners we are trying to leverage the maximum of our capabilities. And we have hydrogen storage. That was for the sustainable energies. Then we have organic electronics platforms. The idea there is to focus on organic materials for all the display lighting, which is a very promising sector. Then we have organic field effect transistors and organic memories. That was for the future businesses.

For the advanced technologies, we have two main projects. The first one is what we named the green chemistry, bio sourced materials and also biotechnologies. And the last one is nanotechnologies; there we see that with wide use of nanotechnologies we can come with very special properties and/or very special yields. So, in a nutshell, that was the presentation.

Question 5.
I have an additional question on the New Business Development activities. Can you give us a sort of timeline which you intend to achieve new applications or new business in these New Development activities? What costs do you expect to incur and indeed can we expect costs or maybe already revenues? And another question with regard to cost savings, could you give an indication of what has been achieved since 2009 and what you further expect in 2010 versus 2009, excluding the pharmaceuticals business of course? And my third question is on the margins in Mercosur. You stated they remained low. Could you give a little bit more detail on why they remain low?

Christian Jourquin
I'm afraid I didn't catch the last question. What was your precise question?

Question 5.
You state in the press release that the margins in Mercosur remain low, a little bit flavour on why.

Christian Jourquin
Okay, I suggest maybe Bernard, you introduce the first question?

Bernard de Laguiche
Yes, I think the best answer to your question concerning New Business Developments would be a sales target and the time horizon we have and we are, as you know, a rather conservative company. So as a target we put for 2015 €500 million additional sales. It's not tomorrow, it's 2015.

Christian Jourquin
Okay, so maybe continuing on the first question, I would say with this fourth segments that we open, it's quite clear that we show that we are investing in the new technologies for tomorrow. But you should put this also in the frame of our general policies and you will have noticed that in the last weeks we've announced that we would open three new R&D centres in Asia, one in Korea, and this is basically oriented towards electronics and to be close to the large Korean groups, one in India with a specific focus more on specialty polymers and one in China. For these new applications, obviously, intimacy with the large groups and key customers is essential. Now, it should be clear that the use of the applications of these products, it's not short-term because time to market is quite long. It's clear that we won't invest the proceeds of the pharma in these activities because we have certainly a priority which is to secure the dividend to our shareholders.

The second question about costs savings, you have in the presentation – that is on page five, I believe – on page five we've given you the spread of the savings between chemicals and plastics and the pharmaceuticals. So, on the 225 you see that we have 105 for chemicals and plastics, taking into consideration that it has been accrued over the year. So what you see is on the surface of triangle. And you can expect that next year a large part of it will repeat itself. But more than cost cutting, I believe it's important to consider that the sale of the pharma is one step in the change of the company. It's not the end of one process or the start of the other; it has to be placed in the overall change of the group. And more than cost cutting, I would say, it is a golden opportunity to revisit the way we are working to have a leaner organisation and a more reactive organisation. So at the same moment that we think about reinvesting the proceeds, we are looking at how we can improve the functioning of our group. And the third question, Jacques, was to you about the low margins in Mercosur.

Jacques van Rijckevorsel
So why low margins in finance in Mercosur and in Europe? The answer is the same for both regions – it is imports from USA. You had a weak dollar versus the euro and we also had a weak dollar versus the Brazilian real, and there was also oversupply, very clearly, in North America with the housing crisis – so altogether we suffered a lot of imports coming from North America, both in Mercosur and in Europe. Now, at the beginning of this year, and at the end of last year already, we saw ethylene increase at the same time, and that meant that volumes from America were coming and that ethylene price was increasing.

Now, what we see currently is that the pressure from the American imports is decreasing because their ethylene increased a lot, and secondly, the euro and the dollar became stronger. And the pressure is becoming less and we are working on a gradual spread improvement, both in South America and in Europe.

Question 6.
Thank you for taking my questions; I have a few follow up questions. First of all, on the new business development you said you targeted 500 million additional savings in 2015 – what is the current state of this business and are you talking only about organic growth here or do you expect some small to mid size acquisitions in those business? Secondly, I would like to follow up on the Soda Ash question on the pricing pressure you mentioned for the first quarter this year – does it compare to a lower input cost or lower fixed cost, or do you also see possible pressure on margins in the first quarter compared to the fourth quarter of '09? Now a follow up question on the cost reduction. Would the structure remain for the year 2010? Could you help us to understand a bit what proportion of this saving is in the chemical division and what proportion is in the plastic division, and maybe where is the rest coming from? And finally, could you help us a bit on a housekeeping question – ex-pharma, what is your guidance for the tax going forward and for the corporate cost of the group?

Christian Jourquin
Let's start maybe with the easiest one, which is the third one; Bernard, the guidance on the tax.

Bernard de Laguiche
The issue on tax – our tax rate is low this year, mainly because of some tax credits on the R&D side, and as you know, R&D was mainly pharma. The low tax rate this year is not a reason to change our guidance, and the guidance is less than 30%, it's the same as last year, basically.

Christian Jourquin
Okay. Then Jacques or Bernard, some words about the expectation on turnover of new business.

Jacques van Rijckevorsel
Turnover today is less than five million;. The target of 500 million is by acquisition and organic growth.

Bernard de Laguiche
But I would say for the capex of 2010 possible acquisitions in this field is in the envelope we've given for 2010 – so that wouldn't be on top of.

Christian Jourquin
Soda Ash – I've never got so many questions about Soda Ash myself.

Vincent de Cuyper
Yes, some comment on the evolution – obviously it's, at this stage, difficult to say if the margins will be maintained or under pressure in early 2010. There are various factors, of course, first of all the price will be down certainly during the first part of the year, and we mentioned that already – we do hope that we could see some recovery later in the year. What is interesting to mention already is that in China today the Chinese price has started to increase again, which is a positive sign, even if it has started to increase from a low base – but it's a good sign for the months to come. And this is based on a better demand in China, as well as an increase of the raw material prices in China.

The second part of the equation is, of course, the energy price. As Mr Jourquin mentioned, we are still with low levels of energy prices. So if you compare with last year we were, for the chemicals and plastics, at 11% of our energy expenses compared to the group sales, excluding pharma; 11% for Q4 – this is coming from 12% in Q3. And in Q1, if you compare with Q1, we were at 16% in

Q1. So if you start to compare margins from year to year, of course there will be an effect of the lower prices, but there is still a significant impact from lower energy costs, and this is, if you remember last year what we said that the energy prices would still be high in the first half of the year and will start to decrease in the second half of the year, which is what is occurring today. So I think the first half of the year of 2010 the energy prices should remain at a low level, which should help our margins even if the price of Soda Ash is down.

The third part of the equation is the demand. This is probably where I am cautious. Of course, any increase of the demand will help our production costs through better use of our capacities, but today in Europe as well as in the US, the domestic market is still rather weak, and we do not see a really significant change. We have mentioned an improvement in the Q3 '09, but Q4 was very similar to Q3 and we do not see a significant change. There is a modest recovery in January in the US, a modest recovery in Europe but it is too early to say more about that for the time being as far as the demand is concerned. As I mentioned, Soda Ash is a laggard in the recovery so I do hope that it will be better in the second part of the year.

Christian Jourquin
Going in the direction of what Vincent is saying, I would say that if we compare our situation this year, January, with the situation in January a year ago, I believe that we can say that the morphology of the crisis has drastically changed. You will remember a year ago elasticity to price was practically zero; you could have decreased your price with 50%, you wouldn't have sold one kilo more. The comments of Jacques about demand coming back on PVC is a good signal because that means that there is more appetite for product, and I would say the vicious aspect of it is that every kilo is the result of a fight – so the volatility of price is high. At the same moment that is the good news and less good news. But what Vincent said about the one year lag time between PVC and Soda Ash gives us a perspective of the real improvement. Now anyway, that was our policy already last year.

In cost reduction… actually we don't give the difference between chemicals and plastics, it's one package of savings, but you will notice from the same page; page five, the substantial reduction in headcount at constant scope. And you will notice that chemical and plastics reduced by more than 1,000 people; practically 1,200 people – now this is obviously something that will continue to contribute to the results in the future. I believe I've answered the three questions so next question, please.

Question 7.
Yes, hi, it's again Jean de Watteville. Three questions please – the first one is really on capital intensity. When we look at the growth assets on sales of Solvay before the pharma disposal, you already had a very high ratio of 1.3, which I assume will go up once pharma is de-consolidated, probably 1.5, 1.6, which is really much higher than other industrial chemical companies we are looking at in the sector. And also, when I look at comparable growth rate of sales for both chemicals and plastics, it's has been relatively low on the last decade, but you still had capex on average of about 8%. So really, can you help us to, you know, look at the right capital intensity of both chemicals and plastics, maybe on giving us, you know, what's the level of capex on sales you need to have to just maintain the business, including capacity closures and restructuring that you need to do on an ongoing basis? That's the first question.

Second question – you've actually changed… you will change the consolidation of Vinythai – can you just give us the impact on 2010? And the third question is going back to the new business *division – will we see a step up of R&D to support the growth initiatives, or that's part of, broadly speaking, with the R&D budget you had for chemicals and plastics last year? Thank you.*

Christian Jourquin
The first one could be a topic for a long discussion of ours, but Bernard, could you summarise our feelings about it?

Bernard de Laguiche
I will make a couple of comments on capital intensity. When you say the de-consolidation of pharma will increase the average capital intensity, well, it depends on how you look at it because if you look at it as we do, including capital investments or acquisitions in the capital expenditures, then the capital intensity of pharma is also relatively… or very high. But you are right, our chemicals and plastics businesses are capital intensive, that is something that will go down, I would say, in the future, if we invest or reinvest or redeploy the group according to the criteria we have mentioned.

Our capex budget, you should look at them also over the last three years – they have been reduced considerably. And for your information they include, as we have always said, maintenance capex of a level of more or less €350 million, including pharma. So I think we know that we have a capital intensive business and that's how it is structurally, the evolution is… probably it will be reduced somewhat, and you have seen that when we acquired special polymers that are, in turn, less capital intensive than PVC for example, and these are the characteristics of our business.

Christian Jourquin
I fully support what Bernard is saying, we keep investing in our plants, which means that our plants are state of the art at the right level. Not investing – you push yourself in a position where you can't take the advantage of increase of productivity, and when we see year after year the increase of our productivity in our main business we can say that it is a good return. That was, I believe, your first question.

Your second question was on R&D. Your conclusion is right – our R&D will increase in the coming years and I believe that that should be what happens when you have a strong base in Europe. If you're just in commodities without investing in research, I believe that competition from Asian countries could be very, very negative for Europe – so you're right; we invest and we will invest more in R&D. And your third question was on Vinythai and that's for Jacques.

Jacques van Rijckevorsel
Yes, and the question was… at least I understood that your question was what is the impact of the full consolidation of Vinythai on our P&L? Vinythai is a public listed company and then the results are public, and we can say that going from 50% to 100% we'll have an impact of about €15 million on the REBIT, that was the case in 2009.

Christian Jourquin
Still an appetite for another question?

Question 8.
Yes, good afternoon. It's Dominik Frauensienst from Commerzbank in Frankfurt, and yes, I've got an appetite – just two short questions on the new NBD business. What will be the share of total capex bound for NBD? So when we look at 2010 capex of, say 647 million, can you give us an indication of what will be, sort of, bound for NBD? And secondly, what is, from your point of view now, the most promising platform in NBD? So what platform would contribute the most going forward, from what you can see today? Thank you.

Christian Jourquin
I will take the last question. It's very difficult today to say what will be the most promising, because if we were to know we wouldn't chase four avenues. But I believe that the four of them are matching the mega trends that Bernard has mentioned before, and I believe that return on this research will be longer because we are still speaking about technologies, we are not yet speaking about a broad range of products, and we are far from having a broad scope of functionalities to offer to customers. So I would say we need to have more clarity on the development of these segments, but we are sure that these ones are an essential part for tomorrow's energy savings and so on. Jacques, part of the investment, to give a precise answer?

Jacques van Rijckevorsel
I would like to give two figures – first, what is the part of the R&D because we have expenses and then the part of the CAPEX. The part of the R&D for NBD will be about 20% of the group R&D expenses, and the CAPEX will be about the 5% that you have in the figures for 2010.

Question 9.
Good afternoon everyone, this is Sachin Soni from Kempen and Co. I have a question regarding the change of the company – as you said, the divestment of pharma is just your first step; I was just wondering would taking the company private, going forward, to have a much better value in another sense? Would this be a consideration? And regarding capex again, for the years beyond 2010, what is the range to take into account in assumptions? Would €600 million to €700 million be a good range in terms of capex? Thank you.

Christian Jourquin
Well, the first point – I believe we answered, at the moment, that we considered at our strategic review. You will remember at that time the basic question was the capability that we had to develop at the same moment our pharma activities, the other activities and to reposition our group, taking into consideration the view that we can have on the challenges for tomorrow for chemicals, plastics and for industry, generally speaking. So the intention is certainly not to go private, but as we said in our outlook, to find an optimal reinvestment programme, and that's really the basis.

Second question on capex – well, you know the first point in our capex, there is one part we never discuss, that's the part for safety and this is something which is a base line. And for the rest we've adapted last year our capex to the vision that we had on the crisis; we do the same this year and we re-visit it every year taking into consideration that the criteria that we respect for reinvestments, have not changed with the fact that we have sold the pharma – we will stick to our strict criteria for reinvestment.

Christian Jourquin
Thank you to you. Next question.

Question 10.
Thanks for taking my questions. I have some additional questions on the reinvestment of cash – and first, just to clarify, is it correct to assume that you've identified multiple potential targets which would potentially fit the group? So we're not talking about just one or two key opportunities, but a multiple range of them. And then secondly, do you see more assets available on the market? We've seen a lot of press reports recently about private equity companies attempting to exit their assets – so could you comment on that? And then thirdly, could you talk a bit about returns that you've made on past acquisitions? Thanks.

Christian Jourquin
These are very exciting questions. First of all, when I said that we had multiple targets, that means that we have multiple possibilities. It doesn't mean that we will make several acquisions, but that we've identified some markets that are interesting for us, and within each of these markets that we've identified companies that could be interesting and we analysed, as I said earlier, or we will analyse their performance. Now, should we consider assets in despair, or assets sold by equity funds and so on – well, look, what we are doing it's not an opportunistic reinvestment. If we did the move that we've done, that is typically to reinvest in what we've chosen to reinvest in, and so being careful not to overpay, obviously.

Now, if we look at the past acquisions, and certainly we have the good example of the pharma with a sale price of 5.2, well, it represents… and Bernard is very fast in making this kind of computation, it means an internal rate of return more or less of 20%. So I would say it's quite an interesting move, and obviously we are always checking if we've made a good investment, and if not we try to exit.

Closing Comments

Christian Jourquin
Thank you very much. Well, I have to thank everybody for their presence, and certainly for the quality of the questions – it's always a very nice moment to share with you what is our perception of the business and try to share with you the vision we have on the future of our company. So thank you for your interest and back to the next meeting for the first quarter results. Thank you very much. Goodbye.