

# Solvay Q4 and Full Year 2022 results

## Analysts call transcript

23 Feb 2023

### Jodi Allen - Solvay, Head of Investor Relations

Good afternoon, ladies and gentlemen, and welcome to our Fourth Quarter 2022 Earnings Call. This is Jodi Allen, Head of Investor Relations, and I'm joined today by our CEO, Ilham Kadri, and our CFO, Karim Hajjar. Today's call is being recorded and will be made available for replay on the Investor Relations section of our website later today.

I would like to remind all participants that the presentation includes forward-looking statements, which are subject to risks and uncertainties. You may refer to the slides related to this broadcast, which are available on our website.

With that, I'll turn the call over to Ilham.

### Ilham Kadri - CEO

Thank you very much, Jodi, and hello, everyone.

Today is about celebration, and I want to celebrate our people, our results, and our bright future. We all know that in today's environment, progress goes beyond financial results, because performance needs to be anchored in strong ESG fundamentals. So before I turn to our financial results, I will begin with a review of our progress on Solvay One Planet, our sustainability roadmap, which is, as you know, an integral part of our strategy. The facts that I highlight in slide three speak for themselves, and while there is plenty to celebrate, I'll highlight a few key points.

As you know very well, Solvay is committed to reducing our carbon emissions rapidly. The information you see highlights our performance, reviewed by our external auditor, and it shows that we have again made good progress. Indeed, we have achieved a - 19% reduction of greenhouse gas emissions across four years since the inception of the programme. Structurally, we have achieved -15% reduction since 2018 – structurally – almost 2x the Paris Agreement target, which is halfway to our 2030 objective.

We continue on progressing on exiting coal before 2020. Biomass boilers are under construction in Rheinberg in Germany. In Dombasle, in France, the new boilers are based on reused derived fuel, or RDF, while Green River, in the United States of America, is switching to natural gas. In Devnya, in Bulgaria, we have upgraded our existing coal boiler. All these projects are well underway and will together further reduce emissions by approximately 10% by 2025.

In 2022, we increased the sale of sustainable solutions by five percentage points to 55%, including growth by Specialty Polymers and Silica as a service of electrification and increasing sales in the agro market. We are also making progress on our circular solutions which reached 9.3% by shifting to recycled material and renewable feedstock. Here are a few examples.

In Specialty Polymers, we developed a new range of high-performance polymers made from recycled raw material used in haemodialysis membranes. In Novecare, we launched new bio-surfactants made from 100% bio-based ingredients using rapeseed oil and sugar with a low environmental footprint used in personal care applications. In Silica, we launched a bio-based silicate derived from rice husk ash, contributing to a reduction of CO<sub>2</sub> in tyre production for customers like Continental.

Finally, we elevated our focus on our people, including advancement in diversity, equity and inclusion this past year. Solvay launched its very first share ownership programme for employees, which has a participation rate of 28%. This is higher than the median of mature companies. And noticeably, with higher participation from our manufacturing site workers and Asian colleagues. There is nothing better in a company than having employees become shareholders and having skin in the game – and we like it.

We also supported our employees last year with an exceptional bonus to help manage the inflationary environment. At Solvay, we care while daring to transform.

Now, bringing gender parity at mid and senior level management is a challenging goal, as you know. At Solvay, we target inclusion through better purpose-led managerial practices and applying equity in everything we do, such as equality in gender pay wages. We are proud of closing the gap with 951 employees to start with, both male and female. Inclusion and equality is what we do, and diversity is what you will see. We still have a long way to go, obviously. Although, we have increased our female population at mid and senior level to 26.5% in 2022, 2.2% better than in 2019. We continue to promote all types of diversity in our hiring practices.

Before I move to the financial results, I would also like to celebrate our last year upgrade from B to A-minus from renowned rating agency CDP's Climate Change, who confirmed our rating again in December. We were specially recognised for our governance, our climate roadmap, and our progress on emission reduction. Last week, we were proud to be included in the new BEL 20 ESG Index. Evidence again that Solvay's progress is meaningful to say the least. So, in short, I'm truly proud of our ESG progress and, as you know, we won't stop here.

And this now brings me to our full-year financial performance, shown on the next few slides.

This time last year, we indicated that managing the inflationary cost pressure was a top priority. 12 months later, you can see that our team successfully implemented €2.6 billion of pricing initiatives, more than offsetting €1.6 billion of inflationary cost. You may want to note that the resulting pricing of €1 billion includes the benefit of hedges of around €100 million. As you see, the impact from hedging is not that significant. Why? Simply because we consider it as an insurance that only buys you time and we will not wish such hedges to distort the drive to preserve profitability at all times. This is why we prioritize commercial mechanisms by which I mean contractual escalation and surcharge mechanism. This is also why energy surcharges have now been integrated in many of our formula-based contracts.

The combination of strong pricing and volume increase in 2022 helped us to deliver net sales of €13.4 billion, up 26%, with every business contributing to the growth. The increases in price and volume drove EBITDA to €3.2 billion, up about 29% organically, leading to an EBITDA of over €3 billion for the first time in the company's history. We did this while maintaining our disciplined approach on cash. We have now delivered 15 consecutive quarters of positive free cash flow, and we delivered a record of €1.1 billion for the year despite increasing our CAPEX almost €300 million versus 2021, to €1 billion – record level.

Another significant achievement is returns or return on capital employed, called ROCE, now at 16%. This is double the level when I first joined the company, back in 2019. And just to be clear, if we exclude some impairments which were recorded in 2019 and 2020, the ROCE today would be 13.7%, an improvement of nearly 6% on a capital base of €14 billion. This reflects strong operational performance and upgrading our portfolio.

Perhaps the most important achievement has been the improvement of our balance sheet. The improved cash generation enabled us to reduce net debt by €2 billion, which we also made substantial voluntary contribution to deleverage our pension liability, which are around €1.6 billion below 2019 level. As a result of the deleveraging of our debt and pension liability by 43% since early 2019, the annual cash cost of financing our debt and pension has fallen by €204 million a year. This is nearly 3x the target we set for ourselves. If you may remember in the G.R.O.W. strategy in November 2019.

Our leverage of 1.1x is half 2019 level. This illustrates the strength of our balance sheet. Since early 2019, we generated free cash flow of €3.5 billion, paid €1.6 billion on dividends, and reduced debt and pension by a total of €3.6 billion. Our results have put us in the top quartile of performance relative to our peers.

Before I hand it over to Karim, I'd like to highlight our investments in capital expenditure, which exceeded €1 billion for the year. About half was for growth and energy transition investments. Key highlights of last year's investments were the launch of our PVDF line in China, our increased capacity of sodium Bicarbonate in Bulgaria, and vertical integration in natural vanillin in France, and these are big by customers who want and value our sustainability-driven innovation. I'd like here to highlight just a few.

Novecare launched two new high-performance surfactants made from 100% bio-based ingredients for beauty care products that have an additional benefit of biodegradability. We won a sizable contract in the Specialty Polymers business to serve an important battery producer with a new PVDF upgrade for binders which are used key automotive OEMs in electrical vehicles. We were recently awarded with the Environmental Achievement of the Year at Tire Tech 2022 for the silica innovation called TECHSYN technology, which was adopted by Bridgestone, and enabled 30% better wear efficiency and improved rolling resistance by up to 6%.

As I go through these examples of innovation, one thing is crystal clear: sustainability is not a trend, it's here to stay, and it fuels Solvay's research and innovation engine.

In 2022, we increased our overall innovation spend by around €50 million, resulting in a research incentive value of 2.6% with the Material segment up 4.6%.

Now, I'd like to invite Karim to share the highlights of our quarter four results. Karim.

### Karim Hajjar - CFO

Thank you, Ilham.

Good morning, good afternoon, everyone. As usual, I will refer to figures on an organic basis, meaning at constant scope and currency, unless I note otherwise. And I'm going to start with an overview of the fourth-quarter performance and then I'll dive into each segment.

Group sales grew 15% organically year-on-year, driven by price, which more than offset a 6% drop in volumes, as we all witnessed the general slowdown in demand across some key markets, and also related to destocking by customers as we approached year-end. The businesses of Solvay did a great job responding to the changing environment, not only matching supply with softening demand but also sustaining pricing.

I'm now going to take a closer look at each segment, starting with Materials on slide nine. And before, actually, I zoom in on Q4 results, it's worth noting the fact that full-year sales increased 33% to €4.1 billion. This reflects gains in both volumes and pricing, driven mainly by record sales in Specialty Polymers across all end markets and supported by the Composite business which benefited from continuing demand and recovery in commercial aerospace.

Turning to the fourth-quarter, sales improved 31%, driven mainly by price increases and volumes were also 3.3% higher, and that reflects continued strength in most end markets.

In Specialty, Q4 Polymers sales grew 37% against Q4 2021, driven by pricing combined with sustained, yet modest, volume growth. Our strong leadership across most markets more than offset weakening demand and destocking in a couple of markets, most notably in the automotive market, including the sales of electric vehicles. We delivered growth in electronics where we do our business in both markets, and we launched with new investment opportunities. And we also grew volumes in other markets such as healthcare, where we were strong in hemodialysis membranes and in medical packaging.

Composite Materials sales up 16% against Q4 last year, due to both volumes and pricing, demonstrating the demand recovery we've been signaling for a while. This continues in the aerospace sector. The volume growth amounted to 5% and was driven by single-aisle aircraft production, such as the Boeing 737 MAX, as well as the Airbus A320 and A350 platforms. We also recorded strong sales to engines and business jets, which were partially offset by declines in Space and Defence.

Wrapping up the Material segment results, fourth quarter EBITDA for the segment increased 36%. EBITDA margin improved 210 basis points to a shade under 30% at 29.6%.

Moving to Chemicals segment on slide ten. Full-year 2022 sales in the segment were up 27% to €4.5 billion, reflecting the combination of pricing measures and sustained demand for Soda Ash & Derivatives for Peroxides and for Silica, which together more than compensated for softening demand in Coatis and Rusvinyl.

Overall, fourth-quarter sales in the segment rose 17%, as we were again able to manage inflationary costs with suitable price increases. Volumes declined 7% overall in the segment, due mainly to reduced demand at Coatis relative to a very high comparable in the fourth quarter of 2021. It is worth noting that our Coatis and Rusvinyl businesses are cyclical, and they have started to come off a prolonged period of above-cycle average earnings.

Soda Ash & Derivatives sales grew 42%, mainly through pricing actions which overcame higher energy costs. Volumes were slightly positive, driven by the derivative side of the business, mainly Bicar, which is enjoying growth in several emerging markets and has reached a new record in terms of volume and revenues in 2022. Now, although demand for Soda Ash in the construction market softened somewhat in the fourth quarter the business remains resilient in what remains a tight market.

Turning to Peroxides. Sales were up 8% in the fourth quarter, reflecting higher pricing which did offset lower volumes in Europe and in North America, where we saw that pulp and paper customers curtailed production because of energy price spikes. You may recall that earlier this year, we announced a licensing agreement with a China-based

caprolactam producer called Sanning, and now we're seeing the fruits of that engagement with positive results in the fourth quarter.

In Silica, sales increased 15% in the quarter, driven by pricing actions. They were able to more than compensate for softening demand in the tyre market as volume declined 11%. Our resilience in this business demonstrates our focus on developing innovative, sustainable solutions, and it illustrates the strong customer partnerships that we have. We will continue to focus on our growth opportunities for Silica, with silica for electric vehicle tyres and a recently announced rice husk-derived bio-circular silica.

Coatis sales were down 19%, in comparison to the very strong Q4 2021. Sales volumes were down 17% due to imports into the Brazilian market which put pressure on pricing. Indeed, business conditions in this cyclical business in the last few months have been amongst the most challenging we've seen in recent years. You have read in the news recently that we confirmed the fact that we are in advanced negotiations to divest our stake in Rusvinyl, a 50-50 joint venture with SIBUR. We're pleased that we have obtained preliminary clearance from Russian governmental authorities. But any potential transaction is conditional on agreeing final terms with SIBUR and is also subject to other regulatory approvals. We'll keep you updated as the situation evolves.

Wrapping up Chemicals, segment EBITDA fell 10% versus the previous year's quarter. You may recall that in Q4 2021, we recorded a one-time gain of €55 million related to the recovery of indirect sales duty in Brazil. If we exclude this effect, then fourth-quarter EBITDA in the segment rose 9%, driven by sustained pricing, and it more than compensated for the downturn I referred to in our two cyclical businesses, Coatis and Rusvinyl. Segment EBITDA margin in the fourth quarter was 25.5% compared to 32.1% in Q4 last year.

Turning now to Solutions. Full-year sales in 2022 were up 20%, reflecting higher pricing, which more than offset a modest 1% reduction in volumes. Sales in the fourth quarter were up 3%, driven by 15% increased pricing, whereas volumes were down 12% on weak demand in businesses that are exposed to consumer and construction and markets – and I'll say a bit more about that.

If I turn to Novecare, fourth-quarter sales decreased 7% year-on-year as demand in coating and consumer end markets weakened. Demand in the agro market was resilient, driven by demand for green solvents, whereas our technologies exposed to the coatings for construction markets and for home and personal care markets faced falling demand. Pricing in Novecare was 13% higher compared to fourth-quarter 2021 as the business has made tremendous progress in defending its margins in a slowing market environment, and this helped to partially offset lower volumes.

Special Chem sales increased 21%, mainly reflecting higher prices. Volumes were largely stable, supported by a small improvement in rare earth, especially for auto, as there was an easing in previous supply chain issues, for example, in relation to what we used to talk about on the shortage of semiconductor chips, but also, some solidity in terms of demand for semiconductor polishing and medical applications.

Turning to Technology Solutions, sales in the fourth quarter increased 25%, due mainly to strong pricing, although volumes also advanced 3%, with strong demand in copper mining, mainly. We expect demand for copper to remain pretty strong as new mines are projected to come on stream in 2023.

Aroma performance sales decreased 14% in the fourth quarter as gains in pricing did not compensate for volume declines due to high stock levels. We expect the vanillin demand to be resilient, while its use in fragrant markets will continue to face more pressure.

Oil & Gas Solutions fell 1%, reflecting pretty stable pricing in the face of a slight decline in demand for oilfield chemicals, particularly in North America.

Fourth-quarter EBITDA in the Solutions segment fell 11%, as growth in mining and agro was more than offset by demand declines that I referred to in other sectors, including electronics. While EBITDA margin for the segment was 15.2%, which was 1.8% below, full-year EBITDA was up 25%, and the segment EBITDA margin was up 1% to 19.5%.

Turning to Corporate and Business services. EBITDA in the fourth quarter improved by €74 million in the fourth quarter of 2021. Now, this was mainly due to the continued stabilization of our energy business which recorded, you may recall, a €34 million one-time loss in the fourth quarter of 2021. And this is all in relation to the energy supply business that we have to third parties. We're really pleased with the improvements we made in this business. It's a real turnaround. Now the improvement in profitability is a result of painstaking work in negotiations with some customers to adapt contracts in pretty volatile energy conditions. Our work is not complete, there is more to do there. And although our efforts to stabilize the business are really evident in terms of the strong improvement in results,

frankly, we remain cautious because energy markets, we know in Europe in particular, they remain volatile. So let's see. The other fact I'll highlight in terms of our costs in our Corporate services is our investment in cybersecurity and in digital transformation were down from the higher rates of spend that we had in the first half of 2022. Although, looking ahead, we will continue to invest substantially in cybersecurity and in digital transformation. It's an important part of building the foundation of two strong companies.

Moving to slide 12. Ilham mentioned earlier that significant inflationary cost headwinds, which actually peaked in the third quarter, added €1.6 billion of cost in 2022, which is about one-third. To give you more of an indication as to where these cost pressures came from, these inflationary pressures, where raw materials increased 40% in 2022, energy costs doubled, and logistic costs increased 15%. The more important fact here, however, is that as things mobilized, and as you know, you've heard us, we've increased prices and delivered net pricing of €1 billion.

Turning to slide 13, you can see that we continue to make good progress on our structural cost programmes, achieving a further €79 million in savings in 2022, taking the cumulative total to €470 million overall against a target of €500 million. These achievements stem from three main sources.

One, restructuring represents about half of the total savings. And beyond the cost reductions that are self-evident, the delayering, the suppression of roles in the last three years, which incidentally represent around 10% of our global workforce that helps us to also become more agile and to stay ahead of the game in uncertain times.

Two, indirect cost reduction, which is about 30% of the savings. We still make progress as we instill strong demand management, really reducing demand as much as we can whilst meeting our needs, and also curtailing leverage on the global spend to reduce unit costs, for example, in maintenance contracts in the Chemicals segment.

Productivity efficiencies of around €100 million reflect the strong improvements in our industrial process, as we improve yields and reduce consumption of raw materials and energy.

It goes without saying that we remain fully committed to maintaining strong cost discipline in 2023, because we all know it's even more important to do that in a cost inflationary environment.

What about cash? If you turn to slide 14, you will see, as we've already seen from Ilham, free cash flow reached €1.1 billion at the end of the fourth-quarter 2022, and our free cash flow conversion rate was 34%. This reflects record profits with continued disciplined management of working capital across all of Solvay. And as Ilham indicated, despite a €0.3 billion ramp up in investment to take CAPEX to €1 billion. As you'd expect, we remain very, very disciplined in our CAPEX, making sure that we're focused on growth, but strictly on returns as well.

Maybe I'll say a word as well on working capital. Our working capital to sales ratio is a class-leading 12.6%, and that's in an industry, as you know, where high-teens are – how can I say – they're not unusual. Some of you may remember that I mentioned in the third quarter that we were very alert – I'm going to say I was in the reverse – to the fact that 31<sup>st</sup> December fell on a Saturday. And we know that in these situations, customers will often – how can I say – they'll opt to pay on the next working day rather than on the previous working day. It didn't happen. I wish to appreciate the efforts that our teams put in, just before the New Year, and also thank our customers for helping us to ensure that our overdues were at an all-time low, less than 2%, despite that Saturday.

And now a few words on our net debt. The underlying net financial debt fell in 2022 by €358 million to €3.59 billion. That reflects our strong free cash flow, dividends, as well, actually, as the €155 million of additional voluntary contributions that we made towards pension obligations.

And with that, I'm going to hand you back to Ilham, who's going to discuss the full-year outlook.

**Ilham Kadri**

Yeah. Thank you, Karim.

As a result of such performance, we will recommend at our General Assembly a dividend increase of €0.20 for a total dividend of €4.05 per share, and if approved, would be our highest increase to date. This clearly benefits investors, among whom, we can now count more than 5,000 Solvay employees, who have decided to invest their own funds to become shareholders, thanks to the launch of our Employee Share Plan last year.

2022 was a year of exceptional performance for the Group, based on the significant progress made in the last four years to strengthen our customer partnerships, bring more sustainable innovations valued by our customers, and build strong competencies in our teams leading to a performance culture of discipline, meritocracy and raising the bar.



Although it might be a challenge to match 2022, we will build on those strengths to drive another strong performance in 2023, albeit the macro context will likely be less supportive.

Before I talk about our full-year outlook, I will share with you some insights on our January performance. Volumes were down overall, as destocking effects from quarter four still linger into this year, and particularly so in Coatis business, and to an extent, in Oil & Gas markets.

The volume decline was offset by pricing. Our order books give us limited visibility, though, they indicate stabilization at recent levels. We remain confident in our ability to sustain margin.

In Chemicals performance will be driven by higher pricing, thanks to recently concluded contractual arrangements in Soda Ash and Bicar. The business has successfully rebased Soda Ash prices upwards in all regions in line with supply-demand. Whilst we don't provide commercially sensitive information, I will point you to industry forecasts provided by agencies like CMA, this is the previously known IHS, for estimates.

I can confirm that our value proposition to customers typically enable us to achieve outcomes in the upper end of their estimate. Despite the expected resilience of Soda Ash, Peroxide and Silica, volumes in Chemicals will be under pressure driven by the anticipated normalization of the Coatis business. Please note that we are excluding Rusvinyl profit from our earnings growth guidance, which were about €100 million in 2022.

In Solutions, we expect demand to weaken and volumes to be under pressure in coatings and consumer markets. Although the segment is working hard to continue to defend its margin, we may see some price erosion this year.

In Materials, we expect to see volume growth, driven mainly by electrification like weighing, and the continued recovery of the aero market. We also expect to sustain pricing power in this segment. As you can expect, our fixed cost will be higher this year by about €100 million, driven mainly by inflation. And we will continue to drive cost discipline hard, expecting to deliver the final €30 million of the €500 million structural cost saving one year ahead of time.

Taking this all into consideration, we currently estimate 2023 Full Year EBITDA down between 3% and 9% on an organic basis. This exceeds current street estimates, but perhaps more importantly, it would also exceed pre-COVID profitability by more than 25% on an organic basis. And this illustrates the main indicators of change at Solvay over that period.

The fact that we set our 2023 ambitions at such a high level is testimony to the commitment and determination of every employee in the group.

Given the profile of our profit evolution last year, you should not that we expect Q1 to show positive momentum relative to Q1 last year. Whereas the middle quarters of the year will likely lag versus their high comparable quarters. Naturally each business will fight to maintain their hard-won gains in pricing throughout the year and to sustain our high quality and levels of profitability.

On cash, we remain in an investment cycle right now as we have anticipated. And we intend to use the strength of our balance sheet to fund our future growth, so CAPEX should be around €1.2 to €1.3 billion. We also expect to pay higher taxes in 2023 as a consequence of record 2022 results. It goes without saying, and you have seen it in the past four years, that we will continue our disciplined approach to working capital. Taking all of this into account, we estimate our free cash flow to be around €750 million this year.

We have come a long way on our journey together, and frankly numbers speak louder than words. The main message today is that we have over-achieved every strategic commitment ahead of time. We reinvented ourselves and I am so proud of the Solvay team for continually proving their ability to navigate challenging environments, delivering record results and driving major progress in ESG. Thank you to each and every one of them.

Before we turn to your questions, I would also like to give you an update on our plan to separate into two strong independent companies.

We are pleased to confirm that we are on track to complete the separation by December of this year. We have provided the project timeline in our presentation material, so let me walk you through some of the key milestones.

The positive feedback that we have received from our webinars, from you, from investors, motivates us to continue them and we have three more plans. We will start with Soda Ash next week, on February 27<sup>th</sup> and we look forward to

sharing why this business is resilient through business cycles. So, please save the date. We will also hold a webinar the day after, on February 28<sup>th</sup>, on our aerospace and defense activities, which will be more of an education on the market, as requested, and the recovery underway. We are planning one final webinar topic on our specialty polymer business, which will be held before the end of the second quarter.

I know many of you are eager to understand the capital structure of both new entities. And our teams have been working hard on this to ensure the establishment of two strong companies. We aim, as published in information documents on ECo and SCo towards the middle of the year, by which time we expect regulatory approval, which would allow us to disclose capital structures and historical financial data for both Specialty Co and Essential Co.

As we approach that exact timing, we will inform you as we plan to host an event mid-year to share and properly review the new information with the market.

The next milestones will be the third quarter, when we plan to begin the debt management process in both Europe and in the US.

In the fourth quarter, we will host two Capital Market events, one for each new company. These will be led by the new executive leadership teams who will share their respective strategies and mid-term plan.

Following these events, the teams will participate in investor roadshows in both Europe and the United States of America, leading up to the Extraordinary Shareholders' Meeting that will take place in December 2023. We are looking forward to writing the next chapter of Solvay's future.

With that, Karim and I will now address your questions. Thank you.

Thank you, ladies and gentlemen, we will now move to the Q&A and I ask that you kindly limit yourself to one question per person so that everyone has an opportunity to participate. Moderator, please proceed with the Q&A.

### Operator

Thank you, ladies and gentlemen, we will now begin our Q&A session. If you wish to ask a question, please dial star one, one on your telephone keypad and you will enter a queue. After you are announced, please ask your question. Once again, please dial star one, one on your telephone keypad to ask a question. We have a first question from Mubasher Chaudhry from Citi. Sir, please go ahead. Mr Chaudhry, your microphone is open.

### Mubasher Chaudhry (Citi)

Thank you for taking my questions. A couple please. Can I just come back to the comments that you made around the Soda Ash contracts and the prices coming in substantially higher than what they were in 2022. Could you just maybe talk about the kind of contract structure that you've built in for 2023? Is there any energy linkage in this? If the energy prices do come off in 2023, or carry on coming up, maybe the prices will come off there in line, or are you likely to see that €400 plus per ton contract price remaining flat, regardless of what happens to energy? That's the first question.

And the second question is a little bit more around the IPO side of things. Could you provide some comments on the December 2023 timeline; is that likely to be based on market conditions at the time that you will go ahead with the IPO, or would you go ahead regardless given the structural reasons behind splitting up the businesses? Thank you.

### Dr Ilham Kadri

Yes, thank you very much Mubasher. So, on Soda Ash, you may remember that we renegotiated now in Q3 2021, to shield our margins from volatile energy costs, specifically in Europe, you may remember that. And we did that, we had baked into existing contracts, it was the first time in our history we were renegotiating contracts in the Fall 2021 where we put energy surcharges, not expecting the current unprecedented inflationary costs in 2022, soon after. This was already in anticipation of a rising cost in the second half of 2021. And our customers understand so our returns enabled us to continue in the energy transition and ensure the sustainability of our operations.

In 2022, last year, we truly enjoyed our contracts and the surcharge in energy in logistics to really maintain our margins. What we did now, we will be entering into 2023, the major part of our contracted volume, 90% in Europe and North America is annual, only the seaborne can be an ease quarterly or spot, meaning we are less sensitive to intra-year volatility and we keep some volume a bit free. And I think what we simply did as a team, I am so proud of them, is that they took some of the energy surcharges into floor pricing. That's what we asked them to do and that's what we are doing. And I am so glad that they are doing this because this is the only way to reinvest in the business.

Both actually from the decarbonation and the growth in volumes, like our investment in Wyoming in Green River in now after acquiring the AGC equity, et cetera, and our customers they need every kilo, every ton of future Soda Ash, because there will be demand in the mid-term for more product, either Soda Ash for double glazing, triple glazing for insulation for construction for automotive, but also Bicarb, as you know, it is a special by-product of Soda Ash, which is sold out, these days our businesses, that's why we have invested in Bulgaria.

So, all in all, you will remember that's a good proxy because we are not going to give you sensitive information commercially, it's called now CMA but it's the same, Mubasher, the former IHS price in – it's an average of the prices available in the market. We can see that Solvay is usually on the high end range of this index, is better than average, and we are really glad of the Soda Ash team and give them my recommendation on the great job they have done in turning these charges into floor pricing.

Second question was? Power of 2, the separation in December. Well, the separation plan, Mubasher, is well under way and this is also another thank you to our teams, because, while delivering the year, the back kitchen is busy, and we are managing probably it's transaction and projection of a project of a lifetime in our company. So, the separation plan is well under way. We have a clear view of the milestones, and we are happy to share them with you today to give you more clarity. We always aimed for the second half, as you know. At that time when I announced it last year in March, you asked why so long. Because I told you we preferred to do it with quality, and we prioritized quality to speed and that exactly was the right thing to do. And we are pleased now to tell you that it is the December time frame. We do not see any roadblocks at this time for any delays and that is our plan. And, obviously we will continue informing you as we go forward with the plan. Back to you.

### Mubasher Chaudhry

Just to follow, just to clarify on the Soda Ash, so there isn't an energy price linkage anymore in the contract? So, the surcharges that you had have been turned into actual base pricing, so there's no link there as regards to energy pricing? Just to clarify please?

### Dr Ilham Kadri

Well, what we did Mubasher, it is part of, we cannot turn all the formula pricing into pure floor pricing, but we embedded in the base price mostly. So, indeed what you can see in IHS and again the higher range, or CMA now, I should call, the majority of it has been baked in the pricing. Now we always will continue with energy surcharges, but we want to be independent from the energy prices up and down, because we wanted our floor pricing to represent the quality of the business and the reinvestments we are doing in Soda Ash. And I am so pleased this is the renaissance of this entity for Soda Ash and we will continue and we may discuss it if there is a question on CAPEX on our investment in Soda Ash specifically in Wyoming in the US and in Europe in decarbonisation. Back to you.

### Mubasher Chaudhry

Thank you, thank you.

### Operator

Thank you. Next question from Matthew Yates from Bank of America, sir, please go ahead.

### Matthew Yates (Bank of America)

Hi, afternoon. I'd like to follow up on Mubasher's question actually about Soda Ash, as you say, last year you took the unprecedented step of reopening the contracts mid-year to pass through those energy charges and that the 2023 base price has been set meaningfully higher. But I assume that was on the basis of where energy costs were in December/January when that was negotiated. But as things stand, that may not necessarily be the case. So, what's the risk here that customers start calling you asking for the contracts to be reopened again because you've got less justification for those floor prices? Thank you.

### Dr Ilham Kadri

Who was that Matthew? Yeah, hi Matthew. Well, the market is still tight, Matthew. So, I think the Soda Ash pricing has been always supported by strong supply-demand and our customers value that we will continue investing in supporting growth. I met a few customers in the past five months with Philippe Kehren, our President, and people are asking for decarbonisation and growth, volume growth. So, I think this is what we offer in line with the tight markets. And, obviously, in a tight market it is supply and demand, and obviously it is price volume elasticity curve and we have investments, so customers are asking for more capacity, we are investing in – actually, when you look at Wyoming, Green River, it is one of the best, if not the best, IRR return capacity investments in the whole industry.



And, you know, we learned from last year and we made sure that we considered potential volatility in energy costs. We have a mechanism to activate surcharges should energy costs go high, but I think the repositioning of the floor pricing is so important for the reinvestment in Soda Ash. It is so important. And, as I told you, I have been always from day one impressed with the Soda Ash resilience business, really well run, great talent. By the way, you know, save the date, Matthew, come over next week. We will have a webinar, the 27<sup>th</sup> we will have a webinar and I promise to you that you will see the resilience of this business. I heard in the market that this business is cyclical and not resilient. Well, I'll invite you to come over, I think you will be – we will show you the historical performance of this business and we will give you a look under the bonnet and you will see why this business is a leader, is resilient and is so poised to grow on soda ash but also on Bicar, which I am really a fan of because it is two times GDP, and it is really going to sustainable air cleaning, et cetera and Bicar is now, I am not sure you know it, 25% of Soda Ash business. So, despite market conditions, a good team, reinvestments in decarbonation, in growth and that's what we expect for the next few years. Back to you.

#### Matthew Yates

Thank you, Ilham and thanks for taking the question and thank you as well for taking the time and effort to do those webinars, they are much appreciated.

#### Operator

Thank you. Next question from Geoff Hare from UBS, please go ahead.

#### Geoff Hare (UBS)

Yeah, good afternoon. I just have one question, I noticed that you've now got about €2.6 billion on an annualized basis of non-recurring sales in the P&L, where does that end up going in terms of any profit from that business? What is that allocated to, and what do you expect it to be for '23?

#### Karim Hajjar

Let me just quickly have a look at that. This is to do with the non-core activities? Let me think now, this is mainly our energy trading business and clearly, as the cost of energy goes up from let's say the low 20s to the 100 plus, that balloons the magnitude, but the profits are much, much more modest. And, as I mentioned when I was giving my overview, you know, we've turned a loss in these energy markets to stable profit, but we have to be vigilant. Fundamentally to your point, it is a business which is non-core, with razor-thin margins, yeah, does that help?

#### Dr Ilham Kadri

And we have been cleaning it?

#### Karim Hajjar

Oh absolutely, yeah, yeah, yeah.

#### Dr Ilham Kadri

Since` 18 months.

#### Karim Hajjar

And we're nearly there but we've got a bit more work to do. Does that help you, Geoff?

#### Geoff Hare

Yeah, that's fine. Very good. And it goes into the corporate line, is that right?

#### Dr Ilham Kadri

Yeah. Yeah, corporate line.

#### Karim Hajjar

Yeah, absolutely.

#### Geoff Hare

Okay, thank you.

Dr Ilham Kadri

Non-core activities, yeah.

Karim Hajjar

In fact that's why I have the Q4-to-Q4 comparison really improved, and we baked that into our expectations, obviously. But thanks

Operator

Thank you. The next questions from Alex Steward from Barclays, please go ahead.

Alex Steward

Hi there, good afternoon, thanks for taking my question. Sorry for banging on about this Soda Ash point, but if I understand all of the comments that you've gone through already, you raised prices using surcharges over a period of 15 months as energy costs went to very, very high levels. And now, you've convinced your customers to keep paying the surcharge price, even as the cost of energy has collapsed, which seems an extraordinary feat, but it also occurs to me that although the soda market is high today there's several millions of tons coming on in the next couple of years. So, perhaps could you just talk about how you see the landscape for Soda Ash, let's say over the next two to five years? It would be really interesting, thank you. If you wouldn't mind just giving us an overview of how you see conditions in the soda market evolving two to five years' out? So, beyond 2023.

Dr Ilham Kadri

Alex, and I don't want to, shoot back here but next week we will have a full webinar on Soda Ash. I think you said we convinced customers, I mean, the collaboration and the engagement with our customers is great. So, it is not about just convincing, although there is convincing them of the value proposition, but customers have also choice, but it is also, they need reliable supplies. They need a source of growth and investment, they need decarbonation. We are world leaders, our customers value us, we value them, and we are investing for growth. They have seen what we are doing since four years I have been in the job, this business went from strength to strength, including on the simplification, the agility, the competencies and then the road map in decarbonation. You know, we have Rheinberg in Germany onstream, and I talked about it in my prepared remarks, Dombase, we are building the largest boiler that has ever been seen in France and Europe, Deviya is also under way for decarbonation and Green River in Wyoming moving to gas.

So, all of this, and they know that our internal carbon stream has been €100 a ton since a while. I think customers, they like anybody else to be with the right suppliers and willing partners of ours, so it is a shared effort, we don't influence, we agree, we move on. I think the energy surcharges have been a way to move through 2022; and now 2023, we have a new set of pricing and I invite you to use IHS, I should say CMA again, as a proxy to high range and then next week you will have more information about our historical resilience performance but also on our plans going forward.

Operator

Thank you. Next question from Martin Roediger from Keppler Cheuvreux. Sir, please go ahead.

Martin Roediger (Keppler Cheuvreux)

Thanks. I have actually three small questions. Your tax rate guidance for 2023 is the first one. Any effect on your P&L from the sale of license in hydrogen peroxide, is the second? And the third one is, can you explain why your position in PVDF is more favorable than your competitors?

Karim Hajjar

Okay, Martin, we haven't given any guidance on tax rates. We've been in the mid-20s give or take, for a while now. The actual incidence of the profit pools in terms of which jurisdictions will impact it, but at this point we haven't actually given any new guidance. But it's a good question. I mean, I don't think there's anything more I can add at this point.

Maybe just talk about taxes very briefly just to maybe illustrate one further point because now the free cash flow, I mentioned the taxes. But we're talking about €150 million or more cash taxes will be paid this year in relation to what is record profits. But that doesn't mean our tax rate was high, it just merely means that the other side of record profits is higher taxes, and that's what we pay for this year.

## Dr Ilham Kadri

And the second question was peroxide licensing. So, licensing, you may know, we started actually looking at different business models. Obviously we do two things. We have, in our H2 too, we are by far the leader in the market, and we have mega-plans with partners like BASF around the world and these are guaranteed margin and visibility and the other is spot market for our own market. And obviously, since the last two years we were looking at how, what is the next step of mastering growing our process leadership in hydrogen peroxide.

So, indeed, you recall well, earlier this year we announced the licensing agreement with the China based caprolactam Hubei Sanning, so this has nothing to do with competition with HPPO and our own markets and we are seeing the first fruits of this engagement with positive results in Q4. It is commercially sensitive, it gives us extra profits. I am not going to mention a number; but, as you know, we are leaders, our technology has value. There is more upside to this, and I think when we presented the peroxide webinar we talked about this and probably during our Capital Market Days ECo and SCo we will share more. But I am really glad on hydrogen peroxide the way they start thinking outside the box and going beyond the HPPO's traditional producing chain for now going to caprolactam and others. Our resumé, our history speaks for itself. We are the only ones in the world compared to other peers, who can really build mega plants and run them efficiently over decades of our time horizon. Back to you.

On PVDF and I'm not sure what you know about competitors, but I'll tell you what I know in our market. As you remember, PVDF is a critical component in many applications. There are two types of PVDF technologies, and I think we shared with you that in February last year during the auto webinar, which was also a battery webinar, dispenser and emulsion. We are the world's leader in suspension grade PVDF. It's a higher performance grade which allows us to solve customers' requirements, which are higher than those resourced by emulsion. I remind you that this can be used in LFP and NMC batteries. So, there are companies focussing on the lower end of the market, which are specifically offering the emulsion technology. And that we participated but very limited. We do emulsion but we prefer to focus on suspension, and this is where our sweet spot is and on top of the technology performance pyramid. The emulsion is primarily used in LFP batteries. The emulsion is facing more serious competition from the Chinese as the raw materials fluctuate and the pricing volatility has been primarily driven by the key raw material 142B. The most important two things from PVDF and I can take offline questions, this technology, we are agnostic to the battery technology. We are not making anode or cathode or separator material with wider coating and electrolytes additive. Our objective is to have the broadest portfolio technology being able to support and provide further solid-state batteries and PVDF, et cetera. And the risk of commoditization, and I am sure this is on the back of your mind, I think it will happen in emulsion before suspension, as we told you during the webinar.

On pricing, our January pricing has been flattish on year. At the end of the day it is less about pricing, more about contribution margin and protecting the contribution margin of our product and the reinvestments we are doing. So, I think be patient, till we see Q1, and you will see the specialty polymer margin, but I have every faith that we will continue protecting our margins and pushing the value pricing.

And by the way, PVDF doesn't go only to batteries, it goes to other applications. I think we talk a lot about batteries because it has been growing from two digits to three digits since I joined the company. We are investing in suspension in Europe and in the United States of America with the IRA supporting our investments and we are very glad. You've seen the announcement that we had \$178 million from the Department of Energy from the IRA to invest in a \$400 million investment for PVDF only, which I can tell you is a no-brainer deal. We are investing in the US and that is part of our CAPEX investment in 2023 for the service of 2030. As we told you that the sales in automotive in general can go up to more than €3 billion. Sales in automotive were €800 million in 2021. We announced it in our webinar, and last year it was €1 billion, it gives you an idea that we are really increasing our sales in automotive. It is not only PVDF, it is light weighing material, under the hood application. Our job is to sell other polymers to really replace metal to lighten the car and therefore allow clean mobility.

## Operator

Thank you. Next question from Chetan Udeshi[?] from JP Morgan, please go ahead.

## Chetan (JP Morgan)

Yeah, hi, thanks for letting me on. Can I just confirm a few things? First, Ilham, I heard you say Q1 you expect earnings to be up year-on-year, is that including whatever, you know, €10 million, €15 million or excluding the Rusvinyl contribution? So, even without Rusvinyl you think Q1 will be up year-on-year? Can I confirm that?

## Dr Ilham Kadri

Yes.

Karim Hajjar

Yes.

Dr Ilham Kadri

Yes, excluding – Karim you can, yeah.

Karim Hajjar

I'm not saying we will exclude the profits. What I am saying to you, irrespective of Rusvinyl the profits will be up in Q1

Chetan

Okay, that's – that's helpful, thank you. The second question was –

Dr Ilham Kadri

Chetan, there is still a phasing. I remember that I told you, the mid quarters is something else, and I saw that some people see it differently. I think we don't have a crystal ball, we are telling you what we see in January. I also expected in Q1 and there will be a phasing during the year, with a tougher comp as you can see versus last year, because you've seen our pricing going up throughout the year.

Chetan

I think that's clear. The second question was, you've talked a lot about PVDF and Soda Ash; I'm sure curious, if I look at three segments overall, can you help me understand how should we think about the full year guidance in terms of range minus 3 to minus 9, how should I think about that by individual division? And I don't want exact numbers, but just some clarity on how you think that each division performs. That would be my second question.

And third will be for Karim, I am sorry, this is a bit mathematical, but I am just looking at the cash flow numbers for 2023. And the math I am thinking about is, you did €1.1 billion of free cash flow, with €575 million of working capital outflow. Now, you will have €250 million of lower EBITDA, you might have €250 of higher CAPEX. So, net-net, your working capital, assuming it is flat, should offset the increase in CAPEX and decrease in EBITDA. So, why is the free cash flow not €1.1 still in 2023, so what are we missing? Thank you.

Dr Ilham Kadri

First question, so after me, Karim. So, on the EBITDA guidance, listen, Chetan, our guidance obviously is primarily related to volumes as we expect to sustain high quality margins in most of our business. In general, we expect continued demands, strength in markets for the whole year like auto, aerospace. And what we told you a few years back that probably pre-COVID levels will get to 2024 and we see strengthening demand in healthcare. In agro and mining as well, I see it is pretty strong.

Against that, we expect continued softness in consumer and construction markets, specifically, especially in H1. We have seen it in Q4, some of our peers or customers had obviously published and they have talked about their market. So, this is just what we see today, and we expect other markets, such as chemicals, to be largely stable. The volatility, our volatile business, as you know them, is oil and gas and Coatis, which has been earning above cycle averages, which will normalize, and we told you that.

We also expect, some growth in specialty polymers from new capacities in healthcare. We have new medical applications, water treatments coming on stream, some performance lubricants and the batteries, obviously, we did debottleneck. And after the destocking, which we saw in Q4 and we will see some of it in Q1, we will see it up and running. And probably China is going to get up by March time if there are new policies specifically out there. All these new projects will generate returns, which, at maturity in our book, will exceed 15%. And these steps are logical in our strategic roadmap towards the growth estimates which we shared, and also you remember it was €800 million in 2021, last year we delivered €1 billion in auto. We believe we can do €1.5 billion by 2025 and more than €2.5 or €3 billion by 2030.

And, importantly, we are going to try and defend sticky pricing dynamics overall. That will generate and support our strong margin over time. To give you a color, as you say we cannot guide precisely by segment, in Materials, leading margins will continue, will largely sustain thanks to the value-added offering supported by electrification, lightweighting and connectivity, that's the value pricing. We trained – this is not an anecdote, we trained 800 salespeople back in 2021 on value pricing. In Chemicals, we have a positive pricing thanks to what we discussed in the

recently negotiated Soda Ash contract. Though Coatis' normalisation will take some of the shine off that, so it's not all plus, plus, plus. In Solutions, obviously this is where we have some pressure here. Our teams are focusing on sustaining the margin, but we are realistic and expect some margin erosion in the face of soft demand.

### Karim Hajjar

There is a question on the math on the cash. So, Chetan, I'm going to try and do it in two ways. I'm going to start by sharing how I look at it and then I'll try and do it your way, but you're going to have to bear with me, it could be – just bear with me. So let me share with you what I look at. If you take the midpoint of our guidance, but you start by excluding Rusvinyl, you get to an EBITDA in 2023 at the mid-point which is minus 6% of €2.95 billion. Take out the CAPEX, take the midpoint, €1.25. Working capital provisions, minus €0.3 billion, that's what we're really talking about here. Taxes, €0.5 billion. That's about €150 million more than normal because of the higher profits in 2022. Financing, pretty stable at €160 million and you get to the €0.7 billion range if you go through that logic.

I'm going to try and do it your way. Free cash flow, €1.1 billion, EBITDA less the working capital compensation, now that will depend on phasing magnitude and timing, so that's a bit more iffy, but the net of the two, I would suggest 0.1 to 0.2 negative, depending what you assume. Then you've got to factor in a decrease in CAPEX of around €250. Provisions will be slightly better and the taxes, they're higher than normal because of the profits at €150. You do that, and I did this this year on the back of an – well, not – a piece of paper, not an envelope, but I get to €0.7 billion. Happy for the team to follow through with you, but that kind of logic hopefully gets you to where you want it to.

### Operator

Thank you. Next question from Sebastian Bray from Berenberg. Sir, please go ahead.

### Sebastian Bray

Hello. Thank you for taking my questions. I'm, again, focused on cash flow. First one, given the growth opportunities that you outlined, is €1.3 billion CAPEX the new normal?

The second one is actually on PFAS. We've had a second quarter of the high double-digit amounts being put aside for environmental remediation, and the Q4 release makes reference to some, though not all, of the contingent liability, which I think is just the remediation, as opposed to settlement, having been removed. What is the remaining contingent liability that is potentially left, and should we just think about -€60 to -€70 million being provisioned for the next few quarters through a combination of settlements and remediation? How many cases has Solvay been named in in PFA? Thank you.

### Ilham Kadri

Okay, thank you. So your question on the free cash flow guidance, €750 million, which may have surprised some of you, but, listen, I think you said it very well. We are taking more on our CAPEX last year, €300 million, and we want to spend anywhere between €200 to €300 million more. This is not the new normal, not at all. This is a way to growth investment we are doing because it's a choice, and it's a choice for future EBITDA top line growth generation, and it's important that you think about it this way. So we are investing, to give you an example, in Soda Ash, in Wyoming, in the US in the Specialty Polymers in PVDF in the US, I've talked about it, that's the €400 million tickets, but I'm getting €180 almost from the IRA. The research and innovation platform on green hydrogen and thermoplastics.

When the balance sheet is as strong you've seen us being extremely disciplined in M&A, in our reinvestments, cutting the bad costs, getting fit, delivering world-class free cash flow conversion. I still aim at 30% investment return. I think there are ways of reinvestment which are – I believe that the management team or BOD need to prepare the company mid-term and tomorrow. This is extremely important for the equities sold of Eco and Sco, both on the organic growth, the capacity and the volume growth, which obviously we will show you how the top line and the EBITDA growth will fuel by those investments and will give more prosperity to those entities at the high returns. In the ROCE, even with this impairment, that have really improved the quality of returns in this company. Any business case coming to me, to Karim, to the executive committee needs to hit the IRR of 15% at €100 a tonne internal carbon pricing. We are taxing ourselves and reinvesting it, which has helped us in four years to become really better in terms of our green investments.

### Karim Hajjar

The other is more on PFAS and the provision. So, actually, you're correct.



### Karim Hajjar

So we took a provision in the third quarter and nothing gives sense, as you know, we took that provision because we were able to estimate the remediation costs, and that was €93 million, from memory, came in. And we've indicated that the cash out will be front-loaded, I think practically around half in the first two years. So, no change there is what I can highlight.

Now, you also talked about cases, etc. Now, as you'll know there will be an update to the disclosures here, which will be in the annual report, but I think there are about 35 cases, mainly private individuals. And we don't discuss anything in terms of pending litigation, which you'll understand, but I'd like to give you a bit of color. We have been working with the regulators to understand and address any concerns, particularly in the area in the US around our West Deptford, New Jersey plant for many years. Now, I'm really pleased that we can better estimate the anticipated remediation, which is related to the products used, I'll remind you it wasn't just Solvay's solutions. It was owned by another owner prior to Solvay. Nevertheless, we're not going to speculate on what it will take and how long things will take, let alone the cost. It's speculative to say more than that. Now, what I'll also remind you, and this is really important, is this, many cases in the US relate to firefighting programs. Solvay never manufactured, never sold those kind of products. Indeed, out of the thousands of... Do you want to talk about that a bit?

### Ilham Kadri

It's thousands in the industry, but I think, to be precise, there was – 18 claims named Solvay and 17 were dismissed. We have been dismissed in all but one, which – because we've never – as Karim said, we've never been in aqueous film-forming foam concentrates, we call AFFF, it goes to firefighting firms, right? So I think it's important that you know that and, in general, they put all the names, end of the day we'll get ourselves out of this.

### Sebastian Bray

That's helpful, thank you. The only question I had was that there's no reference to a contingent liability related to the PFAs that was partly extinguished by the provisions in H2. How big is the remaining contingent liability?

### Karim Hajjar

Mechanically – and so that will be disclosed and you'll see that in the annual report. But, at the moment, what we've done is clearly reduced but not fully extinguished, precisely because when you have ongoing litigation, no matter how confident you are you're not going to pronounce this with any certainty.

### Ilham Kadri

Absolutely. And I think we did in quarter three. We took a provision, frankly is also – I mean, we – first of all, we exited the surfactant technologies in the United States of America and New Jersey site was Deptford, and that's – I think we are ahead of time and ahead of any regulatory requirements. And I'm very pleased with the team who doubled down in Solvay to do that. And we did – when we closed that technology and we replaced it with surfactant-free technologies, we studied it and we measured how much it would take around the plant to do any clean up, and that's the number you've seen in the provision. It's also important for you, to give you clarity on what we believe is our cut and our share, and, as Karim said, it's not 100% Solvay, obviously, we'll go in due time when it's needed, like we did with the Edison case in Spinetta. And you've seen the announcement recently, we'll go ask the former owner and the people from whom we got those polymers and those surfactants. That's the situation.

### Operator

Thank you. Next question from Peter Clark from Société Générale. Sir, please go ahead.

### Peter Clark

Yes, thank you. Yeah, it's not about Soda Ash. You're actually reasonably relaxed on that business; it's over-delivered for a decade. It's the Solutions. You indicated in 2023 there the margin, obviously, eroding and Aroma Performance obviously took a hit in the fourth quarter. It's vanillin, not hydroxyquinones. Just wondering how you see that business? I think you alluded to it being soft in the first quarter, vanillin and Aroma Performance, but how do you see that business through 2023? Of course, that was the business that a lot of people felt shouldn't be in SpecialtyCo.

And then the second question is around, I guess – the demerger well underway, I think your comment was, do we have a better feel for the associated costs? You've always indicated these will be quite modest and really not going to deflect anything, but the associated costs with this demerger at the end of the year. Thank you.

### Ilham Kadri

Yeah, thank you. So the first question is about the vanillin, right?

### Peter Clark

It's about Aroma Performance, yeah, and vanillin. Yeah.

### Ilham Kadri

So the Aroma Performance, we like this business and you're right, I think you talk about sensitive parts which can be sort of semi-commoditised and specialty. When you get into the formula, people they stick with you. But then sometimes you have some transactional customers who may move from one product to another, specifically if you have Chinese competition, and we believe they will be some of the capacity coming on-stream in the mid-term. So Aroma Performance volumes were down due to a lower demand, also on the vanillin side into fragrance markets. As I said, food was resilient. I think it's a market which remains resilient. And we believe that our natural vanillin side, it was like the batteries in the old days. It's something which is going to really pick up because people are asking for natural vanillin. Ours is based on the rice husk ash, so it's really a waste which we reuse and therefore it's circularity.

So, I think it's going to be, probably, a slowdown in volume, that's what I expect throughout the year, and on the vanillin side, but on the natural vanillin side we'll see some resilience and hopefully a pickup in H2 this year. And my expectation on the capacities is that they're going to absorb the market by the end of the year.

### Karim Hajjar

Peter, we haven't disclosed that number, but what I can tell you is you made an estimate and we actually, I think – I don't know if it was you or somebody else, but when we announced the project we said that we haven't given the number, but it will be within benchmarks. I can tell you that, a year down the road, no surprises, we're very much in line within – in line with our early expectations. I would highlight to you that we already started to spend money. If you want an indication of what has Solvay spent in 2022 already, you'll find the answer to that on page 18 of our financial report, where we're talking, I think, from memory, €75 or €80 million. But that gives you an indication of the current spend. I hope that helps. And, obviously – sorry, I'll just complete, of course we will give you more information on such matters during the course of this year.

### Ilham Kadri

We are very – obviously, very disciplined. We have a project management office, as you know, from day one; that was a learning from previous experience. So we are really monitoring. We discipline every single penny and every single cost going there and ensuring that we do it right. So it's all on track.

### Peter Clark

Under control.

### Ilham Kadri

Last question.

### Operator

Thank you. Next question from Wim Hoste from KBC Securities. Sir, please go ahead.

### Wim Hoste (KBC Securities)

Good afternoon and thanks for taking my question. I wanted to touch upon, yeah, the inflation headwinds you might have in 2023 and then also linking that to net pricing. If you look at 2022, net pricing peaked in the third quarter and then was roughly €70, million lower sequentially in Q4. So any thoughts about, yeah, how sticky your pricing initiatives are in light of the inflation that is waiting for you, apart from the commentary on Soda Ash prices, etc., that you already made? But more on the general level, how you view that?

### Ilham Kadri

Thank you very much, Wim. I mean the pricing and it's – we can write a book on pricing. So when I joined the company, I believe, frankly, we were probably selling products. The mantra since 2021 was can we actually stop selling products, invoicing products and selling value propositions. What I'm really proud of, looking at the journey of four years, is that in 2021 we started this famous master class training, now we have a sales academy. It's a virtual training, with different levels, from field sales to sales manager, so a key account manager, we build a key account management programme, what does it mean? We have to pick up strategic accounts which the executive committee and I will sponsor at the full level. I want to start with this before giving you some color, because I would like to really let you

take away that we're really committed to be the muscle of value pricing, in the company. I would put it 50-50; 50% of our portfolio can be value price or should be value price. What we start to do is to understand if we sell a product and a good application to a customer, we may want to actually, and we should extract more value and ask for more pricing, because we allow that customer to have total cost of ownership. So I think understanding this was very critical in our way of value pricing.

Then the second half of the portfolio is actually linked to supply-demand. And as you all know, supply-demand, there is a price/volume elasticity, where you make your call. It depends on your marketing leadership, on the tightness of the market, on visibility of the reinvestments, on the energy prices and security of supply, COVID and inflation, energy inflation, has shown to the world and to our customers that us, as a buyer, that pricing is not the only thing. In the old days, you would congratulate a performance guide because they gave you lower costs for raw materials, but now we need security of supply as well. Most of those supply-demand is becoming local. Our customers, they want to have local production close to the site, so.... We made, frankly, significant progress. Obviously, we've stress-tested it in a large – I'm pleased with last year, with this Russian war, and we are building on the improved competencies.

So, all in all, I think in Materials we see positive pricing thanks to the value-added offering, supported by the megatrends; electrification, lightweighting and connectivity. In Chemicals, the positive pricing I talked about in Soda Ash, I invite you to look at CMA, and this is recently negotiated, so it's in the bag, but obviously it will be offset with the Coatis normalization; we talked to you about that. In Solutions, there will be some erosion, I told you that, and you can see it in quarter four, but also go in somewhat to January, as we see, is that there is some volumes down, destocking in China and Europe for some of the personal care people, the beauty, the fabric care market in the United States of America have been dropping in quarter four, January, as well, and also in the UK and in Europe. So, all in all, I think it's going to be a bit of – some erosion, but our businesses are working hard to sustain margins

#### Karim Hajjar

Let me just add another comment, purely on the fixed cost part of the question. I mean, typically, we've got a €3 billion fixed cost base. The current environment, you can safely assume an average of around 5% inflation. That takes you to about €150 million. Now, Ilham, in her opening remarks, talked about €100 million. The difference between the two is the fact that we will stay focused on cost reduction, and I think I mentioned the €30 million that's remaining. So, really, it's important for us to be very, very disciplined on cost and that really is the point here beyond just pricing. We don't like bad costs, we like good costs.

#### Ilham Kadri

Good costs. On pricing, because I think it's in your mind and heart. I told you about January and the volumes were on the decline offset by pricing, but a month is not a quarter and is not a year. Last year in quarter one 2022, if I remember well, we increased prices by 20%. And what we see today in this quarter is that the pricing is well ahead of quarter one 2022; but, again, a month is not a quarter and we'll continue fighting for value pricing and defending our margins. Thank you.

#### Jodi Allen

Thank you. I think we've reached the end of our call now. So, again, thank you to everyone for your participation today. And I want to remind you that the Investor Relations team is available if you have any further follow-up questions. And please remember to tune into our webinars next week. Thanks everyone.