

# Transforming to create value

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*Chief Financial Officer*



April 24, 2012

# AGENDA

- 1 • **Transforming**
- 2 • **Pursuing our value-creation ambition**
- 3 • **Maintaining a sound financial structure**



# 1. Transforming



April 24, 2012

# Transformation for leadership

**#1**

**Strengthen  
our leadership**

by continuously focusing on **innovation**  
and improved **competitiveness**

**Exit areas** in which we had **no clear  
leadership** or unsatisfactory returns

# Strategic management of portfolio

## Major M&A moves

- Sale of PP to BP, JV with BP in PE
- Sale Air Intake System sa
- Sale of Decoration

2001

- Acquisition BP Amoco's Specialty Polymers

2002

- Acquisition Ausimont Specialty Polymers (Italy)

- Sale commercial salt to K&S
- Sale of stake in PE JV to BP

2004

- Sale industrial Foils

2005

- Acquisition Fournier Pharma

- Sale of engineering polymers to Basell

2006

- Acquisition Mississippi Polymer Technologies (US)
- Acquisition Gharda's PEEK division (India)

- Sale Pharma division
- Sale JV for car fuel systems

2010

2011

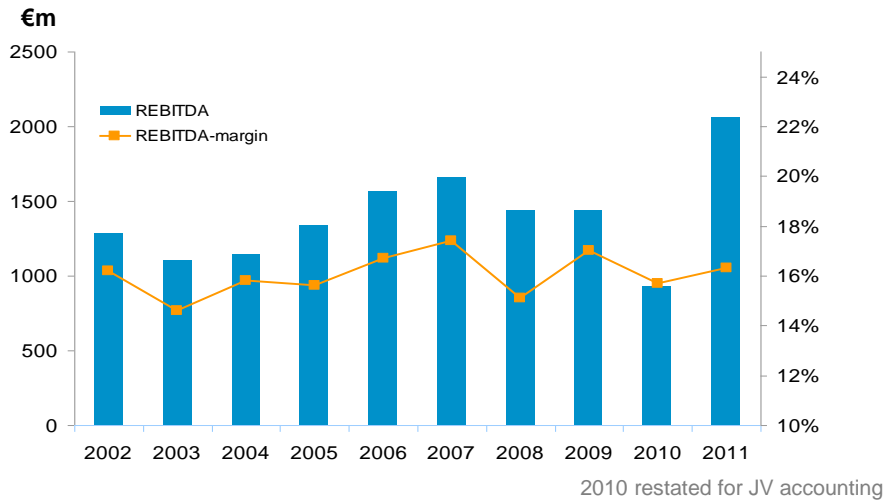
- Acquisition Rhodia

- Sale PipeLife

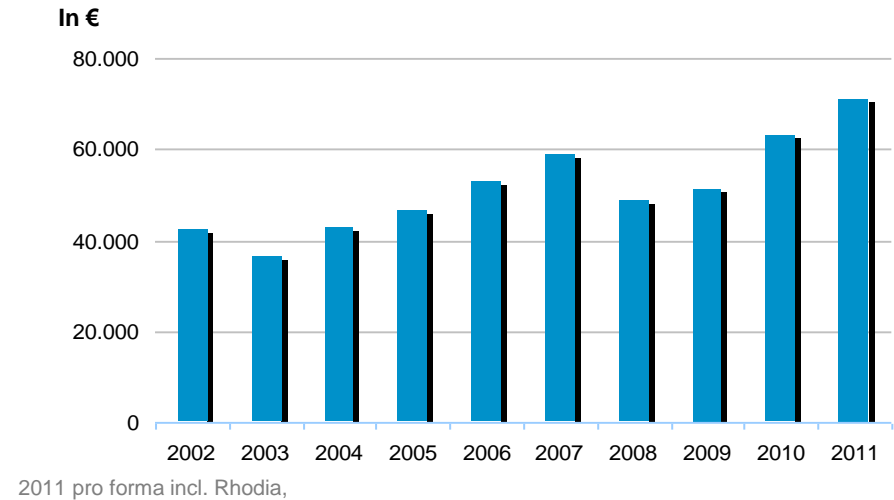
2012

# Competitiveness & productivity culture

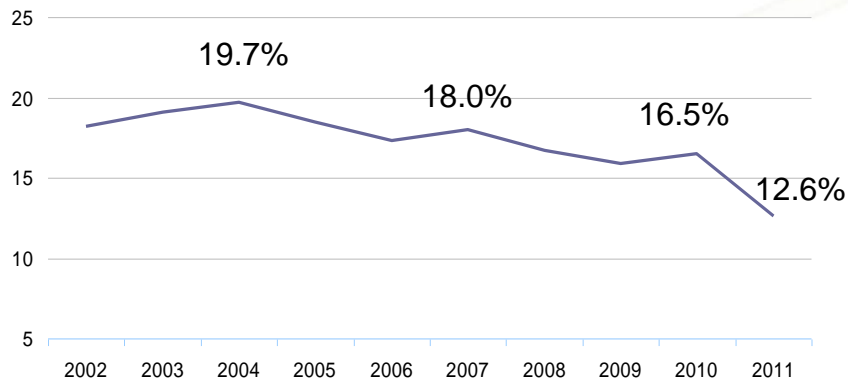
## REBITDA (€m) and REBITDA margin (%)



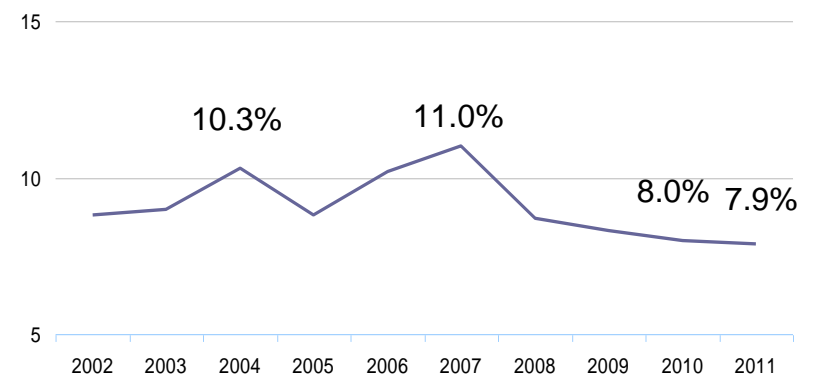
## REBITDA / Employee



## Industrial working capital / Sales



## ROI (a/tax REBIT<sup>(1)</sup>/(net fixed assets + net working capital)



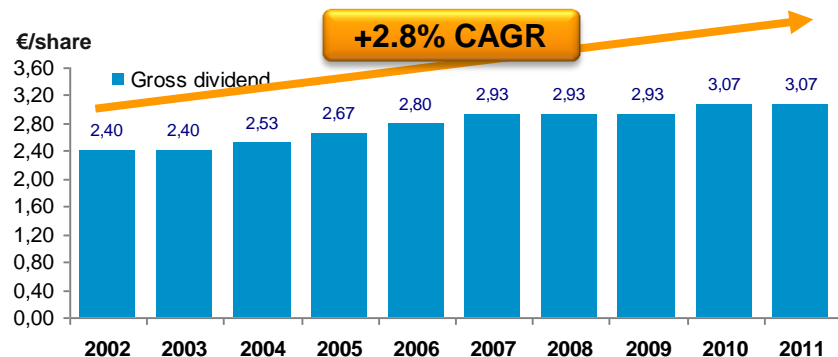
<sup>(1)</sup> : REBIT adjusted for cost of discounting provisions accounting prior to 2010

# Long standing commitment to financial targets

## Track record <sup>(1)</sup>

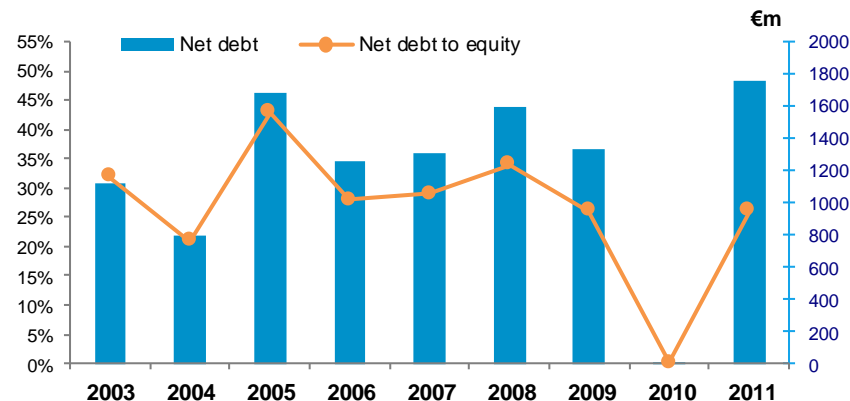
### DIVIDEND POLICY

Objective: Increase our dividend whenever possible, and if possible, never reduce it



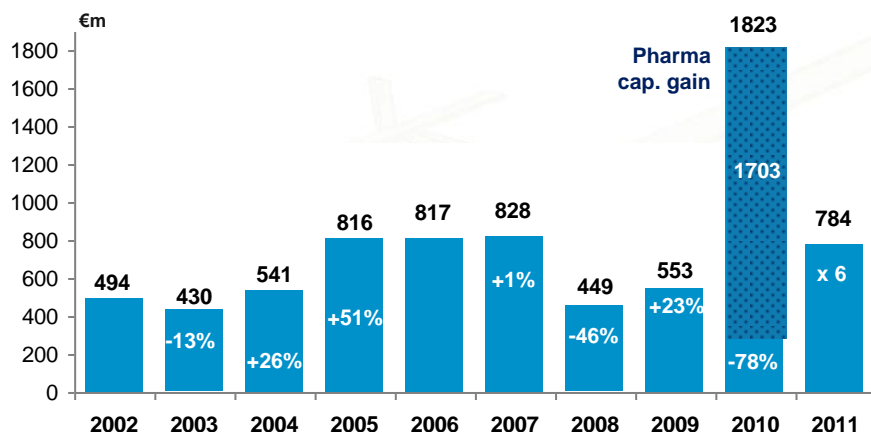
### NET DEBT TO EQUITY

Objective: not to exceed durably 45%



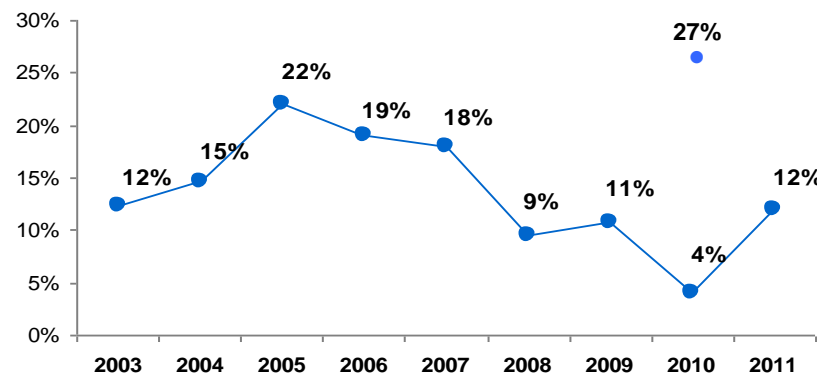
### NET PROFIT

Objective: average annual growth of 10%



### RETURN ON EQUITY

Objective: to achieve 15%



<sup>(1)</sup> 2010 restated for JV accounting . 2011 proforma incl. Rhodia

## 2. Pursuing our value-creation ambition





# Profitability growth combined with financial discipline

Ambitious but realistic  
growth in profitability

Focus on cash generation  
with reinforced financial  
discipline



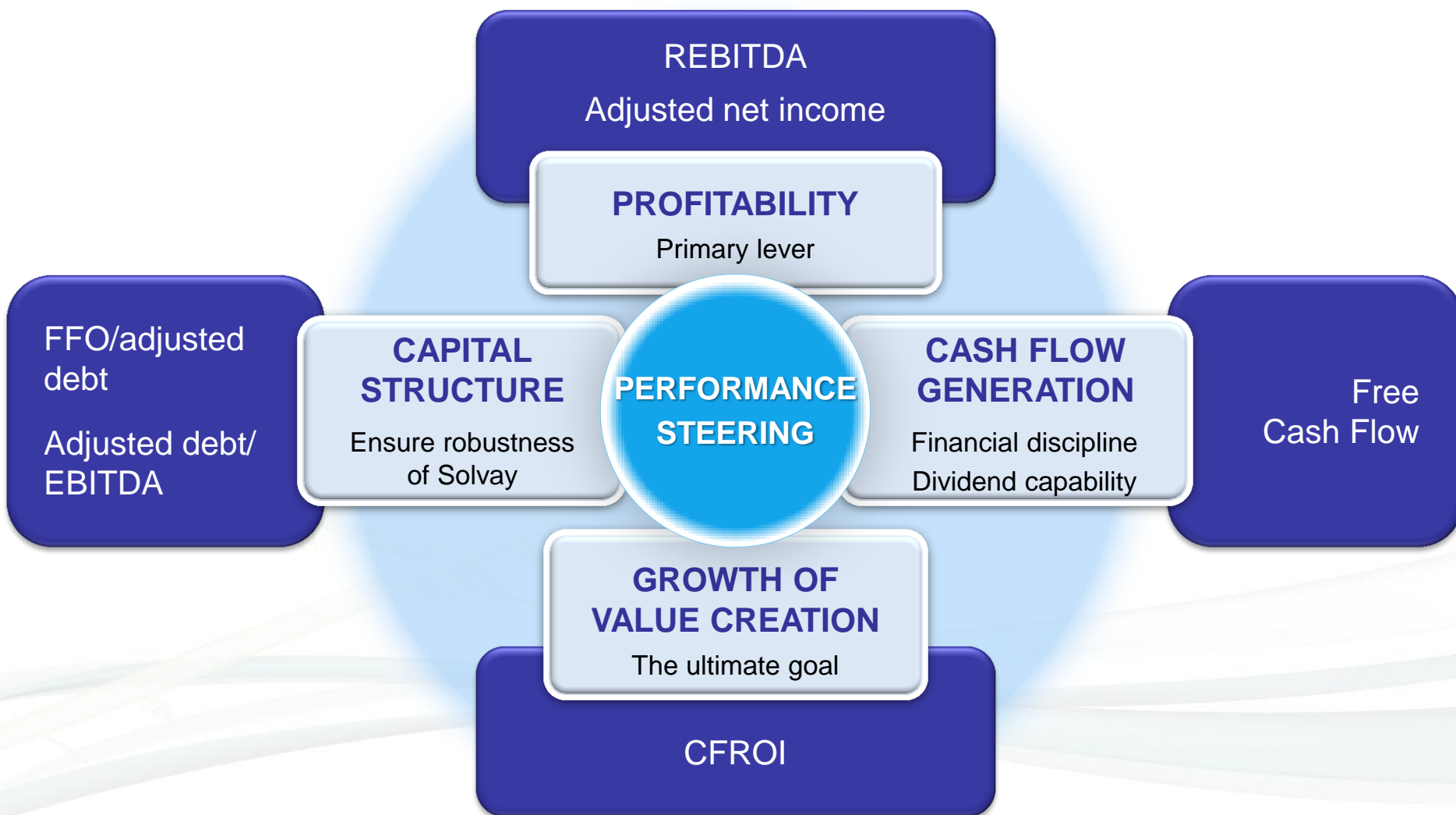
**REBITDA**  
**€ 3bn\***  
**by 2016**

**Shareholder Value driven**

\* At constant scope and assuming no major macroeconomic crisis

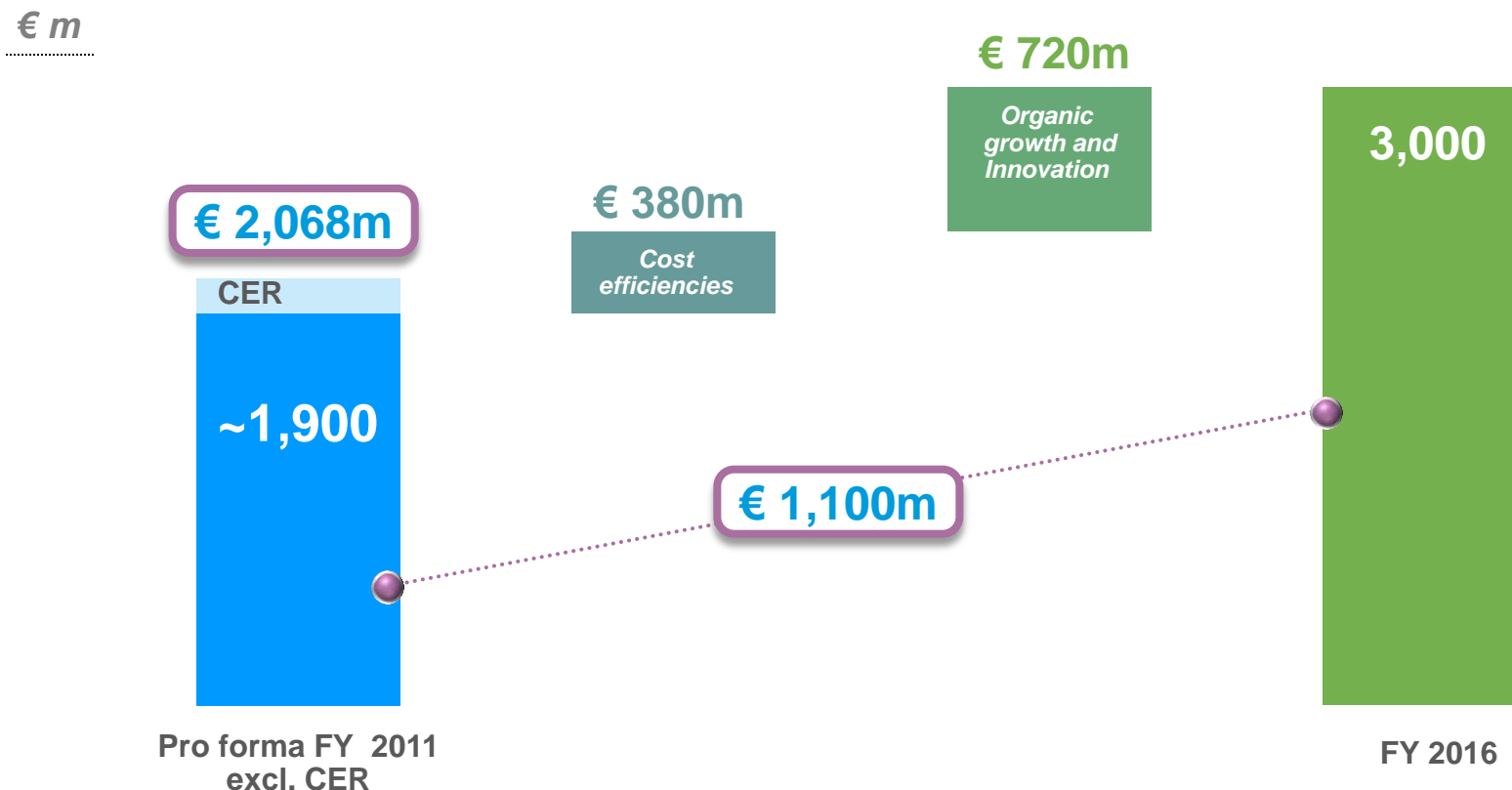
# Managing economic performance on four dimensions

## Value creation with strong financial discipline



# Sound and balanced contributors to profitability growth

## Rec. EBITDA<sup>(1)</sup> evolution 2011 – 2016



(1) REBITDA: operating result before amortization, restructuring and other non recurring elements, financial charges and taxes

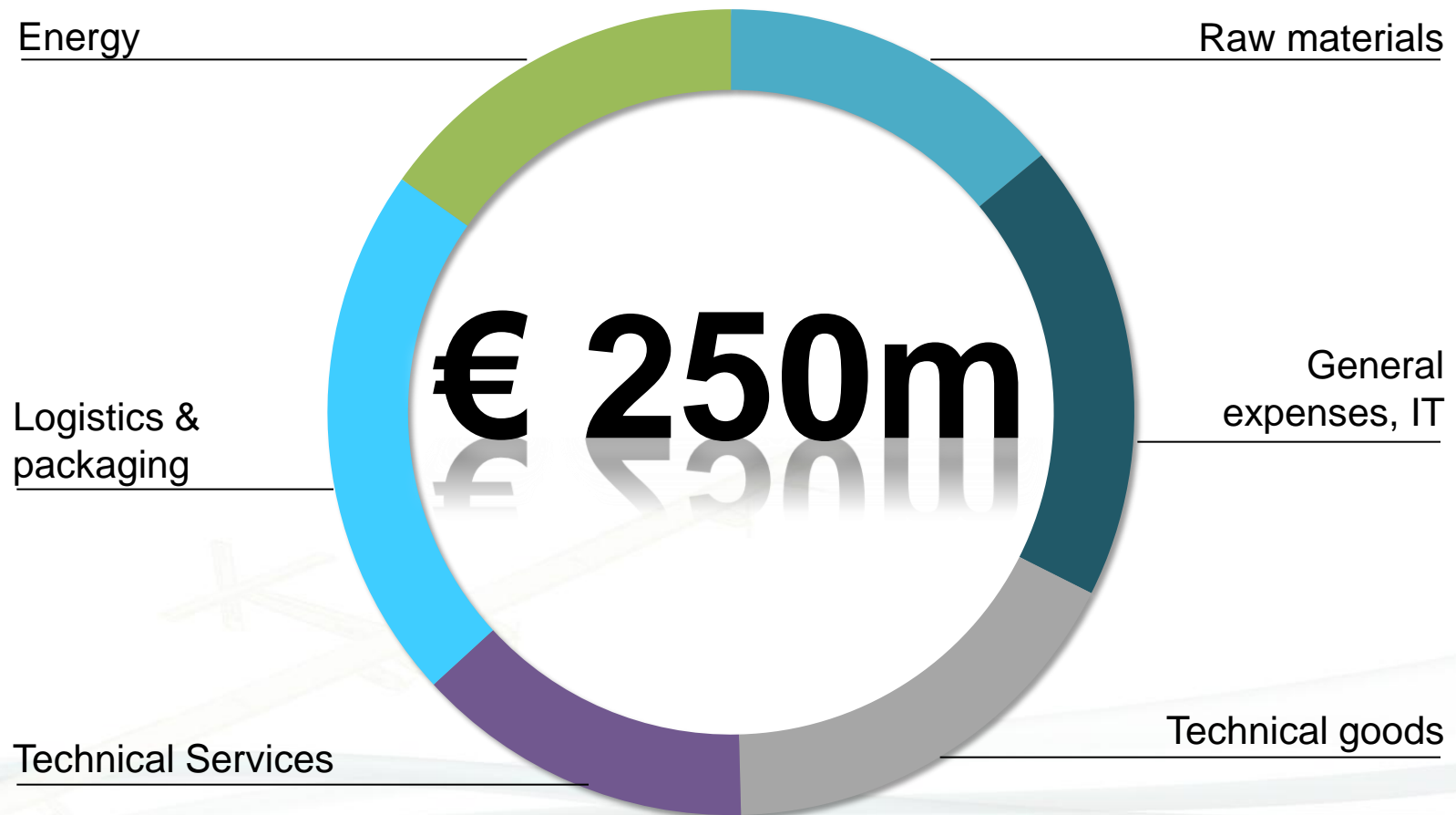
# Efficiency gains revisited...

## More & faster

€ million vs. 2010	Procurement	Internal	Total/annum
Horizon as announced*	55	65	120
Integration synergies as announced	170	80	250
Additional potential, as of April 2012	25	5	30
<b>Total**</b>	<b>250</b>	<b>150</b>	<b>400</b>
Versus. 2011			<b>380</b>

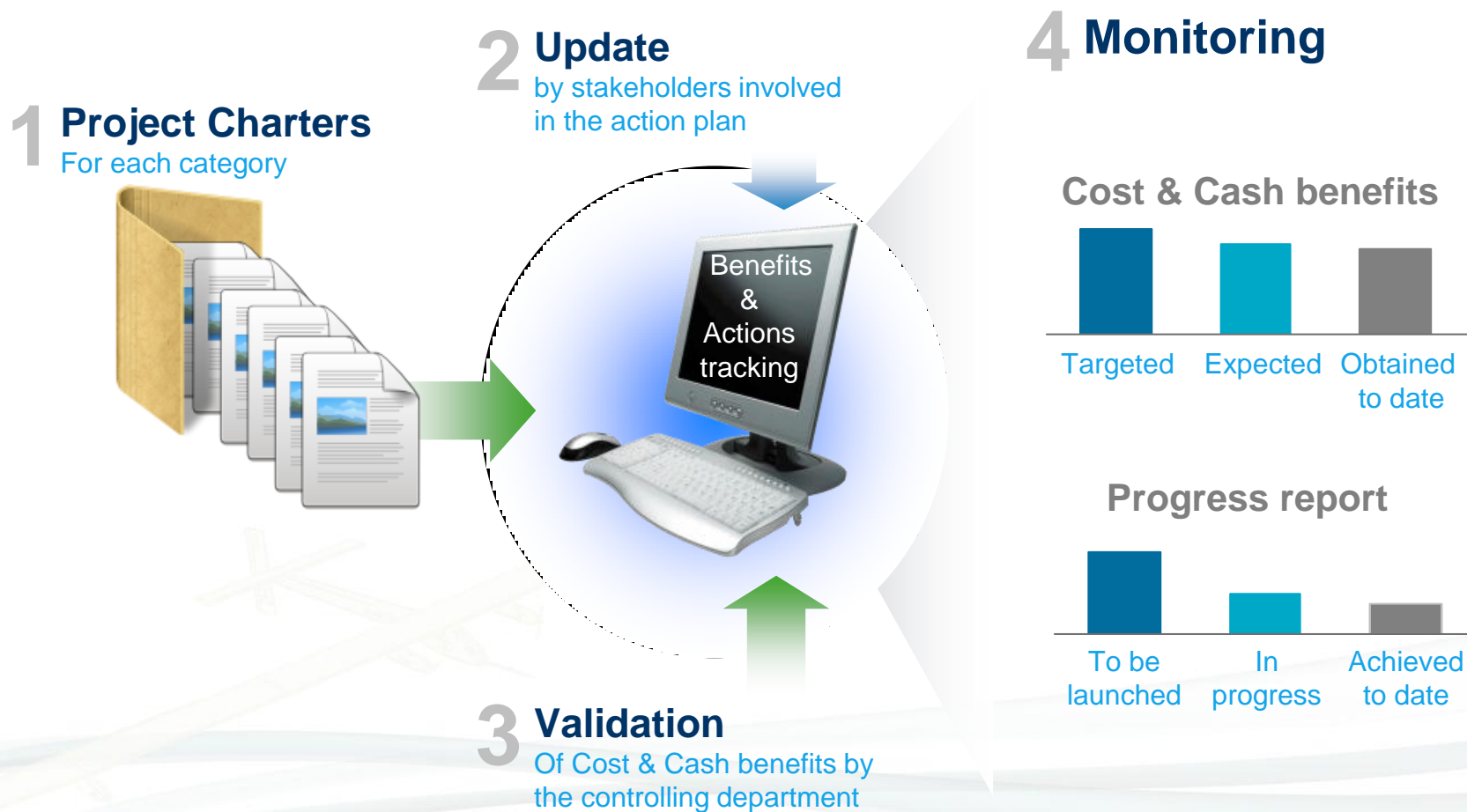
\* € 20m realised in 2010    \*\* Annual impact

# Mapping € 250m purchasing and logistics efficiencies

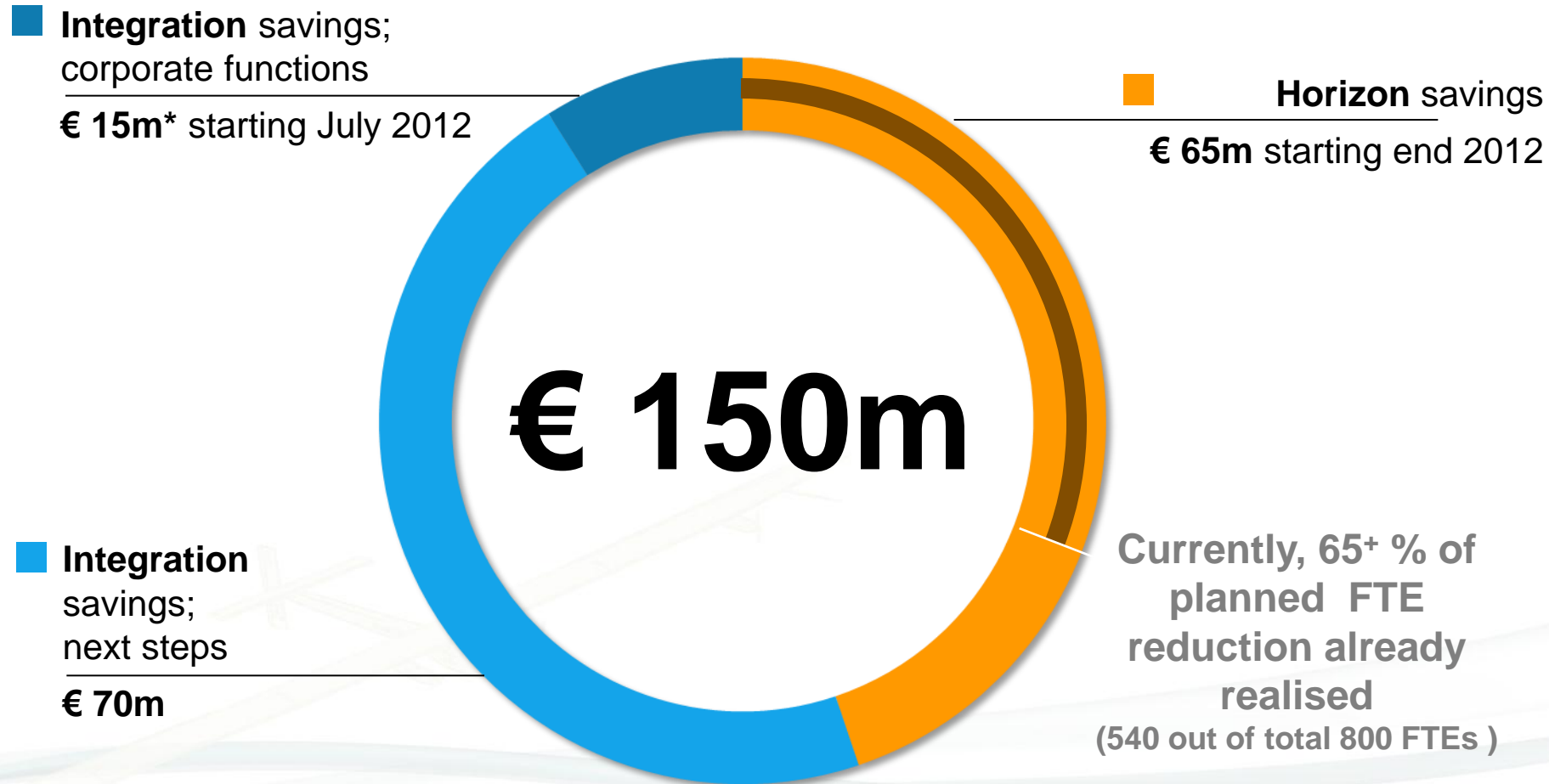


# Tracking purchasing and logistics efficiencies

Actions and Cost & Cash benefits closely tracked and monitored through dedicated tool



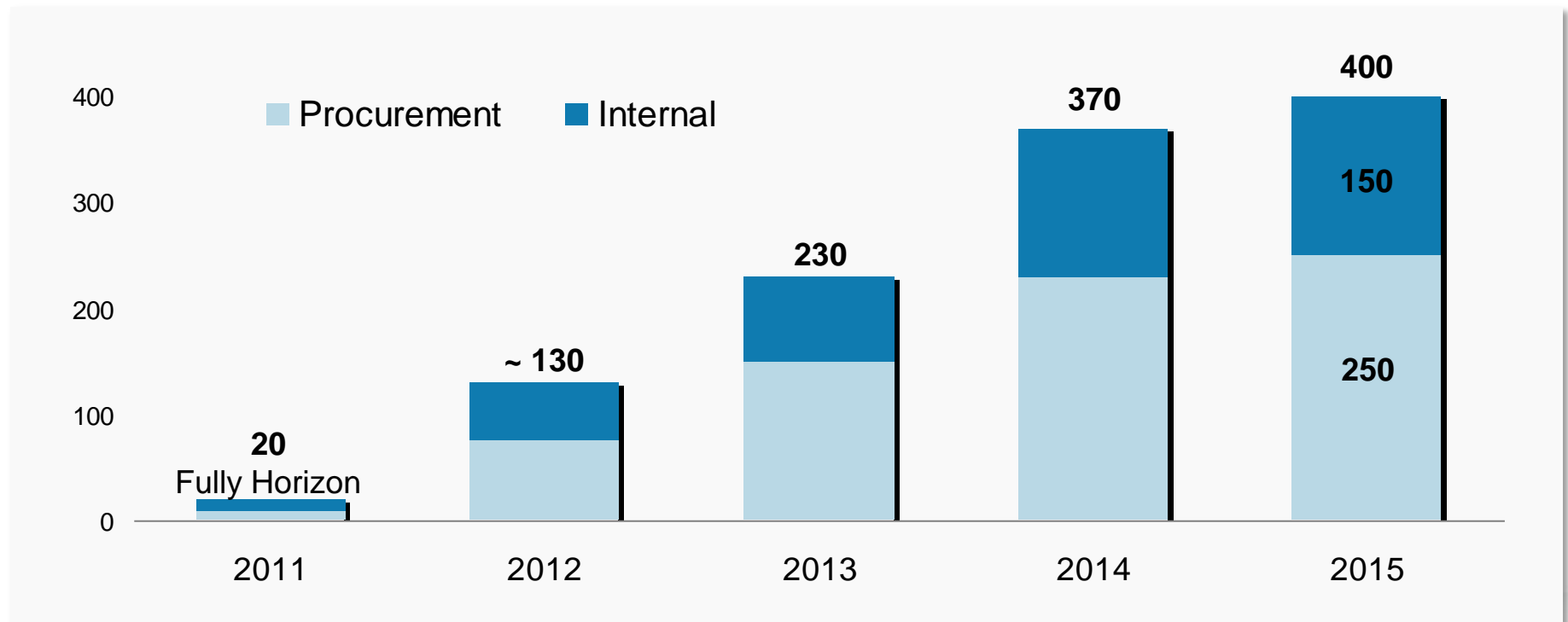
# Mapping € 150m administrative & process efficiencies



\* Annualized impacts

# More and faster efficiency gains

## Efficiency gains (€ m)

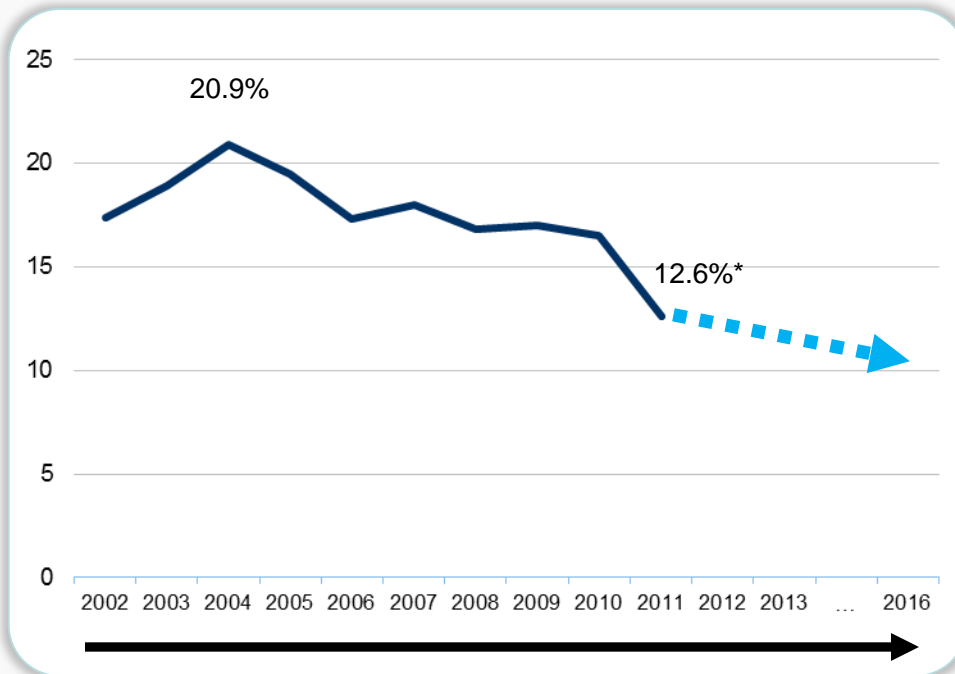


- Efficiency gains monitoring: tracking tools in place
- External reporting at HY and FY results announcements



# Reducing capital intensity

## Further improving industrial working capital

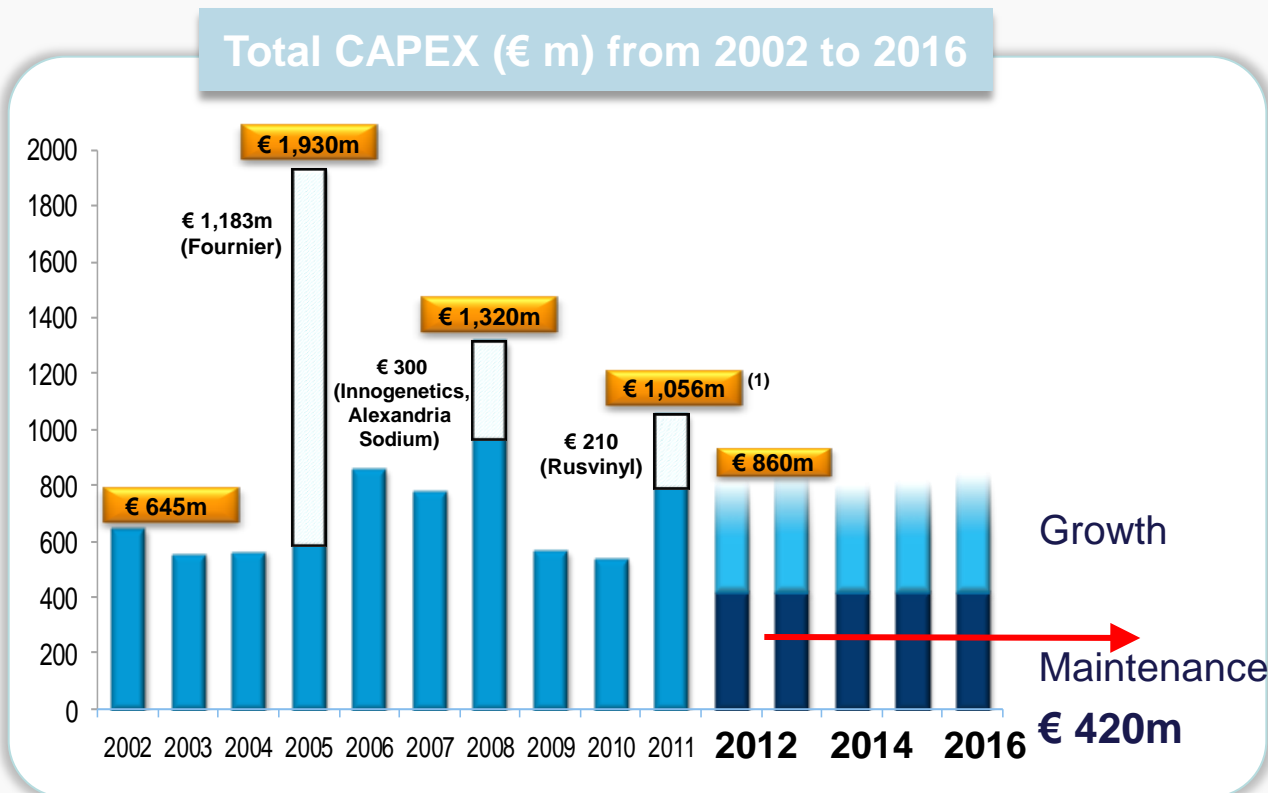


\* 2011 proforma figures

- Improvement to continue
- Leveraging Rhodia's best practices

# Reducing capital intensity (cont'd)

## Driving value growth through selective CAPEX allocation



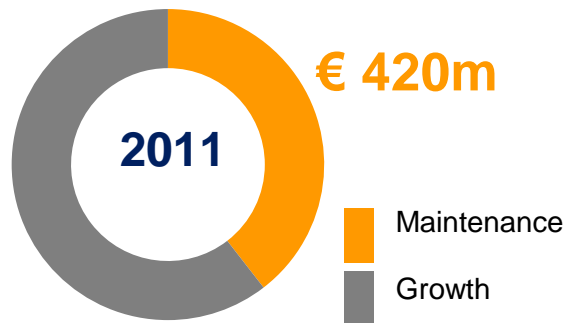
- Maintenance Capex Excellence
- Growth Capex with demanding investment returns
- Growing proportion of investment captured by Growth Engine businesses

<sup>(1)</sup> : 2011 proforma

# Driving value growth through selective CAPEX allocation

## Maintenance CAPEX

Total CAPEX: € 1,063m

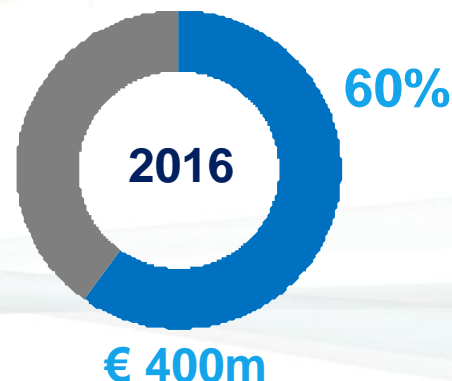
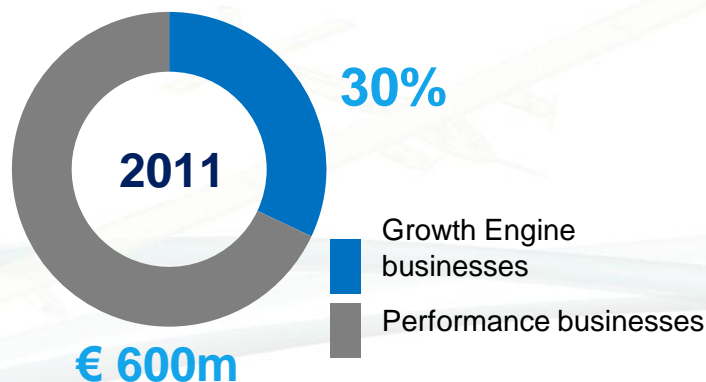


Total CAPEX: € 860m



➤ Maintenance CAPEX Excellence  
Stable through 2016

## Growth CAPEX



➤ Highly demanding return on capital investment

# Management incentives aligned with value-creation targets

## Top management team geared to value creation

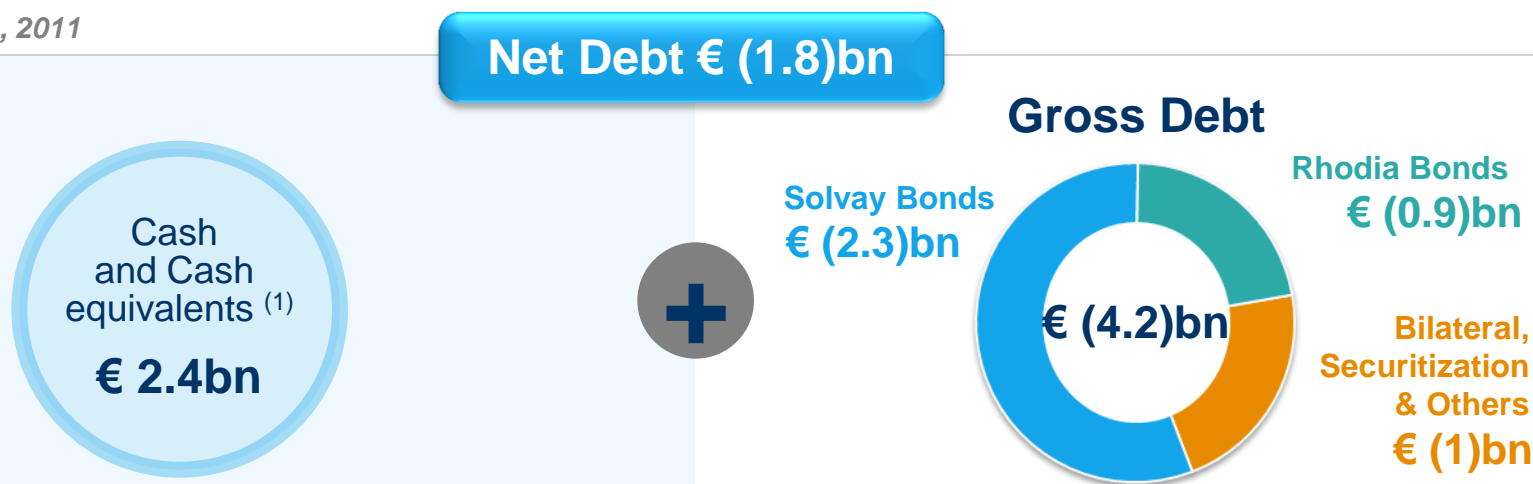


# 3. Maintaining sound financial structure



# Managing solid financing structure and financial flexibility

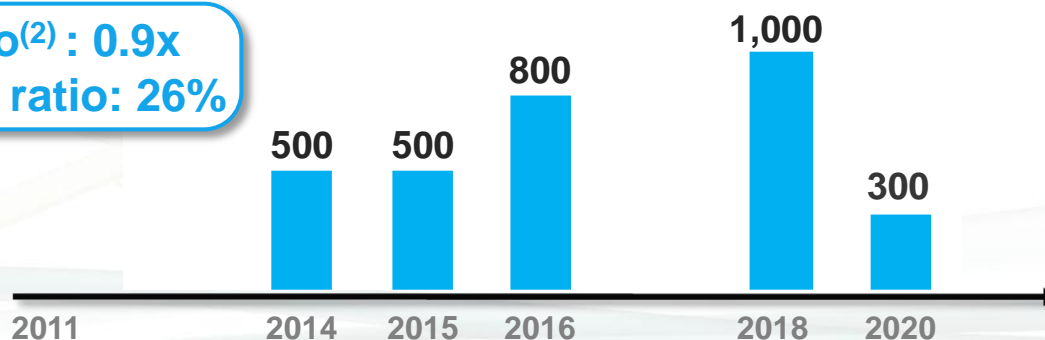
As of Dec 31, 2011



In € million

## Long-dated maturity debt

**Leverage ratio<sup>(2)</sup> : 0.9x**  
**Net debt/Equity ratio: 26%**



(1) Cash, cash equivalents and other current financial assets

(2) Net financial debt/REBITDA

# Stable well-managed pension<sup>(1)</sup> situation

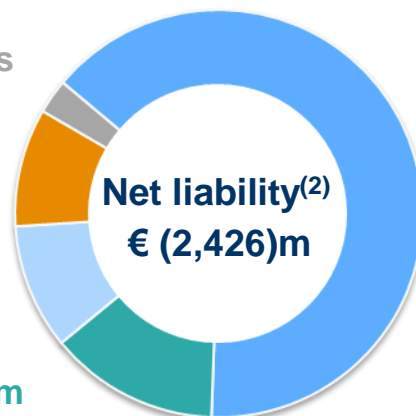
As of Dec 31, 2011

Other countries  
€ (59)m

North America  
€ (251)m

Belgium  
€ (228)m

United Kingdom  
€ (327)m



**France & Germany**  
Pension schemes  
not funded  
€ (1,561)m

Discount interest rate 4,1%<sup>(3)</sup>

Cash out proforma FY'11 of € (199)m

**Stable cash contribution expected for 2012**

**Pension assets portfolio € 1,818 m by YE 2011**

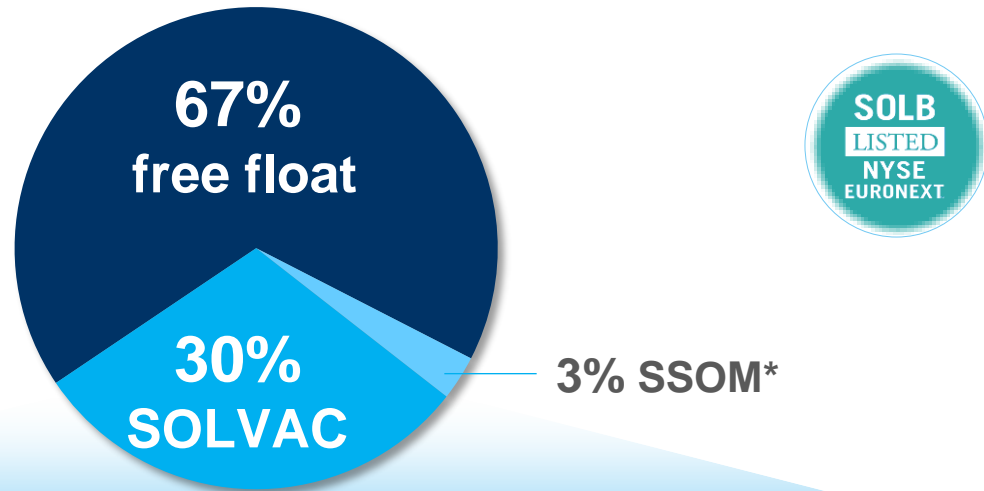
- 47% Equities / Diversified alternative Funds
- 53% Bonds / Real Estate

(1) Post- employment benefits

(2) Pre-Tax

(3) Net interest charges

## Stable shareholder base



### **SOLVAC: 30.15%**

- Founding families' holding company listed on NYSE Euronext
- Only asset: stake in Solvay
- Long term vision and commitment

**Supportive of ongoing major transformation**

(\*) SSOM: Solvay Stock Option Management



# A value-creation focused ambition

## CASH AND VALUE CREATION FOCUSED

### OPERATIONAL EXCELLENCE

**Enhanced Profitability**  
€ 3bn by 2016

### REDUCED CAPITAL INTENSITY

**Improved  
working capital**

**Prioritization of  
CAPEX allocation**

**Value Creation**  
**CFROI > WACC**

## SOLID FINANCIAL STRUCTURE

*"To the extent that any statements made in this presentation contain information that is not historical, these statements are essentially forward-looking. The achievement of forward-looking statements contained in this presentation is subject to risks and uncertainties because of a number of factors, including general economic factors, interest rate and foreign currency exchange rate fluctuations; changing market conditions, product competition, the nature of product development, impact of acquisitions and divestitures, restructurings, products withdrawals; regulatory approval processes, all-in scenario of R&D projects and other unusual items. Consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can be identified by the use of words such as "expects," "plans," "will," "believes," "may," "could" "estimates," "intends", "goals", "targets", "objectives", "potential", and other words of similar meaning. Should known or unknown risks or uncertainties materialize, or should our assumptions prove inaccurate, actual results could vary materially from those anticipated. The Company undertakes no obligation to publicly update any forward-looking statements"*

- **Appendices**



## Balance Sheet reflecting Rhodia acquisition

In € million

	YE 2010	YE 2011
Net fixed assets <i>(incl. goodwill)</i>	3,455	9,956
<i>Goodwill</i>	<i>68</i>	<i>4,414</i>
Investment and financial receivables	988	1,290
Net deferred tax assets	468	70
Industrial working capital	983	1,604
<b>INVESTED CAPITAL</b>	<b>5,894</b>	<b>12,920</b>
Shareholders's equity*	(6,708)	(6,653)
Provisions <i>(incl. Pension, HSE)</i>	(2,080)	(4,184)
Other current and non current net liabilities	(99)	(323)
Net debt	2,993	(1,760)
<i>Gross Debt</i>	<i>(2,683)</i>	<i>(4,168)</i>
<i>Cash &amp; Cash eq**</i>	<i>5,676</i>	<i>2,407</i>
<b>FINANCING</b>	<b>(5,894)</b>	<b>(12,920)</b>

\* Incl. non controlling interests

\*\*Incl. other current financial assets and loans to equity companies

## Gross debt

In € million	Nominal amount	Coupon	2011 Amortized cost <sup>3</sup>	2011 Fair value <sup>4</sup>	2011 Yield
EMTN 14	500	4.99%	495	525	4.8%
EMTN 18	300	4.75%	489	538	4.8%
EMTN 18	200	5.71%			
Retail	500	5.01%	499	534	4.7%
EIB	300	3.90%	300	330	3.5%
Hybrid <sup>1</sup>	500	6.375%	497	485	6.6%
HY 2018 <sup>2</sup>	500	7%	555	539	6.5%
HY 2020 <sup>2</sup>	309	6.875%	362	336	6.3%
Other debt	405		971	971	7.0%
<b>TOTAL</b>			<b>4,168</b>	<b>4,258</b>	

(1) This debt is subordinated to the other debts of the Group and is listed in Luxembourg. The coupon carries a fixed rate for the first ten years. In 2016 the coupon converts to a floating rate (3-month Euribor + 335 basis points) until maturity in 2104.

(2) Rhodia senior notes 2018 & 2020 were consolidated in Solvay Group account at their market price at the time of the acquisition (September 2011)

(3) Measured at initial recognition - principal repayments + or - cumulative amortization using the effective interest method for differences between initial and maturity amount

(4) Market value

# Additional financial indications

## P&L considerations

- › **Depreciation & amortization** (excl. PPA), yearly  
~ € 670m
- › **Average cost of gross financial debt 5.5%**
- › **Other financial expenses**

Re. Post employment benefits liabilities discounting  
c. € (100)m in 2012 (4.75\*% discount rate used for YE 2011  
pension liabilities)

Re. HSE liabilities c. € (30)m in 2012 ( 3.8 % of YE 11  
Provisions and fairly stable throughout 2016)

- › **Tax rate** Slightly below 30%



\* Average discount rate on post employment benefit related liabilities applicable to high quality corporate bonds in Euro, GBP and US zones as of Dec 31<sup>st</sup>, 2011

# Additional financial indications

## ➤ Post-employment benefits

### 2012 projections

**P&L overall impact: € 145m in 2012**

- **€ 45m Service costs**
- **€ 100m Financial costs**

**Cash outflows: around € 200m in 2012 and beyond**

**Limited impact from implementation of revised IAS 19 as from 2013 onwards :**

- **P&L impacts (financial costs): € 10-20m**
- **B/S impacts (Liability/(Equity)): € 20-35m**





# Purchase Price Allocation impacts (provisional accounting)

## ➤ Re-evaluation of stocks at fair value: € 205m

Reversal of the inventory step-up in non-recurring items:  
€ (45)m in Q1'12

## ➤ Re-evaluation / recognition of intangible assets at fair value

Recurring amortization charges of € (127)m yearly impact  
in 2012 and beyond

Additional amortization charges from favorable contracts  
of € (15)m in 2012 and € (28)m in 2013

## ➤ Tax impact – Deferred tax liability reversal

Slightly below 30%





# Definitions

Adjusted net income = Net income before Purchase Price Allocation impacts

$$\text{CFROI} = \frac{\text{REBITDA} - \text{Rec. Capex} - \text{Tax}}{\text{Gross Assets}^1 + \text{working capital}}$$

Free cash flow = Cash flow from operating activities + cash flow from investing activities, excluding acquisitions and sales of subsidiaries and other investments + dividends from associates and JVs.

FFO/net adjusted debt = Funds from operations / net debt adjusted for net pension liabilities (measure used by rating agencies)

REBITDA = Operating results before depreciation and amortization, non recurring elements, financial charges and income taxes.

# Free cash flow definition

## **FCF is defined as the 'full' Cash Flow generated in order to:**

- Cope with
  - its financial obligations (financial charges on net debt)
  - its shareholders obligations (distribution of dividends)
- and to finance any M&A transaction

## **Consequently, our FCF indicator**

- Excludes
  - Cash out of financial charges on net debt
  - Dividends distribution
  - Cash impact from Acquisitions / Divestitures (including acquisition of JV shares)
- but includes
  - Tax cash out
  - Dividends from Equity JV
  - Cash in from sales of assets (Building, equipments,...)

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