SOLVAY
asking more from chemistry

2019 third quarter and nine months results

Press release
Inside/regulated information

November 7, 2019
at 7 a.m.

PROFIT

Underlying [1] EBITDA
Q3: €601m +0.4%
-1.8% organic [2]
9M: €1,796m -0.2%
-2.6% organic [2]

- In Q3 underlying [1] EBITDA was up +0.4%. Excluding conversion forex and scope impacts, underlying EBITDA fell -1.8% organically [2], as continued volume growth in composites, higher pricing in performance chemicals and particular focus on cost discipline mitigated the effects of persistent low demand in the automotive, electronics and oil & gas markets.
- In the first nine months underlying EBITDA was largely stable at -0.2%. On an organic [2] basis, underlying EBITDA was -2.6% below last year. The underlying EBITDA margin was sustained at 23%.

Advanced Materials
Q3: €301m -1.6% organic [2]
9M: €891m -8.4% organic [2]

- Double-digit volume growth in composites for aircraft continued into Q3, resulting in record performance, ahead of an anticipated slowdown in Q4.
- The Q3 performance of the Specialty Polymers business was impacted by the continued headwinds in the automotive and electronics markets, and by the reduction of Solvay's inventory levels, which adversely affected costs.

Advanced Formulations
Q3: €123m -17% organic [2]
9M: €388m -9.7% organic [2]

- Aroma Performance as well as the coatings and care activities in Novecare remained solid in Q3. Order levels in agro and mining were lower, following a strong Q2. Numerous cost actions partly compensated the impact of lower sales on EBITDA.
- The North American shale oil & gas market continued to decline in Q3 and Solvay's competitive position further deteriorated in the quarter.

Performance Chemicals
Q3: €216m +4.4% organic [2]
9M: €646m +8.7% organic [2]

- Price increases were maintained, leading to a strong increase of Q3 returns in the soda ash and peroxide businesses, in a stable demand environment. Results further benefited from deepened operational efficiency measures.

Underlying EPS [3]
from continuing operations
9M: €6.68 -2.7%

- The evolution of the underlying EPS [3] from continuing operations reflects the EBITDA performance in the first nine months of the year, as well as the effects of reduced financial charges and higher depreciation and amortization.

Impairment impact
€(656)m post-tax

- The further decline of the shale oil and gas stimulation market in North America and the pressure on field service companies drove the commoditization of fracking technologies, leading to a switch away from Solvay's specialty solutions. These developments changed the underlying growth fundamentals of this business and reduced expectations on this business' future growth. This led to a non-cash impairment of €(656) million post-tax on the combined former Rhodia and Chemlogics oil & gas assets (see page 9).

CASH

FCF to Solvay shareholders
from continuing operations
9M: €345m +€217m

- A strong focus on working capital management contributed to the generation of free cash flow to Solvay shareholders of €345 million on a continuing basis year to date, an improvement of +€217 million. The strong delivery of €313 million in Q3 primarily reflects the improvement of quarterly cash phasing.
- Total free cash flow to Solvay shareholders was €527 million year to date, including €182 million from discontinued operations. This contributed to an operational deleveraging of net financial debt by €140 million, an improvement of €241 million over 2018.
- Interim dividend of €1.50 gross per share [10], a +4.2% increase, will be payable on January 20, 2020.

OUTLOOK

2019 full year outlook

- Solvay expects organic underlying EBITDA growth [4] between -2% and -3% year on year and free cash flow to Solvay shareholders from continuing operations [5] of around €490 million, in line with previous full year guidance. At current exchange rates, the expected underlying EBITDA translates into around €2,330 million, broadly flat compared to 2018.

CEO Ilham Kadri commented:

"Solvay delivered solid earnings and cash in the first nine months, and particularly in the third quarter, overcoming persistent challenges in the macro-economic environment. This performance benefits from enterprise-wide discipline and focus on costs and cash, which gives us the confidence to overcome the headwinds and reconfirm the guidance.

Today, we also share our strategic roadmap, outlining the path to unleash Solvay's full potential to drive growth and improve cash and returns."

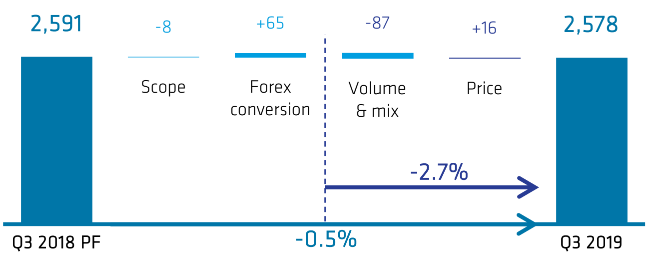
The full financial report can be found on: https://www.solvay.com/en/investors/financial-reporting.
An analyst call will be held at 14:00 CET, please see: https://www.solvay.com/en/investors/financial-calendar-events-presentations/investor-days/2019-strategy-review

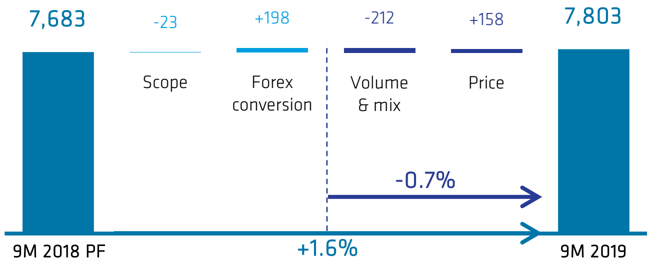
[2] Organic growth excludes forex conversion and scope effects, as well as the effect from the implementation of IFRS 16. Reported growth compares to the published 2018 pro forma figures, adjusted for the implementation of IFRS 16..

Group review

Net sales

(in € million)





Third quarter net sales were down -0.5%, with forex conversion effects compensating for -2.7% organic [2] growth, as a result of lower volumes.

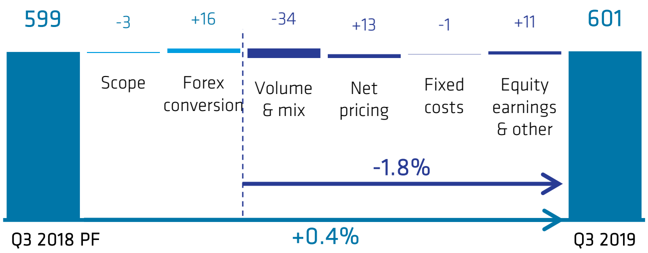
- The reduction in **scope** [6] is mainly related to the divestment of remaining soda ash related activities in Egypt in October 2018.
- **Forex** conversion had a positive effect, primarily related to the appreciation of the U.S. dollar.
- **Volumes** were down -3.5%. Lower demand from automotive and electronic applications was compensated by strong order levels in aerospace. Sales to the North American shale oil & gas sector were down more than -30% on weakening demand in a very competitive market. In Performance Chemicals volumes were overall flat, reflecting stable demand in the soda ash and peroxide markets.
- **Prices** rose by +0.6%, benefiting from transactional forex effects and increased pricing for soda ash and peroxides.

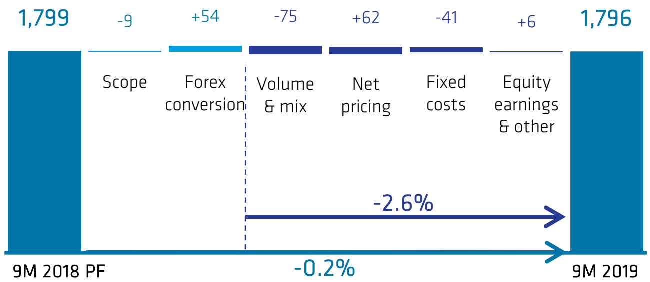
Year-to-date net sales were up +1.6%, supported by positive forex conversion effects. Organically [2], net sales were down -0.7%, lower volumes being partly compensated by higher prices.

- **Volumes** were down -2.8%. The deteriorating automotive, electronics and oil & gas markets affected Solvay's 25% sales exposure to these markets. This was partly offset by continued strong demand for composite materials in aerospace applications. Demand for Soda ash and peroxide proved resilient.
- **Prices** increased by +2.1%, benefiting from transactional forex effects and higher negotiated prices for soda ash and peroxides.

Underlying EBITDA

(in € million)





Third quarter underlying EBITDA was up +0.4%, and -1.8% organically [2] excluding forex conversion. Positive net pricing effects and a strong contribution from joint ventures offset lower volumes, while fixed costs were kept stable. The underlying EBITDA margin was slightly up (+0.2pp) at 23%.

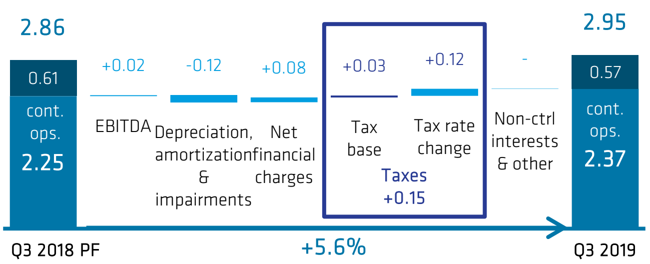
- **Net pricing** was up +2.2%, including price increases, lower raw material and energy prices and positive transactional forex effects incurred in the period. This was especially the case in Performance Chemicals with higher annual soda ash pricing.
- **Fixed costs** were stable thanks to simplification and productivity measures, especially in Advanced Formulations and Corporate, which offset higher fixed costs in Advanced Materials, coming from the expanded production capabilities in Composite materials as well as inflation and inventory reductions.
- **Other elements** consisted mainly of the strong contribution from the Russian PVC and Brazilian peroxide joint ventures.

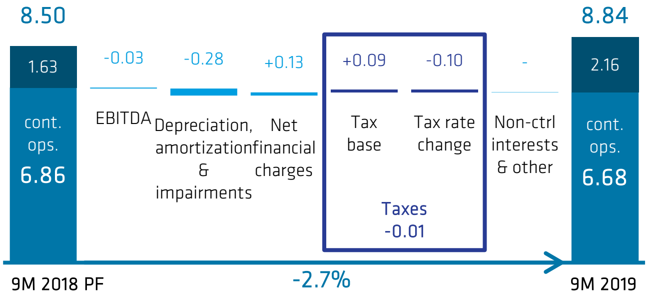
Year-to-date underlying EBITDA was down -0.2%, and -2.6% organically [2], mostly on lower volumes and the net negative impact of some one-time events.

- **Net pricing** contributed +3.4%. Higher prices and transactional forex tailwinds more than compensated for higher raw material and energy prices, as well as destocking effects.
- **Fixed costs** were up reflecting the expanded production capabilities in Composite Materials, responding to the surging aerospace demand, as well as destocking effects, as businesses respond to the lower demand. Inflation was compensated by cost containment measures. The simplification plan delivered around €85 million of savings since its launch in 2018.
- **Other elements** reflect the strong contribution from the PVC and peroxide joint ventures which more than compensated for the -0.6% net impact of one-time events. These include a €12 million gain on an energy-related settlement in the second quarter of 2019 versus a €23 million pension-related synergy benefit booked in the same period last year.

Underlying earnings per share

(in €)



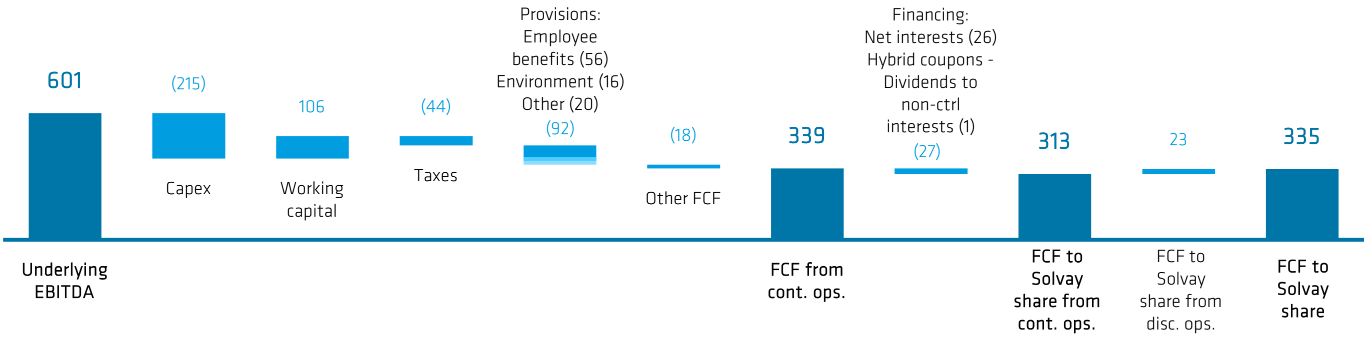


Third quarter 2019 underlying earnings per share [3] from continuing operations were up +5.6% at €2.37, reflecting the positive forex effects on EBITDA, lower net financial charges and a lower tax rate, more than offsetting higher depreciation and amortization. Total underlying earnings per share in the third quarter went up accordingly.

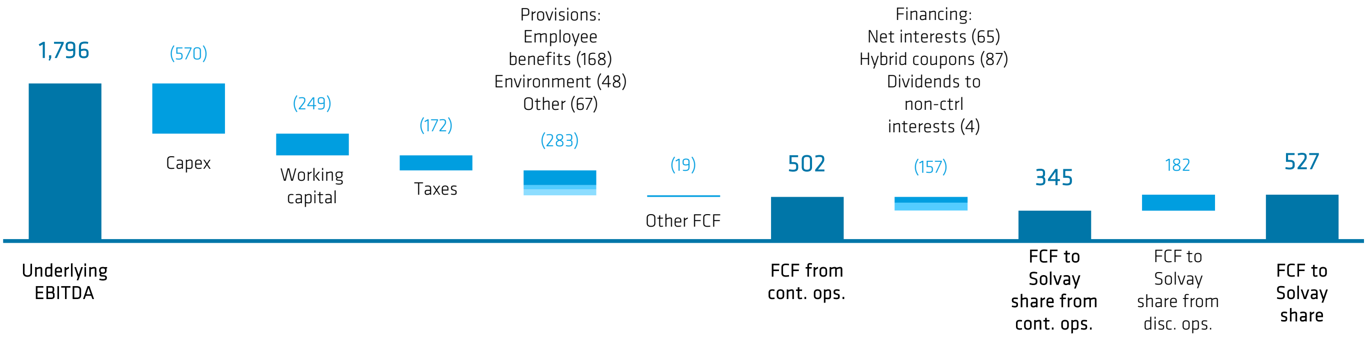
Year-to-date underlying earnings per share [3] from continuing operations were down -2.7% at €6.68. Lower net financial charges, following the repayment of higher interest-yielding debt in June 2018 and May 2019, partly offset higher depreciation and amortization charges. Total underlying earnings per share in the first nine months went up thanks to a strong contribution from discontinued operations, including the sale of some €33 million of carbon credits.

Free cash flow (FCF)

Q3 evolution *(in € million)*



9M evolution *(in € million)*



Third quarter free cash flow to Solvay shareholders from continuing operations was €313 million, more than doubling year on year, benefitting from strict working capital management. Working capital needs turned positive at €106 million compared to a €(98) million outflow in 2018. Total FCF to Solvay shareholders was €335 million.

Year-to-date free cash flow to Solvay shareholders from continuing operations was €345 million, up €217 million year on year, thanks to better working capital phasing.

- **Capex** from continuing operations increased by +3.6%.
- **Working capital** needs were €219 million lower, thanks to targeted measures in the supply chain and improved receivables.
- **Financing payments** were up €(10) million, due to the charges on the early redemption of the US$800 million bond.
- **Provision payments** and taxes were largely in line with last year.
- **Discontinued operations** contributed €182 million, €40 million more than in 2018, including the sale of carbon credits for €33 million. These operations consist of the Polyamide activities to be sold to BASF, with an expected closing of the transaction in the first quarter of 2020.

As a consequence, total free cash flow to Solvay shareholders amounted to €527 million in the first nine months.

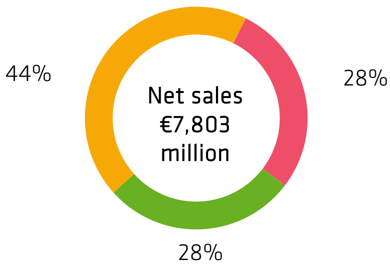
Underlying net financial debt [8] was €(5.6) billion, lower than the end of June, and slightly up from €(5.5) billion at the start of the year, due to €(79) million of forex impacts, mainly the US$ appreciation, and €(81) million M&A outflows. Strong free cash flow led operational deleveraging to end well positive at €140 million over the first nine months, despite the €(386) million dividend payments concentrated in the first half. This represents a €241 million improvement. The underlying leverage ratio [9] remained flat at 2.1x.

Group review

Underlying key figures

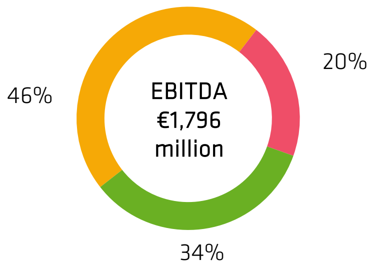
(in € million)	Q3 2019	Q3 2018 PF	% yoy	9M 2019	9M 2018 PF	% yoy
Net sales	**2,578**	**2,591**	***-0.5%***	**7,803**	**7,683**	***+1.6%***
EBITDA	**601**	**599**	***+0.4%***	**1,796**	**1,799**	***-0.2%***
EBITDA margin	*23.3%*	*23.1%*	*+0.2pp*	*23.0%*	*23.4%*	*-0.4pp*
EBIT	**397**	**407**	***-2.6%***	**1,197**	**1,229**	***-2.6%***
Net financial charges [7]	(80)	(88)	*+9.7%*	(246)	(259)	*+5.1%*
Income tax expenses	(61)	(76)	*+20%*	(231)	(230)	*-0.3%*
Tax rate				*25.8%*	*24.6%*	*+1.2pp*
Profit from discontinued operations	59	63	*-6.0%*	222	169	*+32%*
(Profit) loss attributable to non-controlling interests	(11)	(11)	*+3.9%*	(31)	(30)	*+2.4%*
Profit attributable to Solvay shareholders	**304**	**295**	***+3.0%***	**911**	**878**	***+3.8%***
Basic earnings per share (in €)	**2.95**	**2.86**	***+3.2%***	**8.84**	**8.50**	***+4.0%***
of which from continuing operations	2.37	2.25	*+5.6%*	6.68	6.86	*-2.7%*
Capex in continuing operations	**(215)**	**(187)**	***-15%***	**(570)**	**(550)**	***-3.7%***
FCF to Solvay shareholders from continuing operations	**313**	**146**	***n.m.***	**345**	**128**	***n.m.***
FCF to Solvay shareholders	335	195	*+72%*	527	273	*n.m.*
Net financial debt [8]	**(5,570)**			**(5,570)**		
Underlying leverage ratio	*2.1*			*2.1*		

Segment review



Advanced Materials
Advanced Formulations
Performance Chemicals

Corporate & Business Services net sales were not material and EBITDA is negative, thus is not depicted.



Corporate & Business Services

(in € million)	Q3 2019	Q3 2018 PF	% yoy	9M 2019	9M 2018 PF	% yoy
Net sales	2	1	*+81%*	5	6	*-16%*
EBITDA	(39)	(44)	*+12%*	(128)	(136)	*+5.9%*

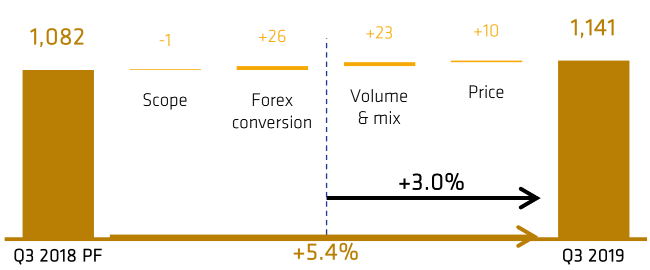
Third quarter underlying EBITDA costs were €(39) million, €5 million better than in 2018. Relentless focus on cost improvements and the benefits from the simplification plan, more than offset inflation, stranded costs from the on-going divestments and the adverse effect of forex conversion.

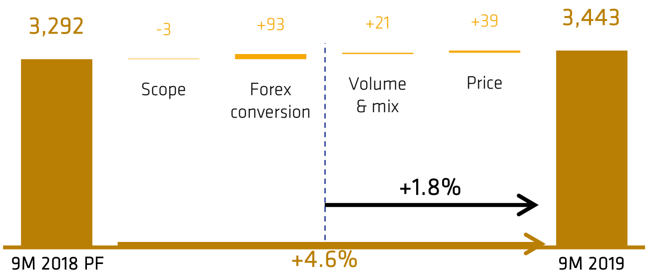
Year-to-date underlying EBITDA was €(128) million, €8 million better, benefiting from the cost containment measures and favorable conditions on the energy market.

Corporate & Business Services includes corporate and other business services, such as Group research & innovation or energy services, whose mission is to optimize energy consumption and reduce CO_2 emissions.

Advanced Materials

Net sales *(in € million)*





(in € million)	Q3 2019	Q3 2018 PF	*% yoy*	9M 2019	9M 2018 PF	*% yoy*
Net sales	1,141	1,082	*+5.4%*	3,443	3,292	*+4.6%*
EBITDA	301	299	*+0.6%*	891	943	*-5.6%*
EBITDA margin	*26.4%*	*27.6%*	*-1.3pp*	*25.9%*	*28.7%*	*-2.8pp*

Third quarter net sales were up +5.4%, of which +3.0% on an organic [2] basis excluding forex conversion effects. Double-digits volume growth in Composite Materials more than offset the decline in Specialty Polymers. Prices benefited from transactional forex effects, with price increases in Specialty Polymers.

- **Specialty Polymers** sales were down -3.9% on lower volumes. Lower demand in automotive continued as in the previous quarters, and compares to still strong Solvay sales in the second half of 2018, when automotive production was already starting to decline. Continued strong growth in battery materials, supported by the persisting electrification trend, mitigated the impact. Electronics sales were down, continuing to suffer from lack of investments in the semiconductor fabs and continued weak smart device demand, although improved sequentially. Prices were up.
- **Composite Materials** sales were up +25%. Volumes grew firmly in the double digits range for the fifth consecutive quarter driven by aircraft builds, including the 787 Dreamliner, the A220, the F-35 Joint Strike Fighter, rotorcrafts, business jets and growing order levels, albeit from a small base, for the new Chinese Comac platforms. Deliveries of composites for the 737MAX program remained solid, in line with the first half, but are expected to moderate toward a 42 monthly build rate by year end, in line with Boeing's current production.
- **Special Chem** sales grew +3.2% on volumes and prices. Improvement in autocatalyst demand thanks to the launch of new emission standards in China offset weaker demand in other automotive applications, while in the semiconductor industry, increased sales of process chemicals for semiconductors offset weaker demand for capacitor materials.
- **Silica** sales were up +4.8%, with higher volumes, mostly in Europe, in a slow market environment.

Third quarter underlying EBITDA increased by +0.6% and was down -1.6% organically [2] excluding forex conversion effects, as the volume increase mitigated higher costs. These were higher due mainly to destocking effects in Specialty Polymers as the business aligned production to the lower demand levels. Productivity measures to improve production yield and optimize the supply chain, especially in Composite Materials, contained inflation. The underlying EBITDA margin fell 1.2pp to 26%.

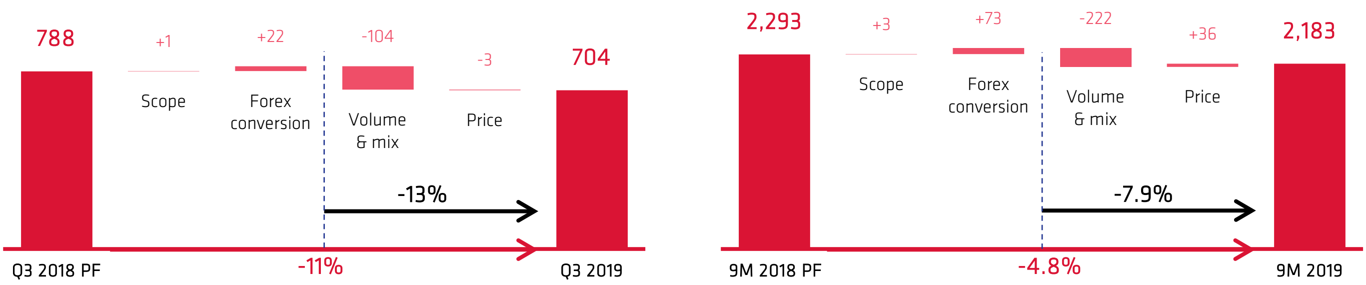
Year-to-date net sales increased by +4.6% overall and by +1.8% organically [2]. Lower volumes in Specialty Polymers' automotive and electronics were offset by double-digit growth in Composite Material's aerospace business. Prices were up in Specialty Polymers and benefited from transactional forex effects.

Year-to-date underlying EBITDA was down -5.6% and -8.4% organically [2]. Higher volumes, as well as cost containment and productivity measures were not sufficient to compensate for the higher cost base. These resulted from the expanded production capabilities in Composite Materials, destocking effects in Specialty Polymers and higher raw material costs. The one-time pension-related synergy benefit of €19 million, booked in the second quarter of 2018, had a -1.8pp impact on the first nine months. The EBITDA margin was down -2.8pp at 26%.

Advanced Materials offers a unique portfolio of high-performance polymers and composite technologies used primarily in sustainable mobility applications. Its solutions enable weight reduction and enhance performance while improving CO_2 and energy efficiency. Major markets served include next-generation mobility in automotive and aerospace, healthcare and electronics.

Advanced Formulations

Net sales *(in € million)*



(in € million)	Q3 2019	Q3 2018 PF	*% yoy*	9M 2019	9M 2018 PF	*% yoy*
Net sales	704	788	*-11%*	2,183	2,293	*-4.8%*
EBITDA	123	143	*-14%*	388	411	*-5.6%*
EBITDA margin	*17.5%*	*18.2%*	*-0.7pp*	*17.8%*	*17.9%*	*-0.2pp*

Third quarter net sales were down -11% in the third quarter, and -13% organically [2], due mainly to the weakening demand and loss of cost competitiveness of Solvay's technologies in the North American shale oil & gas stimulation activities, and to a lesser extent to weaker demand in agro and mining solutions.

- In Novecare, sales fell -14% as volumes and prices deteriorated further in oil & gas applications, with sales to this market down more than -30%. Contraction of the North-American stimulation market was exacerbated by customer pressure on costs, which resulted in loss of competitiveness for Solvay's business. Sales in other end-markets were overall stable, with an increase in coatings and stable home & personal care, offsetting lower demand in industrial applications.
- Technology Solutions sales were down -10% compared to a particularly strong third quarter in 2018, with lower volumes across activities. Order levels in mining were down, following a strong second quarter. Sales volumes of phosphorous specialties and UV-blocking polymer additives were lower on weaker demand in the agro, construction and automotive sectors respectively.
- In Aroma Performance, sales were up +5.5% on improved mix and prices. The flavors and fragrances business benefitted from sustained growth in natural vanillin. Industrial applications were positively impacted by mix effects, mainly in polymerization inhibitors.

Third quarter underlying EBITDA decreased by -14% and excluding forex conversion effects -17% organically [2], due to the lower volumes. These were partly compensated by cost reductions, as significant measures were taken to improve the profitability and drive costs down. The underlying EBITDA margin of the third quarter was thereby sustained at 18%.

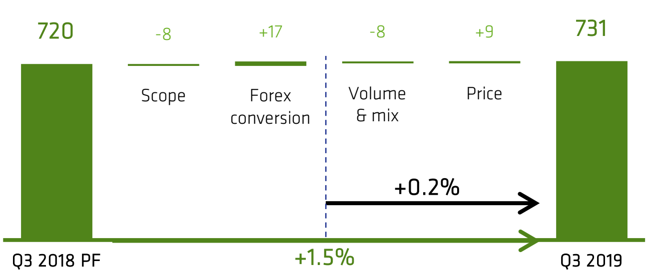
Year-to-date net sales were down -4.8% and -7.9% organically [2]. Prices were overall stable. Volumes declined -10% primarily linked to the soft shale oil & gas stimulation market in North America, exacerbated by loss of competitiveness.

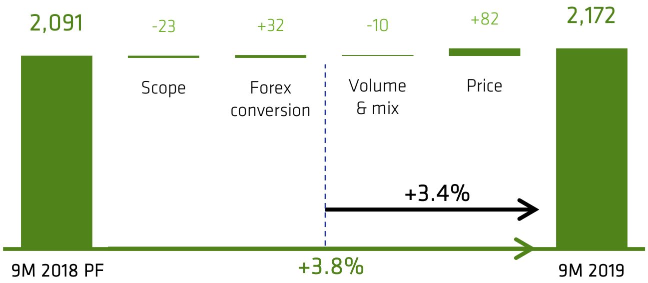
Year-to-date underlying EBITDA was down -5.6% and -10% organically [2], including the one-time negative impact of the €4 million pension-related synergy benefit booked in the second quarter of 2018. The significant volume decline was partly offset by the cost containment measures and price increases. The EBITDA margin was stable at 18%.

Advanced Formulations includes a broad-based portfolio of surface chemistries focused on improving the world's resource efficiency. The segment offers customized formulations that alter fluids behavior to optimize yield while reducing environmental impact. Major markets include resource efficiency in oil & gas, mining and agriculture, as well as consumer goods, and food.

Performance Chemicals

Net sales *(in € million)*





(in € million)	Q3 2019	Q3 2018 PF	% yoy	9M 2019	9M 2018 PF	% yoy
Net sales	731	720	*+1.5%*	2,172	2,091	*+3.8%*
EBITDA	216	200	*+7.6%*	646	581	*+11%*
EBITDA margin	*29.5%*	*27.9%*	*+1.7pp*	*29.7%*	*27.8%*	*+1.9pp*

Third quarter net sales in the segment were up +1.5% thanks to forex conversion, while largely flat organically [2]. Higher prices for soda ash and peroxides, more than compensated weaker sales in Coatis.

- In **Soda Ash & Derivatives**, sales grew +5.9%. Prices were well up, benefiting from the yearly contracts negotiated at the end of 2018. Soda ash volumes were stable, underpinned by resilient demand from construction and container glass, as well as other applications. Sales of bicarbonate continued to be impacted by lower demand for flue gas treatment in North America as coal power plants are running at a lower level.
- **Peroxides** sales were up +4.4%, benefiting from higher prices, with an increase in Europe more than compensating for a continued volatile environment in Asia. Volumes were overall stable with sustained demand for propylene oxide driving volumes in the HPPO plants, offsetting some demand softness for pulp applications.
- **Coatis** sales were down -13%, both on volumes and prices, as the demand in its domestic Brazilian market fell compared to a strong third quarter in 2018. This was especially the case in nylon salt due to weaker automotive demand, and in other markets due to intensified competition from imports.

Third quarter underlying EBITDA rose +7.6%. Excluding scope and forex conversion effects it grew +4.4%. This was the result of the higher prices for soda ash and peroxides as well as continued productivity gains over the total supply chain, primarily in Soda Ash & Derivatives. Strong performance of the Brazilian peroxide and Russian PVC joint ventures contributed to the result. Consequently, the segment EBITDA margin grew +1.7pp to 30%.

Year-to-date net sales in the segment were up +3.8% and +3.4% organically [2], reflecting the higher prices on annual contracts for soda ash and peroxides, demonstrating the resilience of these businesses in the current economic environment.

Year-to-date underlying EBITDA grew +11% and +8.7% organically [2]. Higher prices more than compensated higher raw material and energy costs, and were complemented by productivity gains and a strong contribution from the Russian PVC joint venture. A one-time gain of €12 million, contributing +2.0pp, was booked in the second quarter on the settlement of an energy contract in Solvay's European soda ash business. The EBITDA margin was up +1.9pp at 30%.

Performance Chemicals hosts chemical intermediate businesses focused on mature and resilient markets. Solvay is a world leader in soda ash and peroxides and major markets served include building and construction, consumer goods and food. It provides resilient profitability thanks to good pricing and market dynamics, underpinned by high quality assets.

Financial review

9M key figures

(in € million)	IFRS 9M 2019	IFRS 9M 2018 PF	IFRS % yoy	Underlying 9M 2019	Underlying 9M 2018 PF	Underlying % yoy
Net sales	**7,803**	**7,683**	***+1.6%***	**7,803**	**7,683**	***+1.6%***
EBITDA	**1,707**	**1,544**	***+11%***	**1,796**	**1,799**	***-0.2%***
EBITDA margin				*23.0%*	*23.4%*	*-0.4pp*
EBIT	**114**	**758**	***-85%***	**1,197**	**1,229**	***-2.6%***
Net financial charges [7]	(175)	(150)	*-17%*	(246)	(259)	*+5.1%*
Income tax expenses	(7)	(116)	*n.m.*	(231)	(230)	*-0.3%*
Tax rate				*25.8%*	*24.6%*	*+1.2pp*
Profit from discontinued operations	208	158	*+32%*	222	169	*+32%*
(Profit) loss attributable to non-controlling interests	(31)	(30)	*+2.6%*	(31)	(30)	*+2.4%*
Profit attributable to Solvay shareholders	**110**	**620**	***-82%***	**911**	**878**	***+3.8%***
Basic earnings per share (in €)	**1.06**	**6.00**	***-82%***	**8.84**	**8.50**	***+4.0%***
of which from continuing operations	(0.96)	4.48	*n.m.*	6.68	6.86	*-2.7%*
Capex in continuing operations				**(570)**	**(550)**	***-3.7%***
FCF to Solvay shareholders from continuing operations				**345**	**128**	***n.m.***
FCF to Solvay shareholders				**527**	**273**	***n.m.***
Net financial debt [8]	(3,770)			(5,570)		
Underlying leverage ratio				**2.1**		

IFRS results of the first nine months

IFRS profit attributable to Solvay share was €110 million, €(801) million lower than the underlying profit. The adjustments to IFRS results were made primarily for the following elements:

- €(828) million impairments, of which €(822) million on Novecare's oil & gas activities (see page 9).
- €(45) million restructuring costs, mostly relating to the simplification plan;
- €(31) million legacy remediation and major litigation costs;
- €(165) million of amortization charges on intangible assets linked to the impact of purchase price allocation;
- €81 million coupons of hybrid bonds, which are treated as dividends under IFRS;
- €(11) million financing costs, consisting of debt renegotiation charges and one-time discounting impact on environmental liabilities, partly offset by the appreciation impact of the Russian ruble on the RusVinyl joint venture debt
- €224 million tax impacts, of which €165 million relates to the oil & gas activities impairment.
- €(14) million M&A costs related to the remedy package for the divestment of the Polyamide activities.

Impairment on Novecare's oil & gas assets

Most of Novecare oil & gas business is linked to the unconventional oil & gas in North America, and in particular the "fracking" stage of the process. Novecare serves other oil & gas applications and other process stages, such as cementing and production, but they represent only a small portion of the total sales.

In the context of difficult and uncertain global oil & gas markets, the fracking chemicals business has proved to be highly volatile and over the last 2 years the value pool for fracking chemicals have significantly reduced and both volumes and prices have come under pressure, as changes in the competitive environment are commoditizing the market. Solvay's oil & gas position, which comprise the Chemlogics and the Rhodia oil & gas businesses, have also been impacted by two further developments that have accelerated and became particularly impactful in 2019:

- The first is a marked decline in more sustainable & efficient, but also more expensive, natural guar-based formulations as customers have continued to opt for lower cost friction reducers rather than Solvay's solutions, and recent innovations have thus far failed to reverse that trend.
- The second is increased pricing pressure and loss of market share as competitors entered the important "last-mile" delivery and service space, which was previously a source of differentiation, as well as the more general pressure on the whole value chain caused by lower oil and natural gas prices.

As a result of these developments, the profitability of the oil & gas business in 2019 has deteriorated significantly and at the full year is expected to be less than 1/3rd of the profit level of 2018. Action has been taken in terms of changing management, adapting cost structures as well as developing plans that are expected to help recovering to a level of profitability that better reflects the competitive landscape.

Further, the strategy review that was undertaken also established that the former Chemlogics business has been relatively more resilient than the former Rhodia guar based business.

As a result the synergies between the oil & gas business and the rest of Novecare are now too small and future growth opportunities too modest to support the oil & gas business being considered as part of one Novecare Cash Generating Unit, which was previously the position. This conclusion requires, in compliance with IAS 36 "Impairment of assets", that oil & gas activities are isolated in a separate CGU and the impairment test to be conducted at an oil & gas business level rather than at Novecare level.

Taking into account the balance sheet values of the oil & gas business and the present value of future cash flows based on the recovery plan, an impairment of €822 million pre-tax and €656 million post-tax has been taken. The magnitude of the impairment is exacerbated both by the evolution of forex rates since the Chemlogics acquisition in 2013, and by an expectation of persistent low oil prices. The latter dampens demand for premium solutions and thereby the recoverable amount of the asset (cash-generating unit), which is its value in use with a WACC of 6.7% (vs WACC of 6.2% used in 2018 for the testing of the Novecare Cash Generating Unit). The impairment loss of €822 million has been recognized by class of assets in the Segment Advanced Formulations as follows: €756 million for Goodwill and €66 million for Intangible Assets.

Notes

All comparisons are made year on year with 2018 pro forma figures, as if IFRS 16 had already been implemented in 2018, unless stated otherwise.

[1] Underlying figures adjust IFRS figures for the non-cash Purchase Price Allocation (PPA) accounting impacts related to acquisitions, for the coupons of perpetual hybrid bonds classified as equity under IFRS but treated as debt in the underlying statements, and for other elements to generate a measure that avoids distortion and facilitates the appreciation of performance and comparability of results over time.
[2] Organic growth excludes forex conversion and scope effects, as well as the effect from the implementation of IFRS 16.
[3] Underlying earnings per share, basic calculation.
[4] Organic growth excludes forex conversion and scope effects, and compares to €2,330 pro forma in 2018, which already includes the €100 million IFRS 16 effect.
[5] Free cash flow to Solvay shareholders is free cash flow post financing payments and dividends to non-controlling interests, and compares to €566 million in 2018.
[6] Scope effects include acquisitions and divestments of smaller businesses not leading to the restatement of previous periods.
[7] Underlying net financial charges include the coupons on perpetual hybrid bonds (accounted as dividends under IFRS, and thereby excluded from the P&L), as well as the financial charges and realized foreign exchange losses from the RusVinyl joint venture (part of earnings from associates under IFRS, and thereby included in the IFRS EBITDA).
[8] Underlying net financial debt includes the perpetual hybrid bonds, accounted for as equity under IFRS.
[9] The leverage ratio is defined as the underlying net financial debt divided by the underlying EBITDA of the last 12 months, adjusted for discontinued operations.
[10] As in previous years, the interim dividend corresponds to 40% of the full year dividend of the prior year.

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UPCOMING EVENTS

- January 16, 2020 — Interim dividend: ex-coupon date
- January 17, 2020 — Interim dividend: record date
- January 20, 2020 — Interim dividend: payment date
- February 26, 2020 — Full year 2019 results
- May 6, 2020 — First quarter 2020 results
- May 12, 2020 — Annual general meeting
- July 29, 2020 — First half 2020 results
- November 5, 2020 — Nine months 2020 results

USEFUL LINKS

- Press release
- Earnings toolkit: financial report, presentation, excel tables, financial & extra-financial glossary
- News corner
- Investors corner
- Analysts & Investors conference call (14:00 CET)
- 2018 annual integrated report

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Safe harbor

Solvay is an advanced materials and specialty chemicals company, committed to developing chemistry that addresses key societal challenges. Solvay innovates and partners with customers worldwide in many diverse end-markets. Its products are used in planes, cars, batteries, smart and medical devices, as well as in mineral and oil and gas extraction, enhancing efficiency and sustainability. Its lightweighting materials promote cleaner mobility, its formulations optimize the use of resources, and its performance chemicals improve air and water quality.

Solvay is headquartered in Brussels with around 24,500 employees in 61 countries. Net sales were €10.3 billion in 2018, with 90% from activities where Solvay ranks among the world's top 3 leaders, resulting in an EBITDA margin of 22%. Solvay SA (SOLB.BE) is listed on Euronext Brussels and Paris Bloomberg: SOLB.BB - Reuters: SOLB.BR), and in the United States its shares (SOLVY) are traded through a level-1 ADR program. *(Figures take into account the planned divestment of Polyamides.)*

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