Global Annual Report **2004**

366 days

of Innovation
Acceleration
Passion
Results

SOLVAY

SOLVAY

An international Chemicals and Pharmaceuticals group

Facts and figures:

Sales: EUR 7.9 billion
Cash flow: EUR 990 million

Employing 29 300 people
Present in 50 countries on every continent
With 400 production centres
Over 95% of sales come from outside Belgium and 43% from outside the European Union
Stable or rising dividends every year for more than 20 years
Operates in three sectors: Pharmaceuticals, Chemicals and Plastics

Contents

366 days of Innovation Acceleration Passion Results

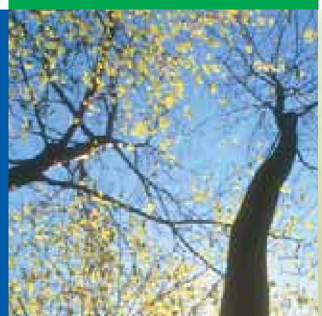
15/01/2004
Solvay and Kobelco Eco-solutions (Japan) create a joint venture to launch Solvay's innovative VINYLOOP® PVC recycling process in Japan.

31/03/2004
Solvay Pharmaceuticals and Wyeth (USA) sign an agreement for extensive cooperation in marketing and developing mental health compounds, including bifeprunox, developed by Solvay's research teams.

10/05/2004
Solvay Pharmaceuticals signs an agreement with Besins International (France) for a major geographic expansion of ANDROGEL® male hormone treatment.

10/05/2004
Solvay announces the signature of a letter of mutual interest with Nanjing Chemical Industries (NCI), a subsidiary of Sinopec (China), aimed at creating a joint venture to operate NCI's soda ash plant in Lianyungang (China).

17/05/2004
Solvay Pharmaceuticals and Bristol-Myers Squibb announce an agreement to develop and market a new anti-obesity drug.



14/06/2004
Solvay finalizes the sale to Kali und Salz (Germany) of its minority stake in ESCO's salt activities, which are no longer part of its core business.

22/06/2004
Solvay Pharmaceuticals obtains European approval for its new virosomal influenza vaccine INVIVAC®. Following the Netherlands and Switzerland, Norway, Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain and Sweden grant marketing authorizations in 2004.

01/07/2004
Following filing of a registration application in the UK, Solvay Pharmaceuticals, Inc. submits a New Drug Application (NDA) for cilansetron (for the treatment of irritable bowel syndrome) to the FDA.

19/07/2004
Solvay Pharmaceuticals obtains European and Canadian marketing approval for its new cardiovascular combination drug TEVETEN® PLUS.

02/09/2004
Solvay confirms its intention to create a joint venture with BASF to build a giant hydrogen peroxide plant at Antwerp (Belgium), using a new Solvay technology.

14/09/2004
Solvay Austria announces plans to close the Ebensee (Austria) soda ash plant, whilst continuing production of precipitated calcium carbonate.

01/10/2004
The ultra low emission fuel systems technology, the pride of Inergy Automotive Systems, is adopted by Nissan and General Motors.

14/10/2004
Solvay Pharmaceuticals and Quintiles/Pharmabio (USA) sign, with immediate effect, a novel agreement that will effectively double Solvay's capacity to process early clinical projects.

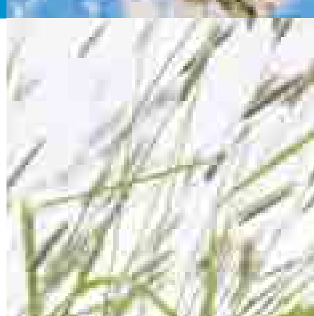
18/10/2004
Solvay secures energy supplies for its industrial site in Rosignano (Italy) through an agreement with Electrabel (Belgium) to build a state-of-the-art, high-yield and environmentally friendly cogeneration unit.

19/10/2004
Solvay SA announces its participation in Conduit Ventures Limited, a London-based venture capital fund, giving it access to fuel cell know-how and related hydrogen technologies.

19/10/2004
Solvay uses the international plastics fair K2004 (Düsseldorf, Germany) to present SUPRADEL™ HTS, a new, transparent sulfone polymer with very high temperature resistance.

03/11/2004
Solvay decides to exercise its option to sell its stakes in the BP Solvay Polyethylene Europe and North America joint ventures to BP, thereby strengthening the Group's focus on Specialty Polymers.

04/11/2004
Solvay signs a licence agreement to supply its vinyl chloride monomer technology to Singpu Chemical Industries Co., Ltd. for the construction of a new 200kT production unit in Taixing (China).



08/11/2004
Solvay Pharmaceuticals and Novozymes (Denmark) announce that they are jointly developing a new, biotechnologically engineered treatment for pancreatic exocrine insufficiency.

10/11/2004
Solvay announces the doubling of vinyl chloride monomer (VCM) production capacity at its plant in Map Ta Phut, Thailand, using Solvay's latest technology.

17/11/2004
Solvay and Petrovax Pharm (Russia) join forces to produce a new influenza vaccine using state-of-the-art technology.

24/11/2004
Solvay and Chemical Products Corporation (USA) announce their intention to create a world-wide joint venture for the production and marketing of barium and strontium carbonates.

10/12/2004
Solvay Pharmaceuticals buys Italmex (Mexico), which will become the Group's second pharmaceutical operating base in Latin America after Brazil.

20/12/2004
Solvay Pharmaceuticals launches a friendly bid to acquire Neopharma (Sweden), which holds the rights to a new therapy for late-stage Parkinson's disease.

21/12/2004
Solvay Advanced Polymers (USA) announces it will nearly triple its existing production capacity for polyethersulfone (PES), a spearhead of Solvay's Specialty Polymers range.

22/12/2004
Solvay applies its high productivity technology for producing hydrogen peroxide in the Americas, by increasing capacity at its Deer Park (USA) unit. Solvay also announces that it is creating a new hydrogen peroxide unit in Chile.

Key figures - Solvay Group

	BELGIAN ACCOUNTING				IFRS	
	2000	2001	2002	2003	2004	
	EUR million		EUR million		EUR million	USD million[6]
Consolidated sales	8 863	8 725	7 919	7 557	**7 877**	**10 729**
EBITDA/REBITDA[1]	1 174	1 092	1 284	1 101	**1 215**	**1 655**
EBIT/REBIT[2]	666	628	844	673	**789**	**1 075**
Consolidated net earnings	433	403	494	430	**541**	**737**
Total depreciation and amortization[3]	551	522	554	429	**449**	**612**
Cash flow	984	925	1 048	859	**990**	**1 349**
Shareholder's equity[4]	3 974	3 939	3 542	3 510	**3 792**	**5 165**
Net debt	1 172	1 050	1 318	1 120	**794**	**1 082**
Capital expenditure	812	2 627	645	555	**564**	**768**
Research expenditure	360	341	399	404	**413**	**563**
Personnel costs	1 846	1 933	1 833	1 802	**1 700**	**2 316**
Added value	3 022	3 100	3 089	2 826	**2 910**	**3 964**
Gross distribution to Solvay shareholders	190	188	199	199	**209**	**285**
Persons employed[5]	32 294	31 413	30 302	30 139	**29 300**	**-**

[1] EBIT(Belgian accounting)/REBIT (IFRS) including straight-line depreciation and amortization.
[2] EBIT (Belgian accounting) / REBIT (IFRS) = Recurring EBIT.
[3] Including non-recurring depreciation and amortization of 43 in 2000, 58 in 2001, 114 in 2002 and 1 in 2003 and 23 in 2004.
[4] Shareholders' equity for 2002 and 2003 has been restated (see notes 28 and 29).
[5] In full-time equivalents (FTE) at January 1 of the following year.
[6] Exchange rate : 1 EUR : 1.3621 USD at 31/12/2004.

Distribution 2004

REBIT by Sector total REBIT 2004 = EUR 789 million

[including « discontinued operations » and unallocated items of EUR -24 million]

Pharmaceuticals	**29%**	[EUR 236 million]
Chemicals	**22%**	[EUR 180 million]
Plastics	**49%**	[EUR 397 million]

Sales by geographic area

Total sales 2004 = EUR 7 877 million

EUROPE	**61%**
European Union (25)	**57%**
Other European countries	**4%**
ASIA PACIFIC	**7%**
AMERICAS	**29%**
Nafta	**23%**
Mercosul	**6%**
REST OF WORLD	**3%**

Sales by customer segment

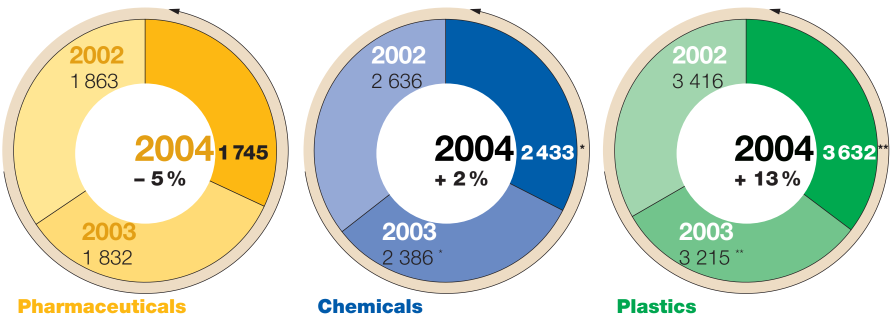
Total sales 2004 = EUR 7 877 million

Human health	**24%**
Automobile industry	**13%**
Construction and architecture	**12%**
Chemical industry	**11%**
Glass industry	**7%**
Consumer goods	**6%**
Electricity and electronics	**4%**
Packaging	**4%**
Water and the environment	**3%**
Detergents, cleaning and hygiene products	**3%**
Paper	**3%**
Human and animal food processing	**1%**
Other industries	**9%**

Sales by sector [EUR million]

Total sales 2004 = EUR 7 877 million

[including « discontinuing activities » and unallocated items, of EUR +4, +124 and +67 million in 2002, 2003 and 2004]

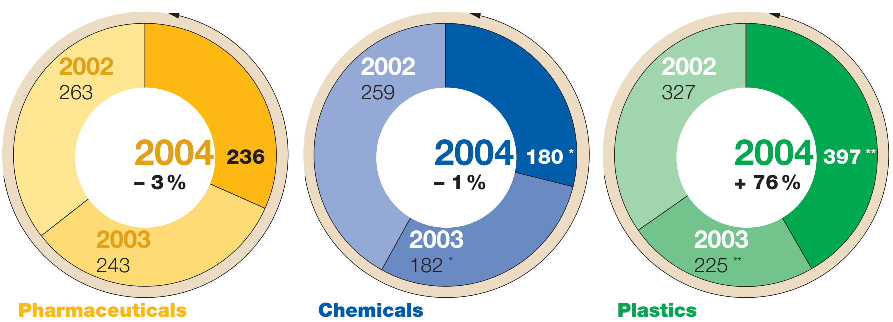


* the Salt activities have been placed in « discontinued activities » in 2003 and 2004. ** combined figures for the Plastics and Processing Sectors.

REBIT by Sector [EUR million]

Total REBIT 2004 = EUR 789 million

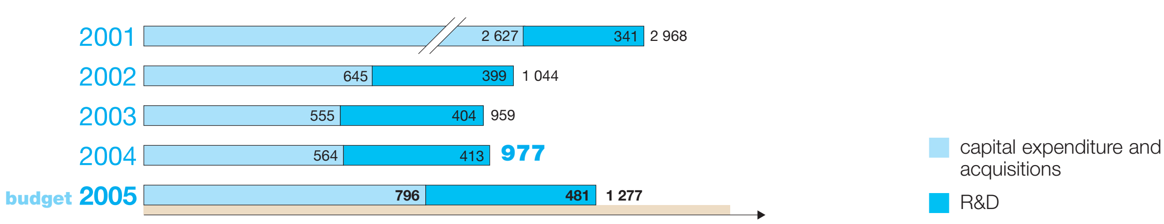
[including « discontinuing activities » and unallocated items of EUR - 5, +23 and 24 million in 2002, 2003 and 2004]



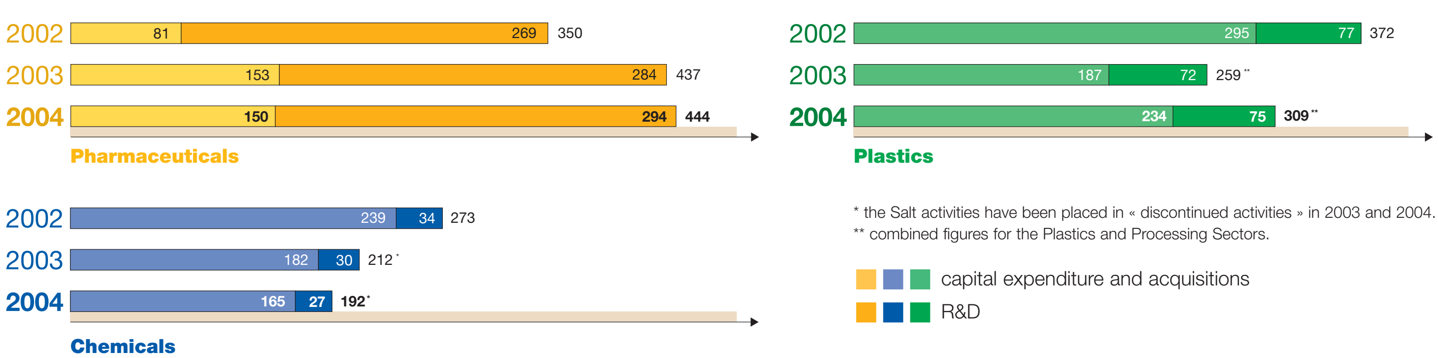
* the Salt activities have been placed in « discontinued activities » in 2003 and 2004. ** combined figures for the Plastics and Processing Sectors.

Investments [EUR million]

Total capital expenditure, acquisitions and R&D: total 2004 = EUR 977 million



Investments by Sector [EUR million]



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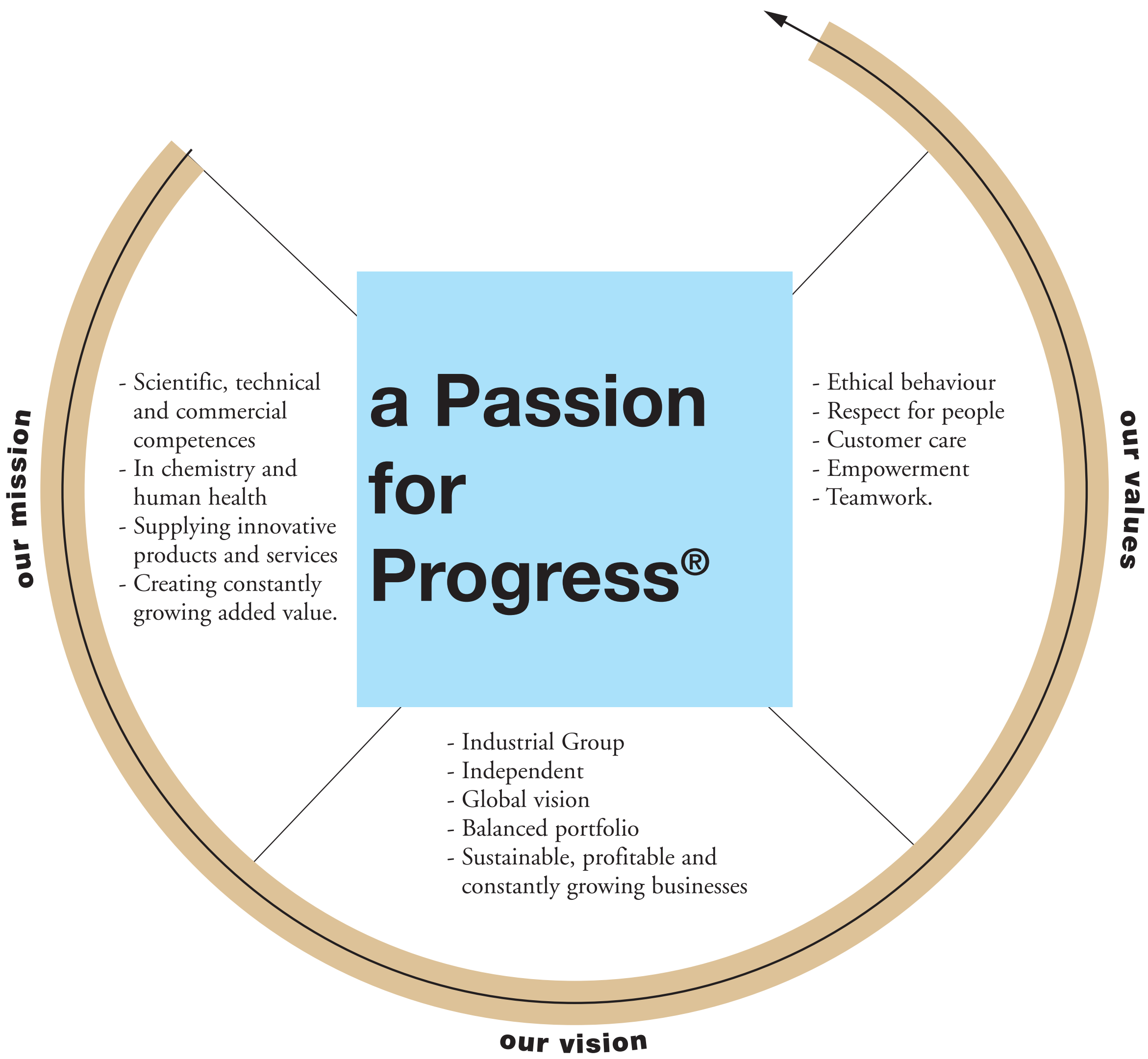
Day by day we respect our commitments



Solvay is an independent and ethical global industrial Group, with a balanced portfolio of sustainable, profitable and growing businesses under careful environment management.

Mission, Vision, Values

A Group :

- amongst the world leaders in selected markets and products, either alone or with sound, complementary business partners;
- valued by its customers as a highly competent, reliable and competitive solution provider;
- with a clear, motivating organisation, developing and empowering people and teams through rewarding and challenging jobs;
- acting as a good corporate citizen, caring for the health, safety and environment of its employees and of the community at large.

What counts is not optimism or pessimism, but determination.

(adapted from Jean Monnet)

A year of unprecedented results and actions.

Results and actions are the words that best sum up 2004 for Solvay. In a far-from-propitious environment, we succeeded in remaining focused on our various businesses and, thanks to everyone's hard work, achieving very good levels of efficiency and profitability.

Since 2001 we have been living in difficult times. We all remember vividly the geopolitical and economic upheavals of recent years. Unfortunately, 2004 was no exception, with the situation in Iraq, the Madrid bombings, elections in Spain, Russia, the USA and Ukraine, a volatile euro/dollar parity and oil prices setting new records.

At the end of 2004, the tsunami caused an immense natural catastrophe on the coasts of the Indian Ocean. Fortunately, our employees and facilities in this region escaped unscathed. We again express our compassion and deepest sympathy to all countries that were directly or indirectly victims of this terrible tragedy.

In this difficult, disturbed and unbalanced world, our Group achieved record results in 2004, beating the previous records set in 2002. Sales were 4% higher at EUR 7.9 billion. REBIT rose by 17%, giving us an operating margin (REBIT/sales) of 10%, which is 2% higher than in 2003. For the first time our net income exceeded half a billion euros, with cash flow of EUR 990 million. Group ROE (return on equity) of 14.6% puts us well on the way to our objective of 15%. At the same we not only maintained a very healthy financial situation, but also significantly reduced our debt levels.

These good results were the fruit of unrelenting hard work and of a strategy of change applied with realism and determination. We have achieved our strategic objectives of faster growth in Pharmaceuticals and Specialties, of leadership, of geographic diversification and of innovation.

From a strategy of change to a strategy of sustainable and profitable growth.

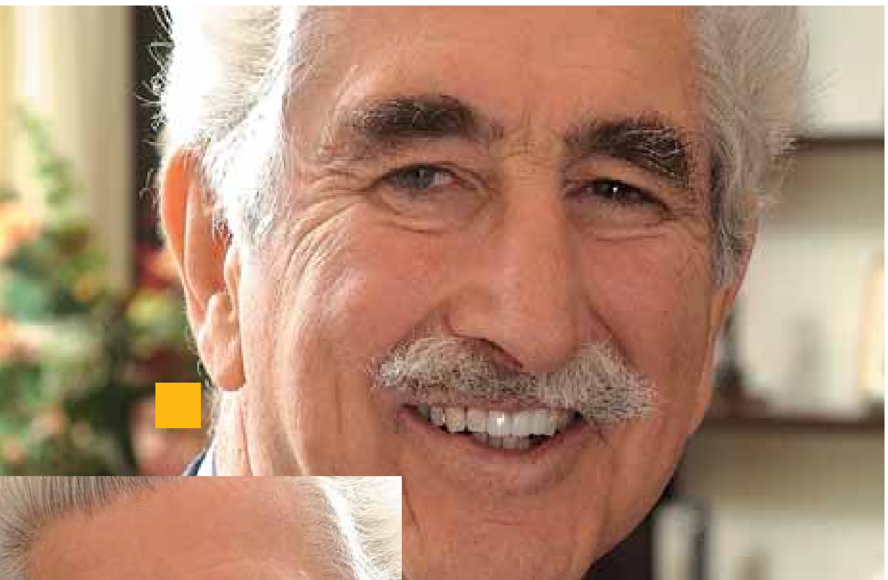
Our Group does not intend to rest on its laurels. In 2004 it set the course for a major strategic development, which will

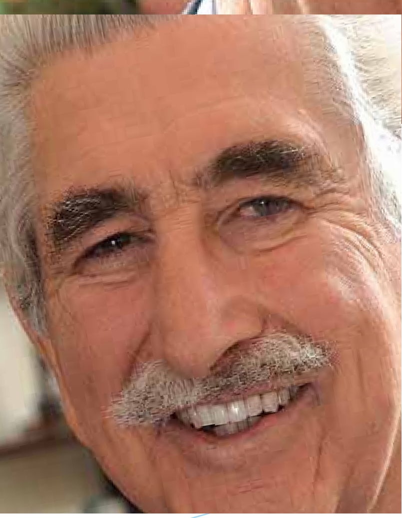
put new wind into its sails for the next ten years.
– We have confirmed our double vocation as a Pharmaceuticals and Chemicals company and our desire to retain our hybrid character.
– We have simplified our organization by concentrating it on three Sectors: Pharmaceuticals, Chemicals and Plastics (the latter now including Processing).
– We have decided to express our growth and innovation strategy more clearly with precise objectives.
– We are also continuing our effects to ensure our competitiveness in hard-fought markets. Numerous projects are under way to help attain our objective of reducing operational costs. The project to create a European Shared Services Centre for the Finance and Human Resources functions is one concrete example among many.
– In a world of global markets and of competition, it is important that our strategic initiatives respond ever faster

and better to the "historic challenge of the future". Only those enterprises that constantly question where they are going, look ahead and act will be successful. We intend to be among them.

A year of action.

The list of significant activities we undertook in 2004 is impressive. Without being exhaustive, we would like to highlight some that no doubt will leave their mark on our





Group in the years to come. They are proof of the attractiveness of our research, processes and products to our partners, and of the trust they place in our Group.

In the Pharmaceuticals Sector:

– agreements with Wyeth and Lundbeck to develop bifeprunox, a compound from our own research department;
– agreements with Bristol-Myers Squibb for our SLV 319 anti-obesity compound;
– contracts with Zentaris, Hormos, Innogenetics and Novozymes to bioengineer a pancreatic insufficiency treatment;
– the research and development contract with Quintiles; and
– the acquisitions of Neopharma in Sweden and a Mexican pharmaceutical company.

In the Chemicals Sector:

– a major soda ash agreement under negotiation with NCI / Sinopec (China);
– the project for a hydrogen peroxide mega-plant in partnership with BASF in Antwerp (Belgium);
– the agreement with CPC in barium/strontium salts; and
– the announced closure of the Ebensee soda ash facility (Austria).

In the Plastics Sector:

– the decision to double VCM capacities in Thailand;
– various vinyls projects under way in Russia, Asia and South America;
– licensing of our vinyl chloride monomer (VCM) manufacturing process to Singpu Chemicals Ltd (China); and
– various capacity increases in Specialty Polymers.

Innovation within our new strategy.

Our Group has a clear strategy, translated into precise growth objectives, and the financial resources to implement it. We want to support this strategy with an increased spirit of innovation, because innovation is the source of growth, competitiveness, employment and permanence. Europe is lagging behind its main partners in the innovation that, we must emphasize, is vital to our common future.

Turning to 2005, "what counts is not optimism or pessimism, but determination".

Looking first internally, several major growth and competitiveness projects launched in 2004 will be completed and produce their first results in 2005. The first few weeks of 2005 have already seen several important announcements:
– the finalization of the sale of our HDPE activities to BP on January 6, 2005;
– the signing, on January 20, 2005, of an agreement for Inergy Automotive Systems to acquire the Chinese company YAPP; and
– a tripling of our polyethersulfone capacity, to be operational by 2006.

All this having been said, we continue to operate in a highly uncertain environment with an unclear outlook. Success will come from our ability to decide and to act, better and faster than others, with confidence and determination. We have confidence in our capacity to succeed, confidence in our Group with its accumulated experience and know-how, confidence in its ability to transform and adapt to globalization, confidence in the efficiency of its organization.

We have a number of major assets that enable us to continue to perform well. These include our corporate culture that is the envy of many, our employees, our shareholders, our customers and suppliers. We thank them all, and in particular our employees, for their loyalty to our Group and their commitment to building its future.

Aloïs Michielsen
Chairman of the Executive Committee

Daniel Janssen,
Chairman of the Board of Directors

The Board of Directors

The Board of Directors is the highest management body of the company. The law grants it all powers not given, by law or by the by-laws, to the Shareholders' Meeting.

In the case of Solvay SA, the Board of Directors has reserved certain key areas for itself and has delegated the remainder of its powers to an Executive Committee.

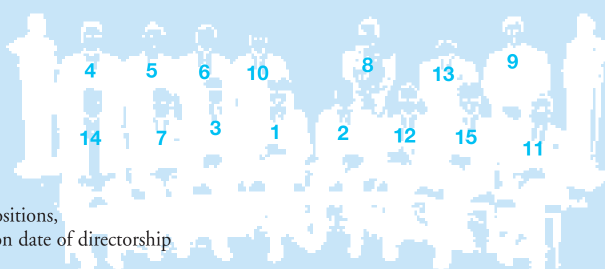
At January 1, 2005, the Board of Directors consisted of 15 members, down from 16 members a year before. This reduction follows Mr Jürgen Ernst's retirement from the Board of Directors on December 31, 2004.

At January 1, 2005, the Board of Directors was composed of:

	Year of birth	Year of 1st appointment
1. Baron Daniel JANSSEN (B)	1936	1984
2. Mr Aloïs MICHIELSEN (B)	1942	1990
3. Mr René DEGRÈVE (B)	1943	1998
4. Baron Hubert de WANGEN (F)	1938	1981
5. Mr Jean-Marie SOLVAY (B)	1956	1991
6. Chevalier Guy de SELLIERS de MORANVILLE (B)	1952	1993
7. Mr Kenneth MINTON (GB)	1937	1996
8. Mr Denis SOLVAY (B)	1957	1997
9. Mr Nicolas BOËL (B)	1962	1998
10. Mr Whitson SADLER (US)	1940	2002
11. Mr Jean van ZEEBROECK (B)	1943	2002
12. Mr Jean-Martin FOLZ (F)	1947	2002
13. Mr Jacques SAVERYS (B)	1937	2003
14. Mr Karel VAN MIERT (B)	1942	2003
15. Dr Uwe-Ernst BUFE (D)	1944	2003

(*) Full-time activity in the Solvay Group

Board of Directors and Corporate Governance



Solvay SA positions,
and expiration date of directorship

2006 – Chairman of the Board of Directors and of the Finance and Compensation and Appointments Committees
2009 – Director and Chairman of the Executive Committee (*) Member of the Finance and Compensation and Appointments Committees
2010 – Director and member of the Executive Committee (*), Member of the Finance Committee
2005 – Independent Director
2008 – Independent Director, Member of New Business Board
2005 – Independent Director, Member of the Audit Committee
2009 – Independent Director, Chairman of the Audit Committee
2006 – Independent Director, Member of the Audit Committee
2009 – Independent Director, Member of the Compensation and Appointments Committee
2007 – Non-executive Director, Member of the Audit Committee
2010 – Independent Director, Member of the Compensation and Appointments Committee
2006 – Independent Director, Member of the Compensation and Appointments Committee
2007 – Independent Director
2009 – Independent Director, Member of the Finance Committee
2005 – Independent Director, Member of the Finance Committee

Corporate Governance

The application in 2004 of the Solvay's Group's "Corporate Governance" rules is the subject of a separate document, enclosed with this Annual Report.

These rules are those established by the Banking, Finance and Insurance Commission, Euronext and the Federation of Enterprises in Belgium, which Solvay has supplemented and at times reinforced in 2004 in line with the work of the Belgian Corporate Governance Commission, which led to the publication of the "Lippens Code" in December 2004.

The "Lippens Code" comes into full force on January 1, 2006, for the 2005 financial year. The current report therefore represents one stage in the application of the Code's recommendations. In 2005 the Solvay SA Board of Directors will examine what measures it needs to take in order to comply in full with the requirements of the Code, in accordance with the "apply or explain" principle.

Aloïs Michielsen
Chairman of the Executive Committee

René Degrève
Member of the Executive Committee
General Manager for Finance

Christian Jourquin
Member of the Executive Committee
General Manager of the Chemicals Sector

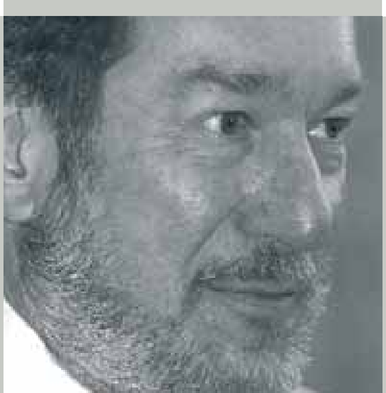
Jacques van Rijckevorsel
Member of the Executive Committee
General Manager of the Plastics Sector (including the Processing)

Bernard de Laguiche
Member of the Executive Committee
Managing Director of Solvay Solexis S.p.A

Luigi Belli
Member of the Executive Committee
General Manager for Research and Technology

Daniel Broens
General Manager for Human Resources

Jean-Pierre Lapage
Regional Manager Brazil and Argentina
Mercosul



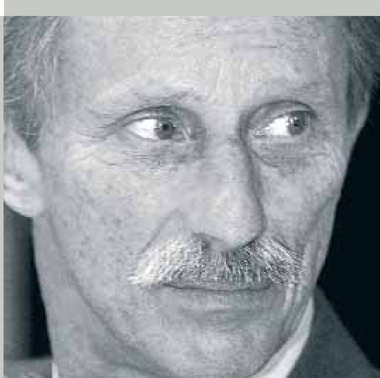
David Birney
Regional Manager United States, Canada and Mexico
Nafta

Executive Committee and General Managers
at January 1, 2005

Werner Cautreels
Member of the Executive Committee
General Manager
of the Pharmaceuticals Sector

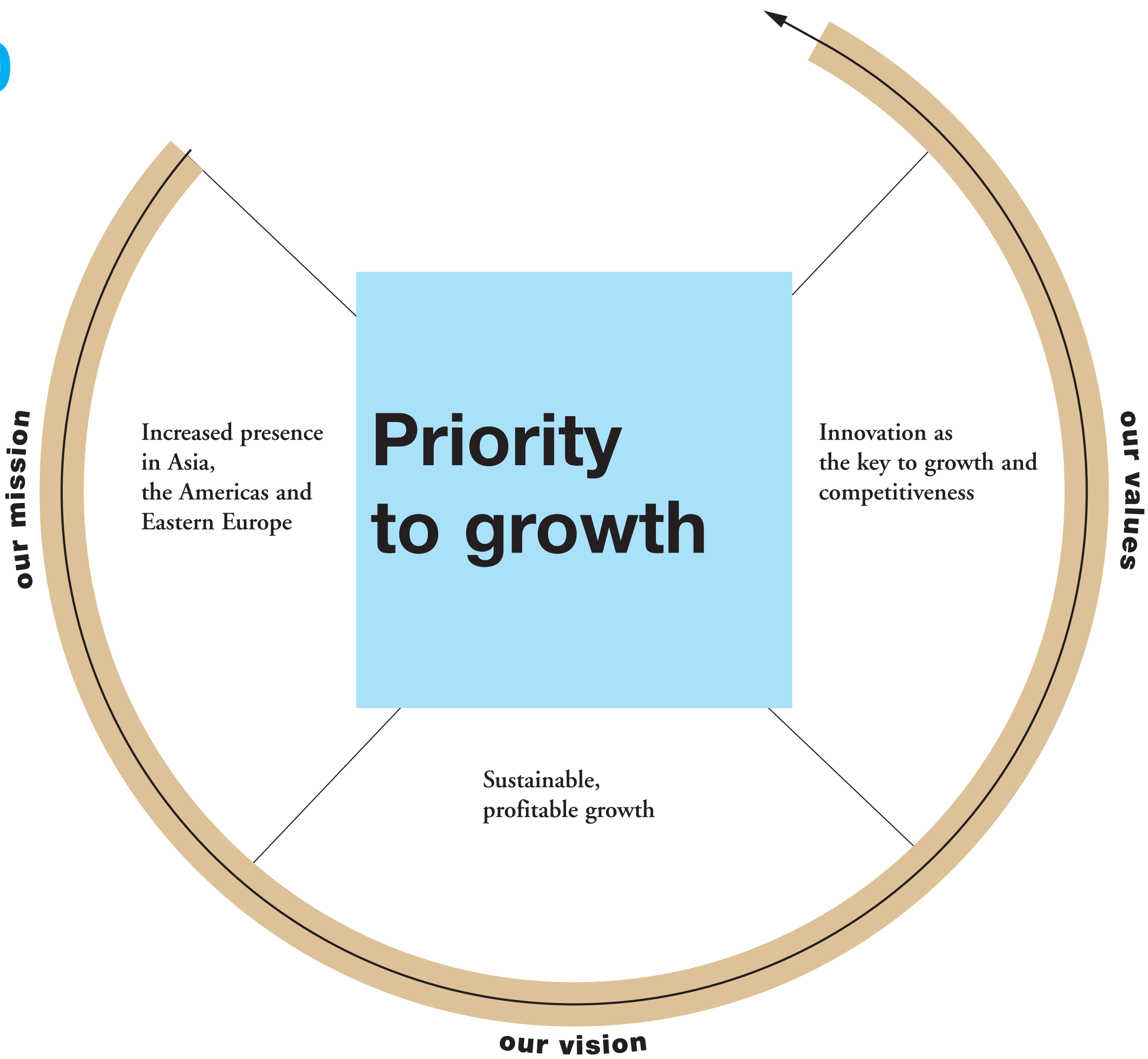
Jacques Lévy-Morelle
Corporate Secretary
and General Counsel

Marc Duhem
Regional Manager Europe (25)



Christian De Sloover
Regional Manager Asia-Pacific
SEA

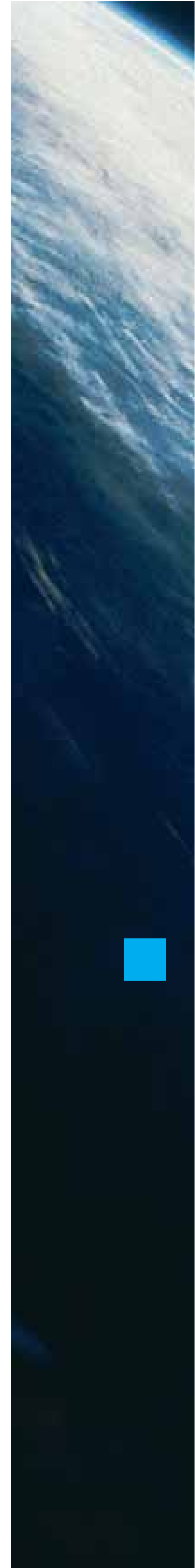
Towards a strategy of sustainable and profitable growth



Our strategy of change, which we launched in 1998, had two major thrusts: strengthening our leadership in all our activities, and faster development of the Pharmaceuticals Sector and our Specialties products.

This strategy, applied with determination, has yielded rich fruit. It continues to be expressed through a major reshaping of our product mix, remarkable growth in Pharmaceuticals and Specialties, reinforcement of our world leadership in many of our markets, good geographic diversification and the successful launch of our Innovation initiative.

All this whilst maintaining a very healthy financial situation.



In 2004 the Group decided to launch itself ambitiously into the future, with an unambiguous priority to growth.

This strategic development commits the Group on three fronts:

– priority to growth – in selected pharmaceuticals, chemicals and plastics areas;
– innovation, the key to growth and to constantly improving competitiveness;
– increased presence in Asia, the Americas and Eastern Europe.

This ambitious strategy testifies to the Group's determination to make its various business entities more results-oriented and, through innovation and improved management of our internal processes, to seize new opportunities faster and with greater determination than before.

Pharmaceuticals

Solvay is one of the world's 40 leading pharmaceuticals companies, and is particularly well placed in its selected therapeutic fields:

– Cardiology
– Gastroenterology
– Hormone Therapy for Men and Women
– Mental Health.

In each of these therapeutic fields and in vaccines, Research and Development activities are focused on carefully selected clinical targets, supported by highly competent specialists and further reinforced by cooperation with the highest quality partners, from genome research through to specific clinical testing and regulatory approval.

Competitive positions:

Main products	Europe	US	World
Gastroenterology			
Gastro-intestinal enzymes	1	3	1
Laxatives	4	–	10
Antispasmodic/Irritable bowel syndrome medication	1	6	2
Hormone Therapy			
Women's health	3	2	2
Men's health	–	1	1
Vertigo (Menière's syndrome)	1	1	1

Specialties

Solvay Specialties in the Chemicals and Plastics Sectors generally feature:

– very specific, high-value-added and strongly growing markets;
– lower sensitivity to economic cycles;
– higher margins and returns than the average for Group products; and
– major Research and Development programmes, leading to regular launches of new products and grades.

Solvay Specialties include:

– **Chemicals:** fluorinated products, various innovative applications of sodium bicarbonate, ultra-pure barium and strontium carbonates, Advanced Functional Minerals, caprolactones and ultra-pure grades of hydrogen peroxide.

– **Plastics:** high performance Specialty Polymers such as fluorinated polymers, elastopolymers and fluids, barrier materials, polyarylamides, polysulfones, high performance polyamides, liquid crystal polymers, fuel systems (in partnership with Plastic Omnium), medical films and certain other technical films.

Competitive positions:

Main products	Europe	World
Chemicals		
Fluorinated products	1	2
Advanced Functional Minerals	amongst the world leaders	
Sodium bicarbonate	1	1
Ultra-pure H_2O_2	2	4
Ultra-pure barium/strontium carbonate	1	2
Plastics		
Fluorinated polymers	–	2
Other specialty polymers	amongst the world leaders	
Inergy (fuel systems)	1	1
Medical films	1	1
Veneer films	1	1
Swimming pool liners	1	2

Essentials

Apart from Specialties, the Chemicals, Plastics and Processing sectors are also active in Essentials.
The success of Solvay's Essentials lies both in their history and their specific features. Many of them are products on which Solvay was built and has grown to what it is today. All are an essential part of our everyday life.
In each of these products the Group has a world leadership position, alone or in partnership, and major competitive advantages, on which it intends to build further.

Solvay's Essentials include:

– **Chemicals:** soda ash, caustic soda, hydrogen peroxide, persalts, technical grade barium and strontium carbonates, sodium hypochlorite, etc.

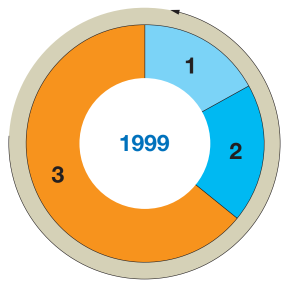
– **Plastics:** vinyls (SolVin in partnership with BASF in Europe, Vinythai in Thailand and Solvay Indupa in Mercosul), pipes and fittings (in partnership with Wienerberger) and a number of industrial films applications.

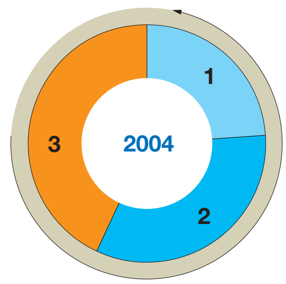
Competitive positions:

Main products	Europe	World
Chemicals		
Soda ash	1	1
Hydrogen peroxide	1	1
Persalts	1	1
Barium/strontium carbonate	1	1
Caustic soda	2	3
Plastics		
PVC	2	4
Pipelife (pipes and fittings)	4	–
Calendered films	1	3

Sales

Sales (%)	1999	2004
1. Pharmaceuticals	17%	22%
2. Specialties	19%	34%
3. Essentials	64%	44%

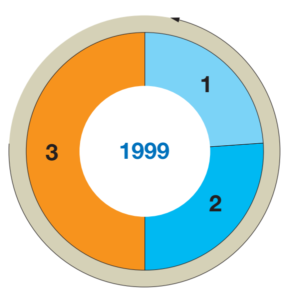


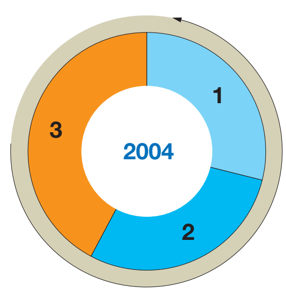


EBIT/REBIT*

EBIT/REBIT (%)	1999	2004
1. Pharmaceuticals	24%	29%
2. Specialties	26%	29%
3. Essentials	50%	42%

* EBIT 1999 (Belgian accounting); REBIT 2004 (IFRS)





Increasing our po

Research and partnerships

tential through

Key figures [EUR million]

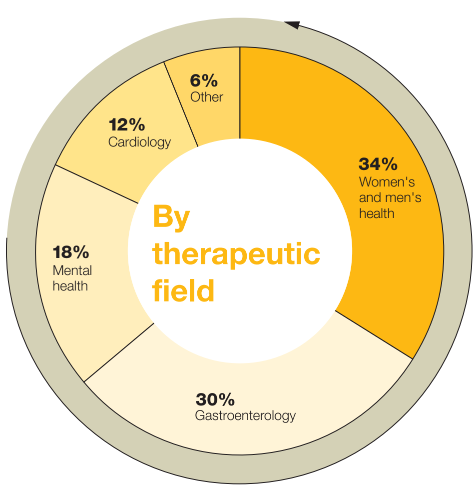
	2002	2003	2004
Sales	1 863	1 832	1 745
REBIT	263	243	236
Depreciation	137	59	65
Capital expenditures	81	153	150
R&D	269	284	294
Headcount (FTE)[1]	7 242	7 530	7 988

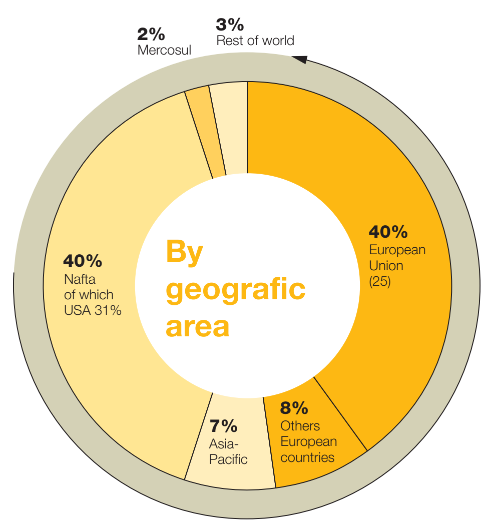
[1] Full-time equivalents at January 1 of the following year.

Strategy

– Focus on selected therapeutic fields: cardiology, gastroenterology, hormone therapy and mental health, and on influenza vaccines;
– Worldwide presence with above-market growth in North America, Central and Eastern Europe, the Middle East and Asia;
– Discovery and development of new compounds through R&D undertaken alone or in partnership;
– Acquisition and/or development of new products, and new applications for existing products; and
– Acquisition of companies.

Sales breakdown 2004: EUR 1 745 million





In 2004 the Group decided to consolidate ownership of all its pharmaceutical units under Solvay Pharmaceuticals SARL, a 100% Solvay-owned Luxembourg company. The Group has been concentrating the management of all its pharmaceutical activities in Solvay Pharmaceuticals since August 2004. The advantages for the Pharmaceuticals sector of effecting this concentration are:

– simplification of its organization and major processes, improving its competitiveness;
– greater autonomy, enabling it to take more rapidly the best decisions to expand its activities - internally by managing the Research pipeline and externally by acquisitions and other agreements - and accelerate its growth; and
– better alignment of legal (ownership) and operational (management) structures, giving shorter, more efficient and less cumbersome decision-making and operational paths.

The Chief Executive Officer of Solvay Pharmaceuticals, effective January 1, 2005, is Dr Werner Cautreels, previously Worldwide Head of Research and Development, who succeeded Mr Jürgen Ernst on the latter's retirement.

Developments by individual therapeutic fields and geographic areas

Pharmaceutical Sector sales decreased slightly in 2004 on a constant currency basis, whilst falling by 5% in euros from 2003. Sales were affected by contract renegotiations with American primary distributors, which held down sales for a number of months, the continuing debate in the USA on female hormone replacement therapy and pressures on prices. European sales were also affected by falling consumption caused by funding deficits in health systems.

The United States remains the sector's largest market, with 31% of sales. Sales in NAFTA declined by 5% in US dollars for the reasons mentioned above.
In Europe, notwithstanding restrictive policies, price controls and the promotion of generic drugs, the Sector made good progress, with sales up nearly 5% in several countries, such as Italy, Greece, Spain, Portugal, Belgium, the United Kingdom, Central and Eastern Europe and the Nordic and Baltic countries. Sales dipped, however, in France (-4%) and more significantly in the German-speaking countries.

In our priority development zones of Asia (Japan, China, India), Middle East, Latin America (Brazil) and Canada, progress was varied.

Beacon products in 2004

ANDROGEL®, a male hormone product sold in North America, was Solvay's top-selling drug in 2004.
Behind ANDROGEL®, the best sales figures were evenly distributed over all therapeutic areas. The largest growth was turned in by four products, PANTOLOC®, INFLUVAC® SERC® and TEVETEN® (+11% compared with 2003).

Flagship products 2004

Therapeutic field	Products	Markets	2004 sales in EUR million	% of 2004 sales	Differences 2004/2003 (%)
Men's health	Androgel®	North America + Central and E. Europe, Middle East, S. Africa	231	13%	– 8%
Gastroenterology	Pantoloc® [1]	Canada	139	8%	+ 12%
Gastroenterology	Creon®	Global	130	7%	– 5%
Women's health	Estratest®	North America	100	6%	– 24%
Mental health	Serc®	Europe + Export	96	6%	+ 12%
Gastroenterology	Duphalac®	Europe + Export	78	4%	+ 3%
Mental health	Luvox®	Japan + Export	77	4%	– 4%
Immunology	Influvac®	Europe + Export	76	4%	+ 12%
Cardiology	Teveten®	Global [3]	72	4%	+ 6%
Mental health	Marinol®	USA	63	4%	– 10%
Women's health	Prometrium® [2]	USA	59	3%	– 23%
Women's health	Duphaston®	Europe + Export	59	3%	+ 2%
Cardiology	Physiotens®	Europe + Export	58	3%	– 3%
Gastroenterology	Duspatal®	Europe + Export	55	3%	– 2%
Gastroenterology	Dicetel®	Europe + Export	44	3%	+ 7%

[1] A registered trademark of Altana
[2] A registered trademark of Schering Corp.
[3] Except for USA, where rights were transferred to Biovail

Agreements with world-class partners

Cardiology
Sales: EUR 205 million

With Bristol-Myers Squibb (USA) for medication to treat obesity and cardiovascular risk factors

Solvay Pharmaceuticals and Bristol-Myers Squibb have decided to join forces to develop and market a new and very promising compound in the cannabinoids field researched by Solvay. The highly innovative SLV 319 compound blocks the brain receptors that are responsible, among other things, for triggering the desire to eat.
During the past 30 years obesity has been on the increase in both developed and developing countries.
Today an estimated 300 million + adults have obesity problems.

TEVETEN® PLUS

Solvay's TEVETEN® blood-pressure medication has been improved by the addition of a diuretic to give a new combined cardiovascular product, TEVETEN® PLUS. First launched in Germany in 2002, it is now approved for use in 13 European countries.
Marketing started in Denmark at the end of 2004, with other countries following in 2005.
Approval has also been obtained in Canada, where TEVETEN® PLUS was launched on July 6, 2004.

MOSES

Moses is the acronym for a research study into the occurrence and gravity of repeat strokes. Research results presented at an international symposium in Europe in September 2004 hold out considerable hope to the medical world and to patients treated with TEVETEN®.

Gastroenterology
Sales: EUR 525 million

Cilansetron

This new product is confirming its potential as a treatment for irritable bowel syndrome. Its impressive results in both men and women were published during the Digestive Disease Week (DDW), the annual international meeting of gastroenterology specialists, held in May 2004 in New Orleans (Louisiana). Registration applications were filed in the UK in April 2004 and in the USA in July.

Cooperation with Novozymes (USA) for a new range of digestive enzymes

Solvay Pharmaceuticals has long been the world leader in treatments for disorders linked to pancreatic insufficiency, using products based on gastrointestinal enzymes.
The CREON® range, currently the most widely prescribed medication in the world in this area, contains animal-source enzymes as active ingredients. The cooperation with Novozymes is aimed at launching a new generation of genetically engineered enzymes of microbial origin to complement the current Solvay Pharmaceuticals range.

Hormone treatment for women and men
Sales: EUR 496 million

With Besins International (France) for marketing of ANDROGEL®

This male hormone product, currently marketed in the USA and Canada, is the best-selling product in the entire Solvay Pharmaceuticals range. The agreement signed in May 2004 with Besins International (France) also gives the Group exclusive marketing rights in Central and Eastern Europe, the Middle East and South Africa, and co-marketing rights in Germany, Italy and Turkey.

With Zentaris to develop non-hormone therapies

In January 2004 Solvay Pharmaceuticals and Zentaris began intense cooperation to develop treatments for women's disorders (endometriosis, uterine fibrosis) and male ailments (benign prostrate hypertrophy). Looking beyond the most advanced current product, a peptide, an additional avenue of research into so-called "peptidomimetics" should lead us towards new therapeutic options for these conditions.

ESTROGEL®

In July 2004, ESTROGEL®, the first hormone therapy for menopause symptoms delivered in the form of a transdermal gel, was introduced in the USA with FDA approval. This product is applied underarm once a day, and dries in a few minutes without trace or odour. This gel form is already highly appreciated by physicians who can better individualize therapies, and by patients.

The ongoing debate over hormone treatments, and in particular the publication in July 2002 of the Women Health Initiative (WHI) study, has led to lawsuits against producers of hormone therapy for women. Although our specialty products do not contain the same hormone components as the products in the WHI study, Solvay Pharmaceuticals, Inc. is facing individual lawsuits. We consider these lawsuits, numbering no more than a few hundred, to be unfounded.

The ongoing discussions with the FDA (Food and Drug Administration) on the administrative status of ESTRATEST® are continuing constructively. Parallel with this, Solvay Pharmaceuticals, Inc. faces three lawsuits in the United States linked to this same status, in California, Minnesota and Tennessee. Solvay Pharmaceuticals, Inc. is vigorously contesting these cases, which it regards as unfounded. Its position was recently upheld in a judgement in a similar lawsuit in Georgia.

Vaccines
Sales: EUR 102 million

Petrovax Pharm (Russia) to produce influenza vaccines based on Solvay cell-culture technology

Solvay Pharmaceuticals and Petrovax Pharm have concluded a cooperation contract to build a plant to produce new generation influenza vaccines close to Moscow.
These vaccines will combine antigens produced by the new technology developed by Solvay Pharmaceuticals at Weesp (Netherlands) with an adjuvant developed and patented by Petrovax's founders.
The new vaccine is intended initially for Russia and for other countries of the Community of Independent States (CIS). This agreement marks a major geographic extension of our vaccine activity, contributing the protection of increasing numbers of people.

INVIVAC®

In June 2004 Solvay received approval to market its new virosomal influenza vaccine INVIVAC® in Europe. INVIVAC® combines the benefits of influenza antigens and virosomes for maximum protective effect, and is particularly recommended for elderly patients with weakened immune systems.
The virosomal technology is licensed in from Berna Biotech (Switzerland), with the vaccine itself produced entirely at the Solvay Pharmaceuticals plant at Weesp (Netherlands).

Mental health
Sales: EUR 319 million

Wyeth (USA) and Lundbeck (Denmark) for schizophrenia treatments.

Bifeprunox, which Solvay Pharmaceuticals and Lundbeck have been developing jointly since 2001, and which has demonstrated promising stage II results for treating schizophrenia, entered stage III clinical trials in early 2004. In return for its involvement in research and development, Lundbeck has acquired worldwide marketing rights, with the exception of the USA, Canada, Mexico and Japan. In late March Solvay Pharmaceuticals concluded a major agreement with Wyeth to jointly develop and market a number of compounds for treatment of the central nervous system, including bifeprunox. Also at a less advanced stage of clinical trials are three other Solvay Pharmaceuticals compounds, which it is hoped will be able to treat schizophrenia, bipolar disorders and a series of other mental and emotional conditions. This agreement was accompanied by major down payments. The two companies have also joined forces in the US promotion of EFFEXOR® XR, a Wyeth product which is already on the market.

After reassessing its commercial potential, Solvay Pharmaceuticals and Wyeth confirmed in July that bifeprunox could prove to be a "blockbuster" drug (i.e. with sales in excess of USD 1 billion).

Acqusition of Neopharma (Sweden) with a product for Parkinson's disease

With almost a quarter of its sales and research expenditures in mental health and neurology, Solvay is actively seeking new treatments for illnesses such as Parkinson's disease. This is why the Group acquired Neopharma (Sweden) in early 2005.

Neopharma has developed an original treatment for late-stage Parkinson's patients, for whom traditional treatments have become ineffective. Its DUODOPA® drug is injected directly into the small intestine, using an external pump that can be programmed individually for each patient.
It has been on sale in Sweden since February 2004 and is registered in eight other European countries.

DUODOPA® will be supplemented in the longer term by other compounds developed by Solvay Pharmaceuticals, for oral treatment of patients with early or middle stage Parkinson's. One such compound, SLV308, moved into phase III clinical testing in February 2005.

With this acquisition and its own research, Solvay will be able to provide remedies to millions of Parkinson's sufferers across the world, at every stage of the disease.

Other agreements

With Quintiles (USA) to accelerate early clinical trials

In October 2004, Solvay Pharmaceuticals concluded a novel agreement with Quintiles that will effectively double Solvay Pharmaceuticals' capacity to process its early clinical projects. Through this agreement, Quintiles and its subsidiary PharmaBio Development, which specializes in clinical development, confirm the interest that third parties are showing in the R&D portfolio of Solvay, which is considered a preferred partner in the pharmaceuticals industry.

Acquisition of Italmex (Mexico), now the Group's second pharmaceuticals base in Latin America after Brazil.

In late 2004 Solvay Pharmaceuticals acquired the Mexican pharmaceuticals company Italmex. This acquisition reflects Solvay Pharmaceuticals' intention to expand in Latin America, and particularly Mexico, which represents 40% of all pharmaceuticals sales in Latin America.
This acquisition is part of the Group's growth strategy in the region and follows the acquisition, in 2000, of Brazilian company Sintofarma (now Solvay Farma).

Research and Development process for pharmaceuticals products

Each new medicine follows the same precisely defined five-stage development path right across the pharmaceuticals industry:

– Pre-clinical research: identification of active molecules

– Clinical Development:
- Phase I: trials on limited, voluntary populations, aimed primarily at measuring safety and tolerance, with an initial approach to dosages
- Phase II: testing the effectiveness of the compound, measuring benefits against potential risks, and more precise defining administration dosages
- Phase III: large-scale trials on patients, principally in order to meet the requirements of the health authorities.

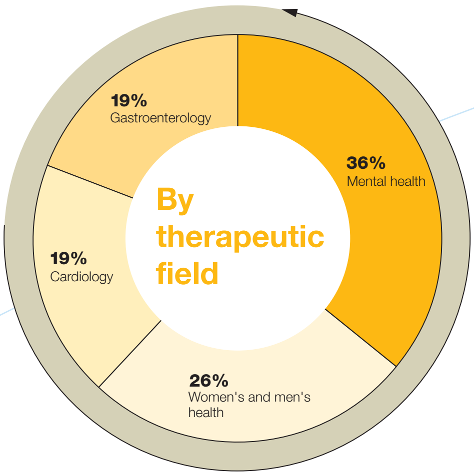
– Registration for commercial use:
- Phase IV: additional trials aimed at fine-tuning the use of the medicine in practice (phase IV trials can be conducted at the marketing stage).

Pharmaceuticals research

The Group again intensified its pharmaceuticals research and development efforts in 2004, with expenditure rising by 4% from EUR 284 million to EUR 294 million (71% of total Group research). The Group now has a very high number of compounds (around 30) at the clinical testing stage.

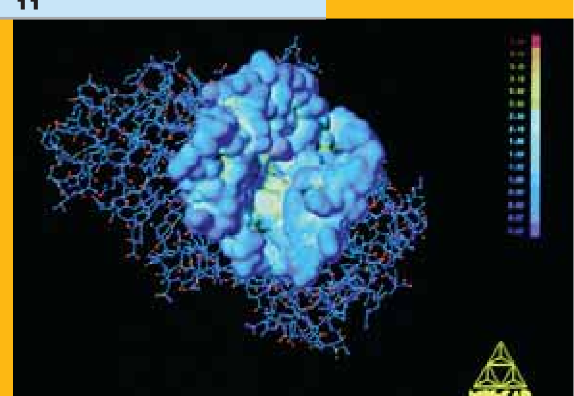
R&D expenditure 2004 EUR 294 million

17% of pharmaceutical sales

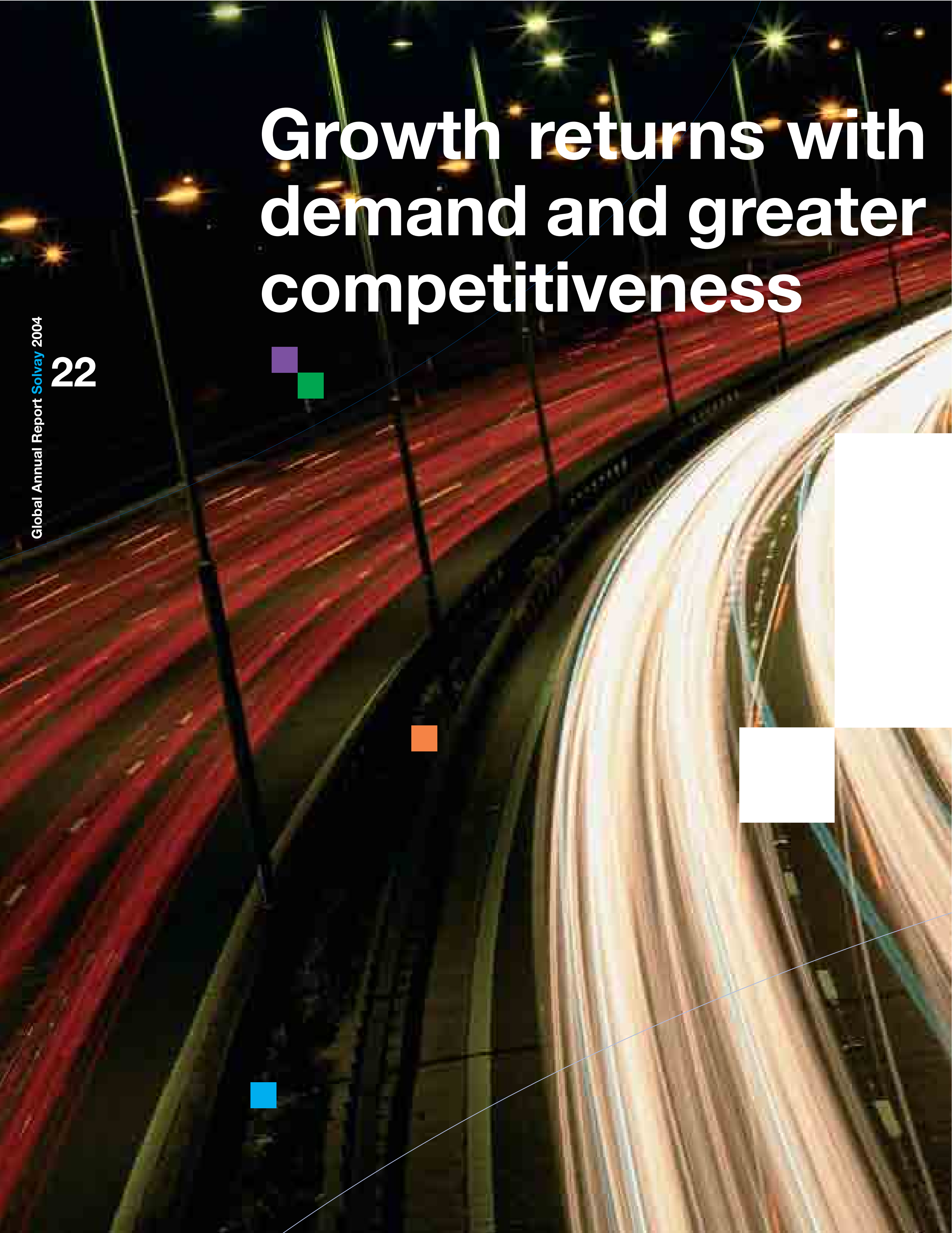


Pharmaceuticals R&D pipeline

Therapeutic fields	**Cardiology**	**Gastroenterology**	**Hormone Therapy**	**Mental health**
Pre-clinical	**316, 322, 327, 328, 329, 330, 331**	**321, NASEP, 332**		**318, 326**
Clinical Development **Phase I = 6**	**2** **319:** for obesity **tedisamil (oral):** for atrial fibrillation	**1** **317** for irritable bowel syndrome	**1** **Combined estrogen and progestogen gel (E+P gel):** for post-menopause hormone treatment	**2** **314:** for psychosis **MARINOL®:** new aerosol
Clinical Development **Phase II = 6**	**2** **306:** for hypertension and congestive heart failure **320:** for congestive heart failure and kidney disease	**2** **324:** for anal fissures **325:** for anal incontinence		**2** **310:** for psychosis **313:** for psychosis
Clinical Development **Phase III = 8**	**1** **tedisamil (intravenous):** for atrial fibrillation		**3** **cetrorelix:** for endometriosis **INFLUVAC® TC:** influenza vaccine produced by tissue culture technique **FEMOSTON® low dose:** female hormone replacement therapy	**4** **308:** for Parkinson's and concomitant affective pathologies **bifeprunox:** for psychosis **MARINOL® (EU):** for anorexia in HIV/AIDS patients and chemotherapy-induced nausea/vomiting **fluvoxamine CR:** Single-dose daily treatment for obsessive compulsive disorder and social anxiety
Filed / Approved by regulatory authorities = 11	**2** **TEVETEN® COMBI:** for hypertension **moxonidine COMBI:** for hypertension	**2** **CREON®** (Japan): for pancreatic deficiency **cilansetron:** for irritable bowel syndrome	**4** **ESTROGEL®** (USA): female hormone replacement therapy **PRESOMEN®** (D): for vasomotor symptoms and osteoporosis prevention **INFLUVAC® TC** (EU): preventive influenza vaccine **INVIVAC®** (EU): virosomal preventive influenza vaccine	**3** **LUVOX®** (Japan): for social anxiety **LUVOX®** (USA): for obsessive compulsive disorder **DUODOPA®:** for Parkinson's
Total = 31	**7**	**5**	**8**	**11**



Growth returns with demand and greater competitiveness



rising market

Key figures [EUR million]

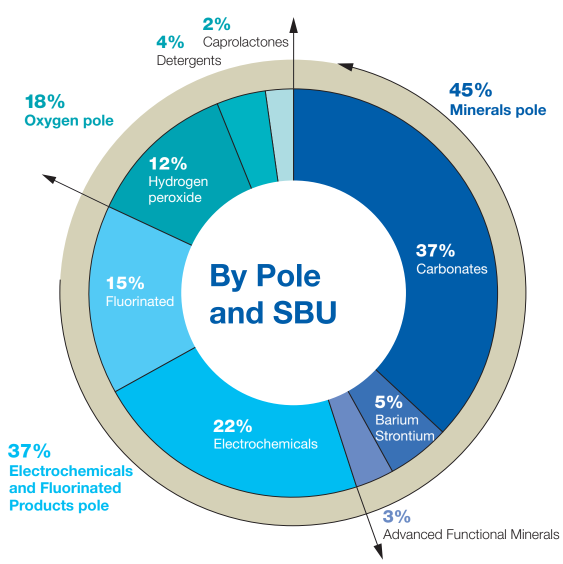
	2002	2003 [2]	2004 [2]
Sales	2 636	2 386	**2 433**
REBIT	259	182	**180**
Depreciation	188	172	**174**
Capital expenditures	239	182	**165**
R&D	34	30	**27**
Headcount (FTE)[1]	9 982	9 203	**8 594**

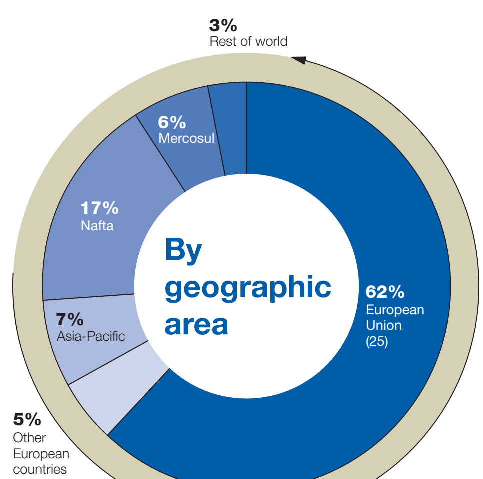
[1] Full-time equivalents at 1 January of the following year
[2] The Salt activities are included in "discontinued operations" in 2003 and 2004

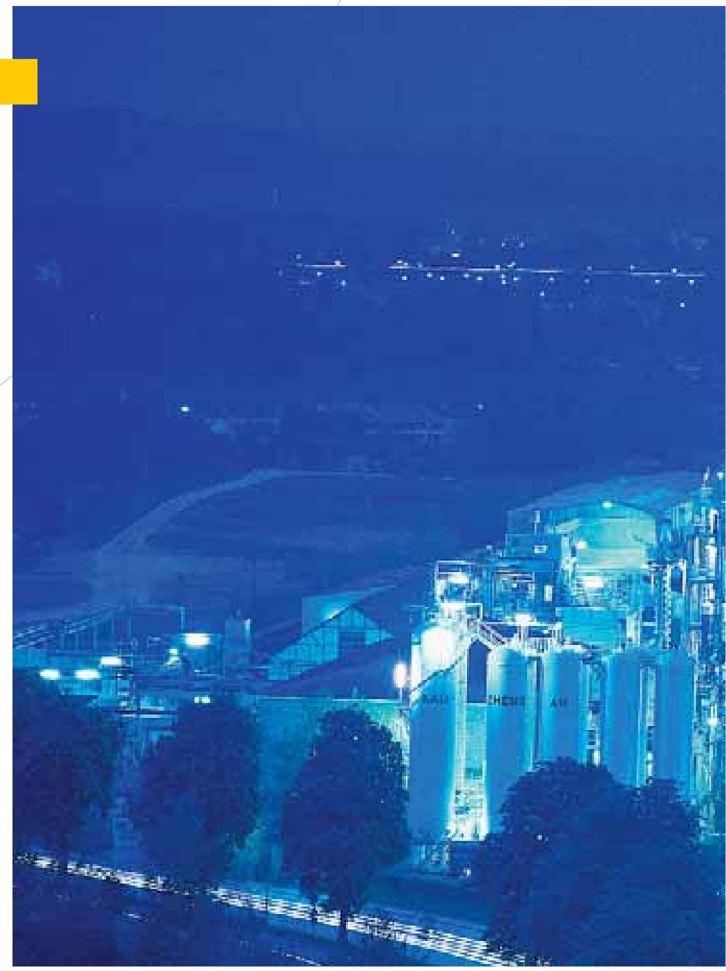
Strategy

– Leadership and competitiveness in Essentials
– Accelerated growth in Specialties
– Strengthening of global positions
– Upstream integration into raw materials
– Reduction of energy dependence
– Reduction of cyclicality

Sales breakdown 2004 : EUR 2 433 million







The "minerals" pole: Soda ash and derivatives, barium and strontium carbonates, Advanced Functional Minerals

2004 saw a steady increase in world demand for **Soda Ash**. Production plants pushed up output, reaching their capacity by the end of the year. A major contributing factor was the continuing growth of demand in China. Even with more local capacity coming on line, China's soda ash production has been unable to keep up with growth in the region, and American and European exports to the Asia-Pacific region have continued or increased.

Production costs have risen sharply worldwide. Reasons are specific to each region, but in each case relate to rising raw material and energy costs:

– China: a shortfall in salt and the need to import from Australia
– Europe: rising energy and fuel (coke, etc.) prices
– USA: higher gas prices.

Action has been taken to contain the erosion of margins, increase competitiveness in this area and to be physically present in Asia, the fastest growing market.

The Group has also discontinued structurally unprofitable units. American Soda, in Colorado (USA) used an unprofitable, energy-intensive solution mining process. Soda ash production was halted there in mid-2004. Also announced was the cessation of soda ash production at Ebensee (Austria) in mid-2005, given low capacity and prohibitive logistics costs.

Parallel with this, in April 2004 a letter of mutual interest was signed with Nanjing Chemical Industries (NCI), a subsidiary of Sinopec (China), to create a joint venture to operate a production unit in China. Negotiations with NCI / Sinopec are continuing.

These actions will together give a broader dimension and an increasingly worldwide structure to our carbonates activity, with highly competitive production centres on the three consumer continents.

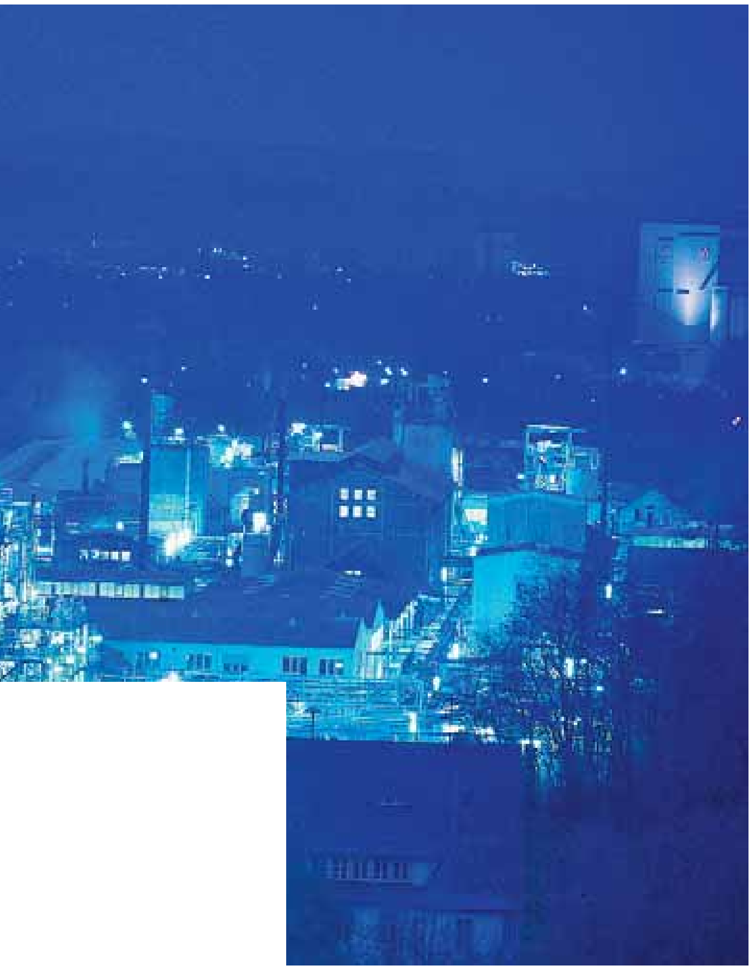
Specialist soda ash derivatives, in particular **Sodium Bicarbonate**, continue to grow. In Europe a new unit will be built at Bernburg (Germany) and come into production in early 2006.

In the USA, it was decided to continue to operate American Soda's bicarbonate production facilities in Colorado, despite closure of soda ash production there.

These decisions confirm Solvay's position as the world's largest sodium bicarbonate producer and the second largest in the USA.

As well as operating at almost 100% capacity in 2004, our production units achieved excellent safety results. 2005 started with all units expected to operate at full capacity.

Our **Barium and Strontium Carbonates** activity remains below expectations. The reason lies in falling demand for strontium carbonate in Europe and the USA, with the closing of four customer sites producing special glass for



CRT screens, and the slower than expected recovery of this application in Asia. At the same time, aggressive competition from China in the barium carbonate markets and, to a lesser extent, from Spain in European markets for strontium carbonate, has kept prices under heavy pressure.
Otherwise, the market for high purity and advanced barium and strontium products for the electronics industry has improved since 2003.

2004 saw the signing of a memorandum of understanding with Chemical Products Corporation (Georgia, USA) to create a worldwide joint venture to produce and market technical grade barium and strontium carbonates and certain related products. The joint venture will be a world leader in its field.

General market conditions are gradually improving.
For technical grades, the restructuring of the special CRT screen glass industry is drawing to an end, even though certain mergers could still occur. Demand from the electronics industry for high purity, ultra-fine grades is expected to remain high.

For Advanced Functional Minerals, essentially precipitated **Calcium Carbonate**, 2004 was a better year than 2003. Following a strategy of focusing on Specialities, research continues into new grades, new services and new applications, in most cases in partnership with customers.
In 2004 it was decided to consolidate the Ebensee (Austria) production unit, despite the announced closure of the soda ash plant on this site.

The "Electrochemistry and Fluorinated Products" pole

Conditions in the **Caustic Soda** market were very difficult in the first half of 2004. This left its mark on earnings. The global market recovered strongly during the second half, with hopes for a significant improvement in 2005.
Ongoing rationalization and optimization effects have made the Group more competitive. The mercury electrolysis unit at Zurzach (Switzerland) was closed in July 2004.

In **Allyls**, difficult market conditions in 2004 were more than offset by increased competitiveness, made possible by continuous innovation, leading to improved earnings.
This improved earnings situation should continue and further strengthen in 2005, given the very tight balance between supply and demand for these products.

For **Fluorinated Products** 2004 was a transitional year. Price movements differed from one product to another, reflecting imbalances between supply and demand.
Earnings were also eroded by the weakness of the US dollar.

Our Solkane®365mfc product has been very well received. Demand for this product for thermal insulation is strong, in particular owing to the favourable development of building regulations in the United Kingdom. Production of HCFC 22 hydrofluorocarbon generates a by-product, HFC 23, for which Solvay has developed a destruction technology with recovery of hydrofluoric acid. Under the terms of the Kyoto protocol we have offered this technology to HCFC producers in China and India in return for greenhouse gas emission credits.

Prospects are more favourable than in 2004. One of the strengths of this activity is its upstream integration in fluorspar. Production quantity and quality at the fluorspar mine at Okurusu (Namibia), which was acquired in 1997 and which supplies ore to the Bad Wimpfen (Germany) and Porto Marghera (Italy) sites, have exceeded forecasts.

In 2003 this Okurusu mine received the highest rating (five stars) from NOSA, an audit system well known throughout the South African mining industry.
The NOSA Five-Star system focuses on technical excellence, cleanliness, health and safety at work sites, as well as compliance with stringent environmental standards, all leading to improved productivity.

The “Oxygen” pole: Peroxygens, Detergents and Caprolactones

The **Hydrogen Peroxide** market staged a strong recovery in 2004 in both Europe and North America, whilst South America and Asia continued their sustained and continuing growth. Behind this growth lies strong output by the paper industry in general and continuing heavy demand for high quality paper.
The sharp rise in energy prices remains cause for concern.

BASF and DOW have announced their intention to build a joint propylene oxide production unit in Antwerp (Belgium). On this basis Solvay and BASF are finalizing plans to build the world’s largest hydrogen peroxide production unit, using the innovative high-productivity process developed by Solvay and already in successful commercial operation at Solvay Portugal.

This process will also be used to significantly increase, at lower capital cost, installed capacities at Deer Park (USA) and Voïkkaa (Finland).

These projects, together with the planned investment in Chile, demonstrate the Group’s determination to meet and anticipate its customers’ needs throughout the world with the most competitive global solutions.

Markets for ultra-pure hydrogen peroxide have continued to grow, reflecting in particular positive developments in the semi-conductor industry. Special grades for disinfection markets have also benefited from an upward trend.

In **Persalts**, the shift in demand from sodium perborate to sodium percarbonate (both whitening agents in laundry products) continues in a highly competitive market environment.

As part of the ongoing investigation of hydrogen peroxide activities by the European competition authorities, the Solvay Group has received, as previously announced in early February, a letter of complaint from the European authorities. Solvay will be presenting its defence in the second quarter.

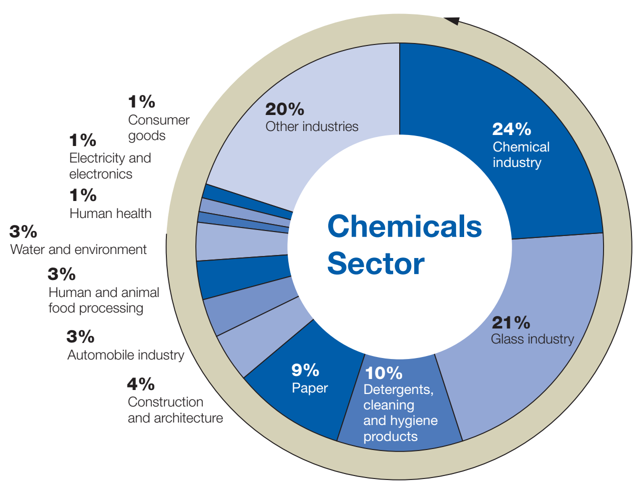
In **Caprolactones**, 2004 was a good year in terms of volume, with greater growth in Asia and in North America. Prices, however, have followed an inverse trend, under the combined effect of exchange rates and competition.
The significant rise in raw materials prices has also weighed heavily on margins.

The strong growth in this activity is due to the introduction of new specialties, half of them developed in partnership with our customers.

In July 2004 Solvay completed the sale to Kali und Salz (Germany) of its minority share in those activities held by ESCO, which are not part of its core business.

We should also mention that Solvay Chimica Italia was awarded the “Best Innovator 2004” prize in the “Organizational Excellence and Innovation Culture” category from amongst 300 selected Italian enterprises.

Sales by customer segment 2004 : EUR 2 433 million



Extending our portfol
our forces

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Key figures [EUR million]

	2002	2003	2004
Sales	3 416	3 215	**3 632**
REBIT	327	225	**397**
Depreciation	207	176	**190**
Capital expenditures	295	187	**234**
R&D	77	72	**75**
Headcount (FTE)[1]	11 324	11 262	**11 076**

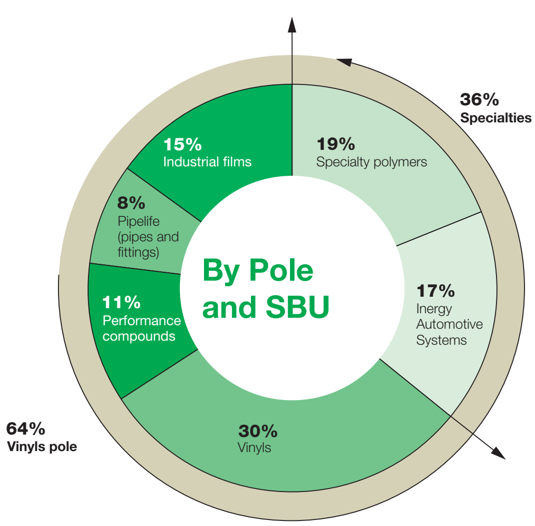
[1] Full-time equivalents at 1 January of the following year.

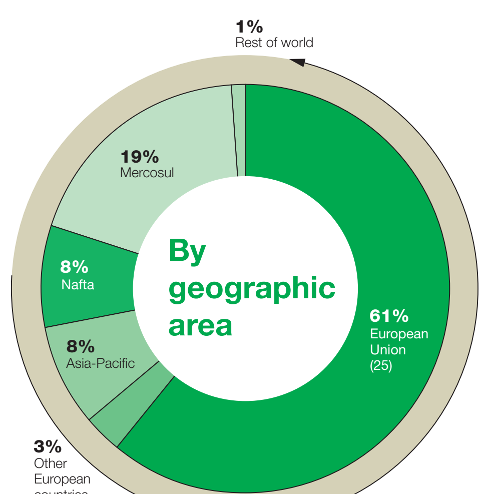
On June 1, 2004 the Solvay Group merged its Plastics and Processing Sectors into a single enlarged Plastics Sector. The data and comments below relate to the enlarged Plastics Sector.

Strategy

– Rapid growth and geographic deployment in Specialties (polysulfones, fluorinated polymers, elastomers and liquids, high performance polymers, and fuel systems); and
– Consolidation and geographic expansion of Vinyls, through alliances and joint ventures with high-quality partners, to create scale and increase competitiveness.

Sales breakdown 2004 : EUR 3 632 million





Specialties

(SBU Specialty Polymers and SBU Inergy Automotive Systems, a 50/50 joint venture with Plastic Omnium in fuel systems).

Thanks to a major strategic change in recent years, **Specialty Polymers** has become one of the Group's leading activities. Its role is to develop, produce and market high performance, high-added-value polymers and materials like barrier polymers (polyvinylidene chloride), polysulfones, aromatic polyamides, polyamideimides, LCPs, fluoropolymers, fluoroelastomers, polyarylamides and fluorinated fluids. Solvay Solexis and Solvay Advanced Polymers occupy world leadership positions in fluoromaterials and ultra-high performance engineering polymers respectively.

In 2004 all these products enjoyed a favourable environment, especially in the vibrant US and Asian economies. Demand was very strong in the semi-conductor field, where Group sales doubled from 2003, and in consumer electronics. Significant growth was also generated by new high-added-value applications in the automotive, medical, building construction and other sectors, in which sales and earnings grew significantly.

Significant upstream integration for fluoromaterials and good management of raw materials for engineering polymers enabled margins to be maintained. A series of projects to reconfigure internal processes and save costs also contributed to the competitiveness of fluoromaterials and engineering polymers.

In 2004 a large number of innovations took shape, with a significant number of new product launches and a record level of patent applications – 52, or one a week. The portfolio of new applications and long-term research projects is full of promise for years to come. Of interest among these innovations was the launch at the K2004 international plastics fair in Düsseldorf (Germany) of SUPRADEL™ HTS, a new transparent polysulfone with very high thermal resistance, developed by Solvay Advanced Polymers (USA).

Solvay Advanced Polymers is also building a new world-scale unit, to come into service in 2006, that should almost triple the company's current polyethersulfone (PES) production capacity. Several capacity extension projects are planned in fluoromaterials as well; for example, Solvay Solexis has also launched a multi-million euro project to develop perfluorinated membranes and membrane-electrode assembly (MEA) for the automotive industry and for stationary energy generation.

Inergy Automotive Systems (a 50/50 joint venture with Plastic Omnium), the world's number one manufacturer of automotive fuel systems, which produces 12.6 million units a year from 28 plants, again outgrew car markets (+ 6%), thanks to investments made in recent years in Eastern Europe and Mercorsul and with Asian car builders.

Overall, margins have been maintained, notwithstanding large price concessions to automotive customers and the impact of a number of complex start-ups in the USA and Japan. This has been made possible by competitiveness enhancement programmes and industrial redeployments, as in France, where the number of plants is to be reduced from 6 to 4.

For Inergy, 2004 and early 2005 have yielded a rich crop of innovations and geographic expansion:
– start-up of the Romanian plant for the Renault/Dacia Logan model;

– successful launch of the first fuel tanks for Toyota in Thailand, and launch preparation work in South Africa and Argentina;
– launch of the tank for the new series 1 BMW;
– nomination for three PZEV models (meeting California fuel emission standards, among the strictest in the world);
– agreements in China to take a majority stake in YAPP, the region's leading producer of plastic fuel tanks.

Vinyls

(polyvinyl chlorides, performance compounds, industrial films and Pipelife, a 50/50 joint venture with Wienerberger in pipes and fittings).

In 2004 world demand for PVC grew by 5.4% to 27 million tonnes. This strong growth once again came from every region of the world. China again stood out with growth of 15% and consumption of close on 7 million tonnes, higher than that of Western Europe.

With such heavy demand, worldwide supply became strained for all vinyls products, from raw materials (ethylene, EDC, VCM, etc.) and utilities (gas, electricity, etc.) through to finished and semi-finished products. This tension was expressed differently from one activity to another.

In **PVC**, margins improved significantly in the second half of 2004, with results much improved from 2003. In a favourable European environment, ***SolVin*** (75% Solvay and 25% BASF) was able to maximize production, thanks to the reliability of its plants and its strong organization.

SolVin is relentlessly strengthening its competitiveness by concentrating activity on world-size units. This led it to announce the closing of its small Ludwigshafen unit at the end of 2005.

Eastern Europe has also contributed to Western European demand for PVC through fast-rising imports of semi-finished products (such as profiles, floor coverings, pipes and fittings).

Key figures [EUR million]

		2002	2003	2004
Sales	Plastics	1 937	1 802	**2 198**
	Processing	1 479	1 413	**1 434**
REBIT	Plastics	247	155	**330**
	Processing	80	70	**67**
Depreciation	Plastics	100	110	**121**
	Processing	107	66	**69**
Capital expenditures	Plastics	204	114	**166**
	Processing	91	73	**68**
R&D	Plastics	54	55	**53**
	Processing	23	17	**22**
Headcount (FTE)[1]	Plastics	5 236	5 194	**5 394**
	Processing	6 088	6 068	**5 682**

[1] Full-time equivalents at 1 January of the following year.

Europe remains the centre for the development of PVC, and the source of many world-scale initiatives. The great success of the second "SolVin Award for PVC Innovation" competition, with prizes awarded at Düsseldorf (Germany), once again highlights the potential for innovation that PVC offers. 7 out of 108 innovative projects submitted by 92 companies from 14 countries received prizes from SolVin at the international plastics fair.

The fourth report of Vinyl 2010, the voluntary accord of the PVC industry in which Solvay plays an active part, was published in May 2004. This shows that the interim objectives for recycling levels have been achieved. The VINYLOOP® recycling unit at Ferrare (Italy) continues to develop, with new applications found for recycled PVC.

Solvay has announced that it is participating, as a shareholder, in a new VINYLOOP® project in Japan, in partnership with Kobelco Eco-Solutions. The economic and political environment for recycling projects is more favourable in Japan than in Europe.

Finally, SolVin has signed a Letter of Mutual Intent with Russia's Nikos group, which already partners Solvay in SOLIGAN, a Russian joint venture in PVC compounds, to launch a feasibility study for construction of an integrated 200 kT/year PVC plant, expandable to 400 kT/year. This would enable SolVin to pursue its geographic diversification in Russia, where demand for PVC is rising sharply, and which offers competitive advantages in terms of raw materials and utilities.

In Mercosul, ***Solvay Indupa***, a listed Argentine company in which Solvay has a majority shareholding, has also enjoyed very favourable market conditions. Excellent competitiveness and well-operated installations have given it record earnings. Work continues on extending VCM and PVC capacities in Brazil, aimed at consolidating vinyl activities in Mercosul. This new facility is scheduled to be operational in late 2005.

Asia-Pacific, where world surpluses are converging, remains the most volatile region in the world. Despite this, and notwithstanding the high cost of ethylene, ***Vinythai***, the listed Thai company in which Solvay raised its shareholding to over 48% at the end of the year, posted record results thanks to its good competitiveness, the reliability of its installations and its ability to react swiftly in a volatile market.

In 2004, Vinythai's Board of Directors approved a project to expand VCM capacity from 200 to 400 kT/year using imported ethylene dichloride (EDC). The expanded VCM facility is scheduled to be operational by mid-2006.

A feasibility study is under way to examine full upstream integration in EDC feedstock.

Performance Compounds earnings were generally affected in 2004 by the sharp price rises for raw materials, including PVC, polyolefins and elastomers. Sales rose across the board, reflecting favourable markets, diversification efforts and the new polyolefin compounds launched in recent years. Competitiveness in the most mature segments was maintained with better formulations and lower fixed costs.

A number of growth and geographic diversification projects were undertaken in 2004:

– Expansion in Russia through SOLIGRAN, a joint-venture with the Nikos group begun in 2003, which has begun updating its PVC-mixing plant at Tver to keep up with the growth of the Russian market;
– Solvay Engineered Polymers' acquisition of Thermoplastic Rubber Systems, a US company, thereby furthering its growth strategy in higher-added-value vulcanized thermoplastic elastomers;
– Signing of an agreement between Solvay Padanaplast (Italy) and Original (China) to create a joint venture in China to develop competitively priced specialty compounds for the cable market.

Industrial films had two very contrasting half-years. First-half results were up from 2003, thanks to significant sales growth in all activities, with increases in certain market shares. Starting in the second half, significant price increases for all raw materials and falling demand in certain markets could no longer be cushioned by competitiveness gains. In addition, price adjustments were accepted only very partially and to varying degrees in the different markets.
All in all, innovation projects, cost control and careful management served to significantly limit the fall of earnings in 2004; these efforts are continuing in 2005.

On January 17, 2005 the Group announced that it had signed a joint declaration of intent to sell its rigid films activities in Italy to Ineos (EVC Group).

Pipelife, the 50/50 joint venture with Wienerberger in pipes and fittings, significantly improved its results compared with 2003, despite rising raw materials prices. This was made possible by growing sales, the ongoing reduction of fixed costs, and efforts to improve competitiveness in all fields (waste, purchasing, productivity etc.).

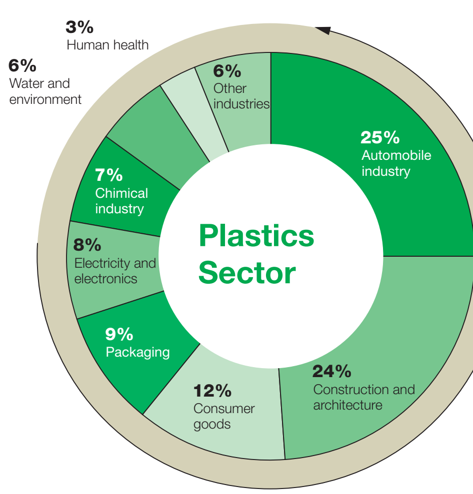
Sales growth was driven by expansion in central Europe (in particular Poland) and in the Baltic states, and by the strong US economy. Efforts to improve competitiveness focused on the ongoing restructuring in France, and automation in the fittings production centres in the Netherlands and Sweden.
Pipelife also completed a number of innovation and geographic expansion projects in 2004:

– commercial launch of products/systems engendered by the recent push for innovation, such as "robust pipes" and inspection chambers;
– launch of the Talinn (Estonia) plant to serve the Baltic states and the St. Petersburg region;
– roll-out in Norway of production of 2-metre diameter water pipes (a world premier); and
– acquisition of Propipe, a small Finnish company operating in wastewater treatment and filtration systems.

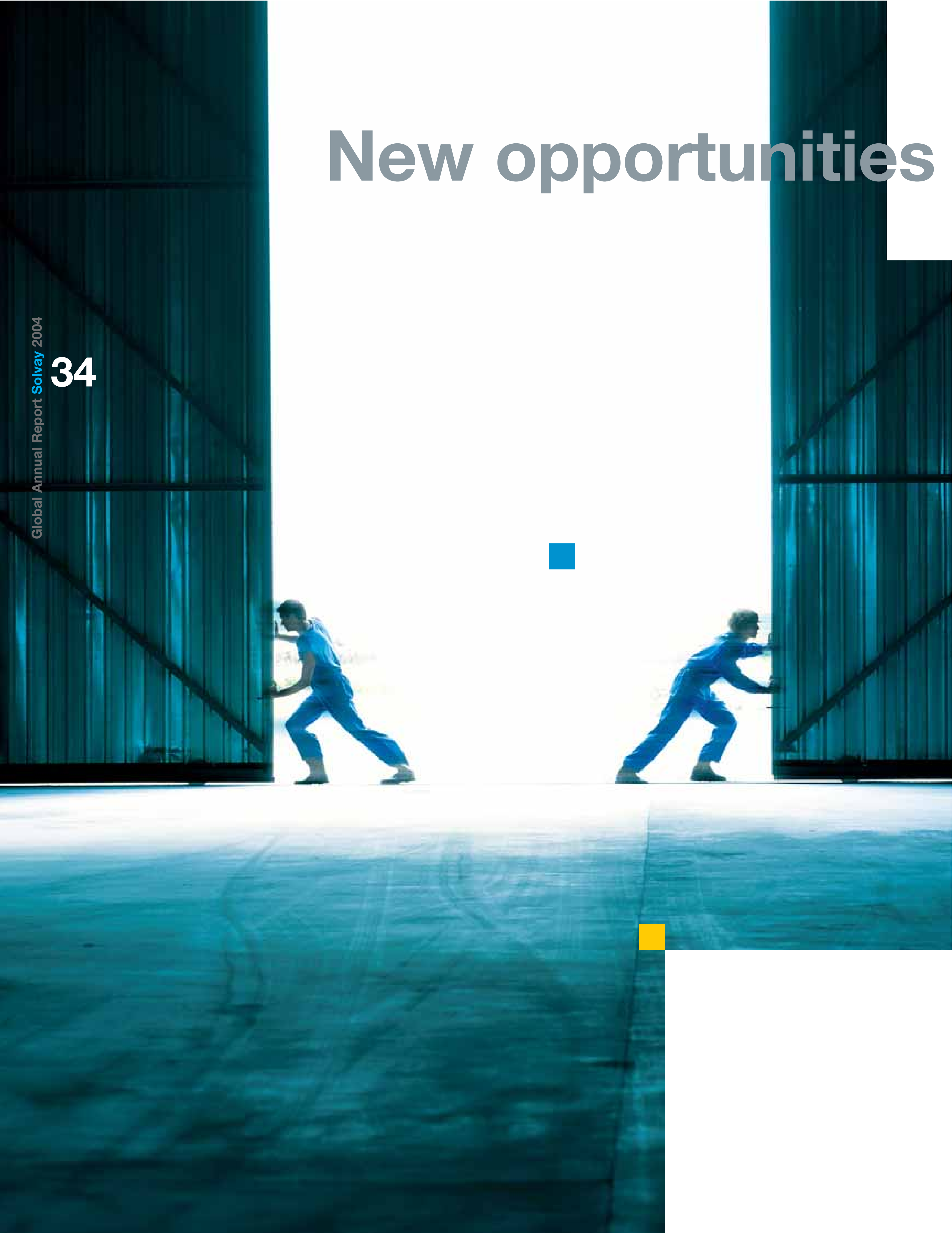
BPS (BP Solvay Polyethylene)

Solvay exercised its option to sell to BP its shares in the BP Solvay Polyethylene joint ventures, effective January 6, 2005. Until then Solvay held 50% of BP Solvay Polyethylene Europe and 51% of BP Solvay Polyethylene North America. BP is now the sole owner of the high density polyethylene activities in Europe and America, following its acquisition of the PP activities in 2000.
The sale of Solvay's polyolefins interests in early 2005 concludes a series of transactions begun by Solvay and BP in 2000.
These transactions enabled Solvay to achieve a world-class position in high-added-value Specialty Polymers.

Sales breakdown 2004 : EUR 3 632 million



New opportunities



for growth

NBD (New Business Development) has set itself the mission of contributing to the sustainable growth of the Group by creating new and innovative businesses from technological opportunities beyond the traditional fields of existing businesses, based on the Group's strengths and competences and on high-quality external partners.

The Group has defined two strategic-development platforms on which the NBD team is concentrating its efforts. These are Sustainable Chemistry and Advanced Materials and Systems.

"Sustainable Chemistry" covers applications such as water purification, energy, nutrition and health, climate and environment.

From inorganic chemistry to life sciences: using Solvay know-how to achieve synergies in two growth markets

– Pharmaceutical excipients

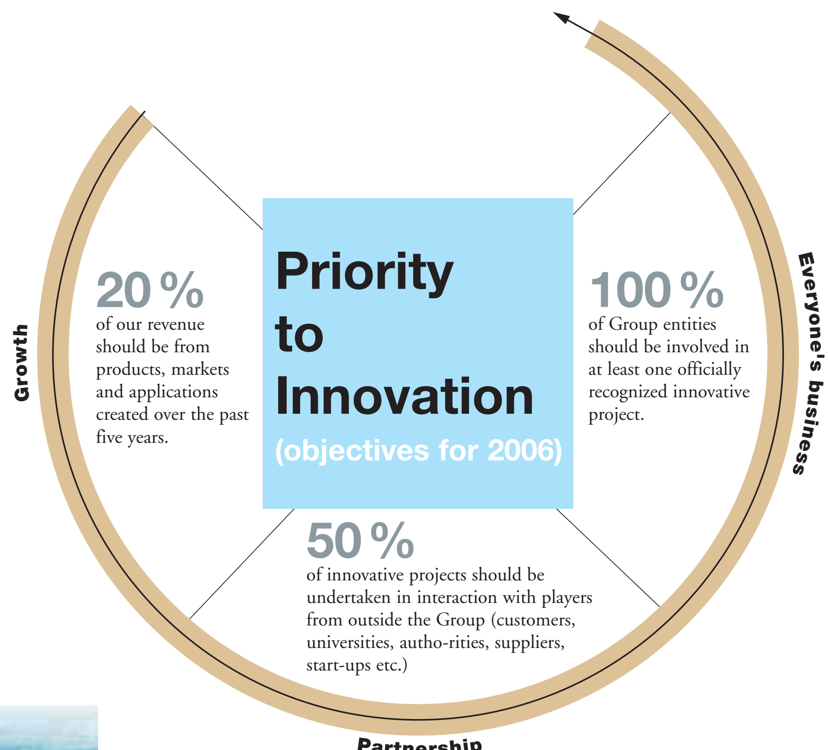
Minerals, used by the pharmaceuticals industry as excipients (neutral substances into which active ingredients are incorporated), offer a wide range of solutions in the delicate stage of formulating a medicine.
Two avenues of investigation are being followed: first, improving our understanding of inorganic excipients in order to facilitate the effectiveness of active ingredients, and second, keeping one step ahead of regulatory requirements to assure drug quality, in cooperation with both the Pharmaceuticals and Chemicals Sectors.

– Food ingredients

By combining the Pharmaceutical Sector's medical know-how with the Chemical Sector's command of mineral salts, the NBD team is developing food ingredients for four nutritional fields:

- weight management,
- intestinal health,
- bone health, and
- mineral balance.

This research programme gives the Group a solid presence in the new and strongly growing segment of functional nutrition.



"Advanced Materials and Systems", in particular functionalised materials as well as equipment and systems for energy storage and transmission.

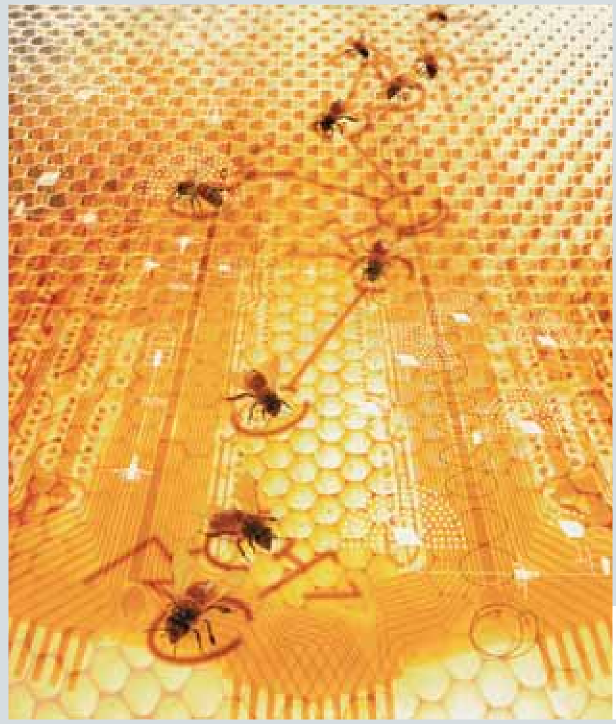
New energy sources

– Ionic membranes for fuel cells

Work on ionic radio-grafted membranes has been refocused on research and development of suitable products for the low-temperature fuel cells required for portable apparatus (computers, cell phones, etc.). This research is being carried out in close cooperation with outside partners as part of projects subsidised in particular by the European Union.
In parallel, Solvay Solexis (Italy) is continuing research into fluorinated membranes for "medium-to-high-temperature" fuel cells. Solvay is an active member of the "Hydrogen and Fuel Cells Technology platform" which has been launched by DG Research of the European Union.

– In direct contact with the market, though a shareholding in Conduit Ventures Ltd

Solvay's commitment to this field was illustrated in 2004 by its participation in Conduit Ventures Ltd (UK), a London-based venture capital fund devoted to fuel cells and hydrogen production technologies. This participation gives Solvay a vital overview of the latest developments right across the fuel cell sector. This direct contact with the market will enable the Group to speed up and better direct its own R&D activities in this field.
Conduit Ventures Limited is the first European venture capital fund devoted to fuel cells and to the related hydrogen technologies. It is concentrating its investments in Europe, North America and Asia.



Other projects

Elsewhere, the NBD team is also pursuing existing projects in close cooperation with the Strategic Business Units concerned.

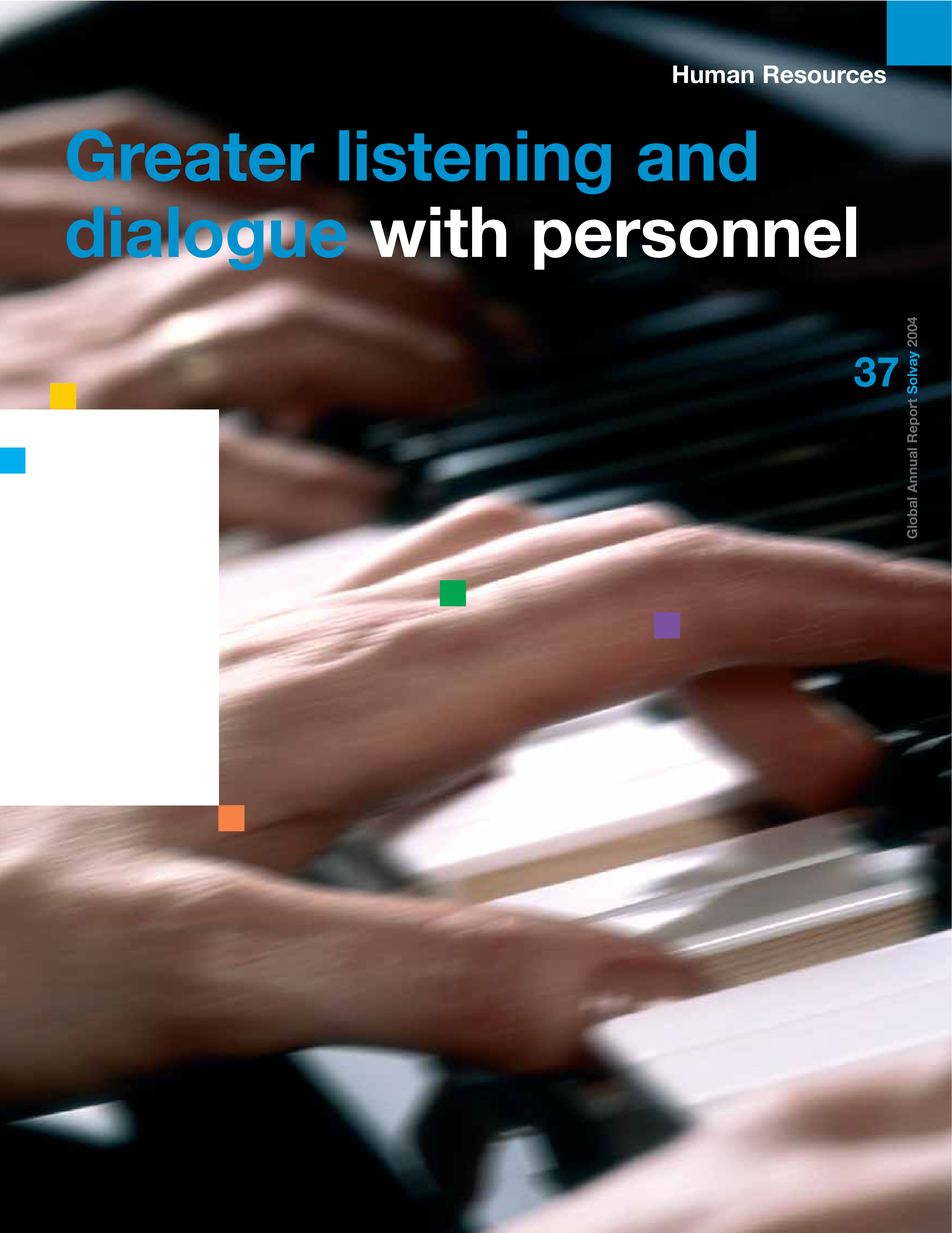
– HexelOne™: a technology for producing high-pressure thermoplastic piping for pressurized water transportation

The original and patented HexelOne™ technology enables pressure-resistant piping to be produced from multiple layers of the same material. This offers an attractive and competitive alternative to conventional materials (ductile cast iron, steel, etc.) in a wide range of diameters where thermoplastic materials have been traditionally less well placed.

– Nidacell™: an innovative technology for producing honeycomb structured panels

Nidacell™, the first process permitting continuous production of PVC "honeycomb" panels, has rapidly proved a very flexible solution for processing a wide range of commercial polymers, from flexible, rigid and recycled PVCs to specialty polymers, as well as wood-plastic composites and biodegradable plastics.
Combining several highly desirable functionalities (low weight, rigidity, and acoustic and, in particular, thermal insulation) these products have received a very promising welcome during initial marketing contacts.

Greater listening and dialogue with personnel



The Solvay People Survey

In late 2003 a worldwide internal satisfaction survey was launched covering almost all Solvay entities worldwide.
A response rate of 72% of all employees is in itself a major indicator of employee support for the process.
2004 was devoted to analysing and communicating the results and defining and implementing action plans in all entities, whether geographic (region, country, site) or organizational (Strategic Business Units, Competence Centres and Business Support Centres). The results are rich in lessons. They also differ substantially from one discipline and region to another, as well as reflecting each site's particular history. These responses are serving to identify concrete avenues of improvement.

The “Living Values” seminar

The Solvay People Survey showed that whilst 65% of all employees know the Group Values, only 50% believe that they are practised on the ground. A Living Values seminar was therefore conceived and deployed in 2004 to explain and improve implementation levels. More than 2,500 Group managers attended this seminar, which looked at the Group Values and how to share them and to translate them into objectively quantifiable behaviours.
The translation of the Values into observable behaviour allows them now to be integrated into daily managerial practice, and into the main Human Resources management processes (functional descriptions, performance assessment and career planning).

Introduction of the e-PDA for managers’ annual assessment and development interviews

The Solvay People Survey also revealed that there was room for improvement in the process of assessing individual performance, and the double objective of making the company more efficient and contributing to personal development. This is an ongoing process with the annual assessment interview as its defining moment.

The e-PDA (Personal Development Assessment) is based on a computerized process, integrated into our ERP system, which stores a summary of the assessment interview. Launched in 2004, this system offers the following advantages:

– all Group managers now use the same assessment “summary” document which they can access at any time;
– this data is centralized, with due respect for the rules governing protection of personal information, in a single database that is accessible to an employee’s hierarchical superiors and to the Human Resources departments concerned;
– better treatment of development needs and career development aspirations, in particular for managers wanting to move onto the international stage, is facilitated, by making it possible to better manage competences as a function of the Group’s needs and development.

European Works Council celebrates its tenth anniversary

The first European Works Council, reflecting the Solvay Group's desire to practice and improve social dialogue with employee representatives in areas of mutual concern for Group companies and employees, was created in 1995 under a voluntary agreement and for a three-year period. Given the constructive character of its dialogue, it has just been extended for a fourth three-year period. The “Personnel Health and Safety” charter, the “Social Directions” charter and the “Subcontracting Practices” document are some of the main products of this cooperation.

The Solvay Shared Services Centre (“3S”) project

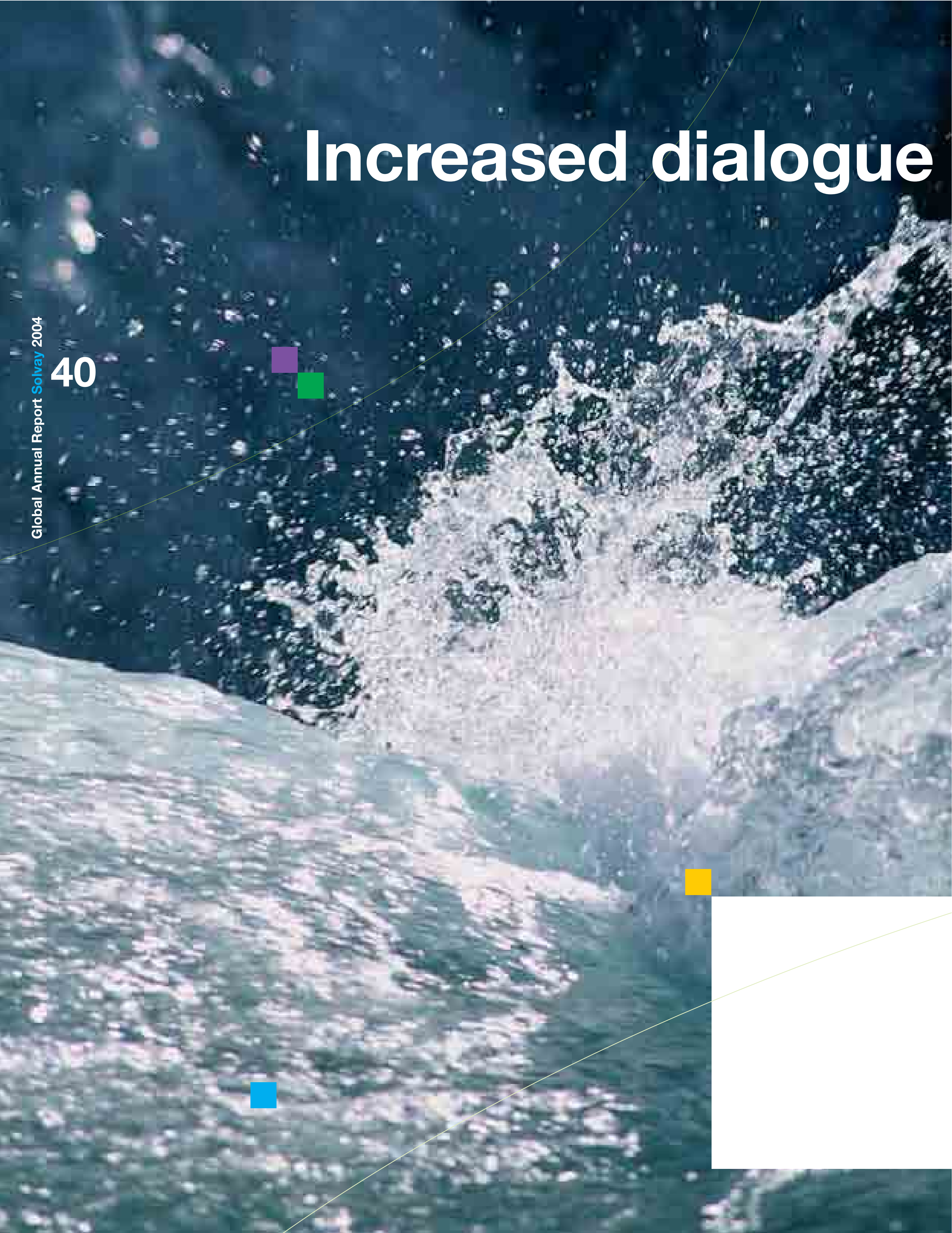
Work on organizing the functional part of the Group into the Office of the Comex (OC), Competence Centres (CC) and Business Support Centres (BSC), as defined in 2003, continued into 2004. The focus this year was on the optimization or more far-reaching reconfiguration of fundamental processes, with a view to making the group more competitive and operationally more consistent.

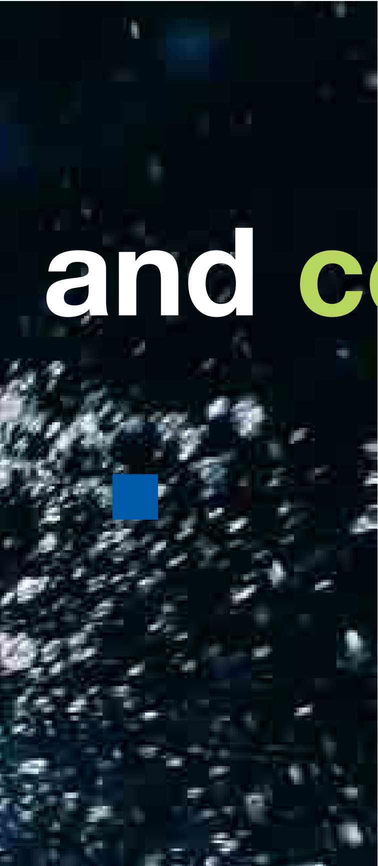
More specifically, the Group launched a study (the “3S” project) into regrouping certain Finance and Human Resources functions at a single shared European site. In 2005, the project will select the city for this shared services centre, as well as the Finance and Human Resources processes or parts of processes that will be located in it, and define its modus operandi, in particular its links with the Group.

Group employees [at 01/01/2005]

Chemicals	8 594
Plastics	11 076
Plastics	5 394
Processing	5 682
Pharmaceuticals	7 988
Sectors	27 658
OC+CC+BSC	1 642
GROUP	29 300
By region:	
European Union (25)	20 436
Other European countries	1 273
EUROPE	21 709
Nafta	4 761
Mercosul	1 514
Asia Pacific	1 283
Rest of world	33
WORLD	29 300

Increased dialogue





and consultation

For Solvay, Sustainable Development means conducting its activities in a way that balances respect for the environment with economic and social development that is sustainable in the long term.
The Group is integrating Sustainable Development into its industrial strategy by progressively taking into account the impact of its activities in the broadest sense. In practice it is strengthening its relations with all stakeholders in the entire life cycle of its products. In 2004 numerous initiatives were taken to develop dialogue, cooperation and exchange of information with all stakeholders: employees, neighbouring communities, the authorities, NGOs and other representatives of society at large, customers, industrial partners and shareholders.

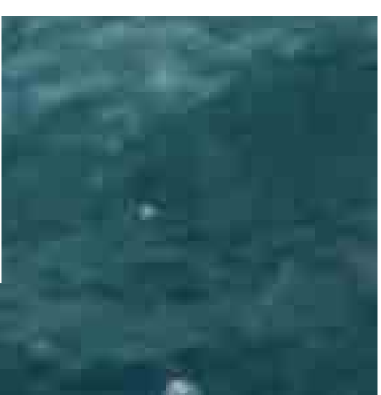
Major efforts were devoted

- **to dialogue and cooperation** with other producers and the authorities in producing European reference documents defining environmentally and industrially optimal production technologies;
- **to dialogue with social partners,** as illustrated by the European Works Council's Heath, Safety and Environment Working Group, which brings together Group HSE managers and employee representatives.

The Group has also participated actively:

- **in international risk assessments of its products,** in cooperation with other producers and the public authorities;
- **in projects to improve the performance of production units** and to manage products (such as fluorinated products and plastics) throughout their life cycles.

The various initiatives taken by the Group in 2004 and the outcomes are described in the "Towards Sustainable Development 2004-2008" report, which was published at the end of 2004 and is available to all shareholders.



Strong interaction between production sites and local authorities

The need for Group production units to manage risks and emissions is producing closer and better documented relations with regulatory authorities on both new projects (capacity extensions) and on measures to remedy past pollution.

Speeding up contractor personnel safety measures

Special initiatives have been taken to improve the safety of contractor personnel and their participation in accident-prevention measures. The accident rate of contractor personnel is falling significantly. Unfortunately, the Group has to report the deaths in 2004 of three contractor personnel at its sites.

When it comes to the safety of Solvay personnel, the frequency of occupational accidents leading to work stoppages has continued to fall, in particular since the introduction in 2001 of a behavioural-based safety programme.

At the same time, an additional TF0 (frequency rate of accidents without lost time) indicator has been introduced into the Group reporting system.

More precise knowledge of the environmental impact of production sites and proposals for improvements

More detailed discharge measuring, soil environmental assessments and monitoring of the groundwater under Group sites are helping improve knowledge of the environmental impact of Group activities.

Process improvements implementing the technologically and environmentally best available technologies and integrated waste management solutions (such as the "waste-free" concept for the new in-vitro production of influenza vaccine) are gradually being introduced.

Accident frequency rate*

	2002	2003	2004	2008
Contractor personnel	10,2	7,2	6,5	4
Solvay personnel	4,4	3,4	2,3	1,8

[*] Number of accidents leading to lost time of over 24 hours, by million hours worked.

Strengthening of accident prevention information processes at at-risk sites and during transportation of hazardous materials

The implementation of the Seveso II directive and in particular the new requirements following the accident at AZF Toulouse (France), especially with regard to neighbouring dwellings, is requiring sites to provide increasing amounts of data to local authorities.

Audits of distributors and transporters in Europe have been strengthened. The audits called for by the CDI (Chemical Distribution Institute) and the pooling of information on the state of ships have led to a significant improvement in the safety of vessels carrying chemical products in recent years.

The "Carechem 24" system providing telephone assistance (immediate advice) based on safety data sheets with instructions to be followed in the event of an accident during the distribution of Group products, has been extended to Asia and the USA. This information has to be given in the language of the place of accident - currently 36 different languages are used.

Accelerating new approaches for tackling global questions

The application of the "emissions trading" directive covering CO_2 emissions (Kyoto Protocol) has required an inventory of current and future CO_2 emissions. Establishment of quotas for each production unit is critical for the conduct of industrial activities. The total reduction in the CO_2 emissions of the Group, which has 12 chemical plants utilizing co-generated energy, can be estimated at over 4 million tonnes a year.

International programmes to better understand product applications and to create corresponding documentation (the US Environment Protection Agency programme and the European "Reach" framework regulation) are beginning to take effect. Solvay is taking part in international risk assessments (of health and environmental impacts) involving around 60 substances.

Acceleration of public access to information

The European Environment Agency in February 2004 inaugurated its EPER (European Pollutant Emission Register) internet site, listing industrial installations covered by the IPPC directive.
This site (http://www.eper.cec.eu.int) permits easy public access to information on industrial air and water emissions from about 10,000 European industrial installations, including 36 belonging to the Group (at 26 sites). Solvay also takes part in the US equivalent, the "TRI" (Toxic Release Inventory) in the United States.

Apart from publishing its second "Towards Sustainable Development" report, the Group collaborated in the publication of the 4th Vinyl 2010 activities report and the 2004 "Eurochlor Progress Report" published by European chlorine producers.

Assisting the development of certain environmental protection-related markets

Assisting the development of these markets calls for close interaction with the main players. Many Group technologies and products are contributing to this process:

– the NEUTREC® technology for treating flue gases from waste incinerators: over 100 units in Europe are now equipped with this state-of-the-art technology, while the complementary RESOLEST® process treats waste residues;
– ultrafiltration membranes for purifying drinking water;
– PVC membranes, films, pipes and window frames to guarantee the longevity of waterproofing systems;
– disinfection using environmentally friendly peracetic acid;
– sodium bicarbonate, a gentle biocide;
– the NOVOSOL® process for recycling polluted dredging sludge, a product of the New Business Development initiative, a first pilot unit for which is in operation at Farciennes, (Belgium); and
– the development of recycling technologies and systems: the first VINYLOOP® recycling unit is in service at Ferrare (Italy) and a joint venture has been set up with Kobelco Eco-Solutions to exploit this technology in Japan.

Management Report and financial statements

Management Report

2004 net income up 26% to a new record of EUR 541 million: Group operating margin[1] reaches 10%.
Cash flow just short of EUR 1 billion (EUR 990 million).
Net dividend increased by 5.6% to EUR 1.90.

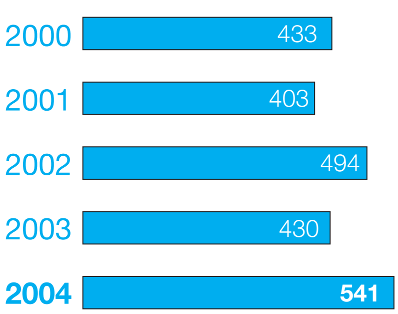
Business progress

Net sales increased by 4% in 2004 to EUR 7 877 million. At constant exchange rates the increase would have been 7%.

REBIT (EUR 789 million) increased by 17% (by 25% excluding discontinued operations[2]). This gives the Group an operating margin[1] (REBIT/net sales) of 10%, which is higher than in 2003.

Net income of the Group topped half a billion EUR (EUR 541 million) for the first time, 26% above the 2003 figure of EUR 430 million.

Net income of the Group (EUR million)



Progress by sector

1. Net sales by Sector (EUR million)

Total 2004 net sales = EUR 7 877 million.
(including discontinued operations: EUR 124 million (2003) and 67 million (2004)

	2003	2004	2004/2003
Pharmaceuticals	1 832	1 745	-5%
Chemicals	*2 386	*2 433	+2%
Plastics	3 215	3 632	+13%
Plastics	1 802	2 198	+22%
Processing	1 413	1 434	+1%
Total	**7 557**	**7 877**	**+4%**

* the salt activities (ESCO) are included under discontinued operations.

2. REBIT by Sector (EUR million)

Total 2004 REBIT = EUR 789 million
(including discontinued operations and non-allocated items: EUR+23 million (2003) and EUR -24 million (2004).

	2003	2004	2004/2003
Pharmaceuticals	243	236	-3%
Chemicals	*182	*180	-1%
Plastics	225	397	+76%
Plastics	155	330	+113%
Processing	70	67	-4%
Total	**673**	**789**	**+17%**

* the salt activities (ESCO) are included under discontinued operations.

The **Pharmaceuticals** sector ended the year with results in line (-3%) with those of 2003. Operating margin remained stable in 2004 compared to 2003. The Sector was positively impacted by agreements with Wyeth and Bristol-Myers Squibb and indemnity payment from Barr. Research expenditures could be increased to EUR 294 million (17% of sales). Negative factors were the contraction of American sales following the renegotiation of contracts with primary distributors, the weakness of the US dollar, the negative impact of debates over female hormone therapy and pressures on European prices. Preparations for the launch of new products also required significant commercial efforts.

The activities of the **Chemicals** sector improved progressively during the course of 2004 as markets recovered (for soda ash, caustic soda, etc.) and prices were increased in some cases. The sector's operating margin reflects these developments: 8% for the second half of 2004 compared with 7% for the first half. In all, the 2004 results are comparable (-1%) with those of 2003.

With an operating margin of 11% in 2004 (compared with 7% in 2003), earnings in the **Plastics** sector (combining the Plastics and Processing sectors) continued to grow (+76% in 2004). This reflects strong progress by Specialty Polymers and Vinyls, making them major contributors to the Group's earnings, despite an environment of high raw material and utility costs. Within the Plastics sector, the Processing activities have been subject to pressure on margins from higher costs, but the intensification of efforts to improve competitiveness and the launch of new products have enabled the businesses largely to limit the impact of these cost increases.

[1] The operating margin is calculated by dividing REBIT by net sales (excluding discontinued operations).

[2] The discontinued operations in 2003 and 2004 relate to the high density polyethylene activities (joint ventures with BP) and the salt activities. These two latter activities, which have since been disposed of, will no longer appear in the accounts as from 2005.

Comments on key figures and the balance sheet for 2004

Non-recurring items amounted in 2004 to EUR -33 million. These include the capital gain on the sale of Sofina shares, capital gains on the disposals of Solvay's interests in the ESCO salt joint venture and in Hedwin Corporation (industrial films), a provision for risks relating, among others, to the ongoing hydrogen peroxide inquiry being undertaken by the European competition authorities, and significant provisions for restructuring (essentially the closing of the soda ash production unit at Ebensee in Austria and the pharmaceuticals production site Foch at Châtillon in France). In all, restructuring measures, aimed at improving competitiveness across the board, have entailed charges of EUR 108 million, most of them non-recurring.

Charges on net indebtedness amounted to EUR 91 million, up 7% from 2003. These charges include interest paid on the recent issues of long-term bonds that have allowed the Group to create a strategic financial reserve at historically low rates.

Income taxes were EUR 129 million, including a tax credit of EUR 63 million recorded in the 3rd quarter of 2004 in Germany.

Income from investments represents the annual dividends paid by Fortis and Sofina.

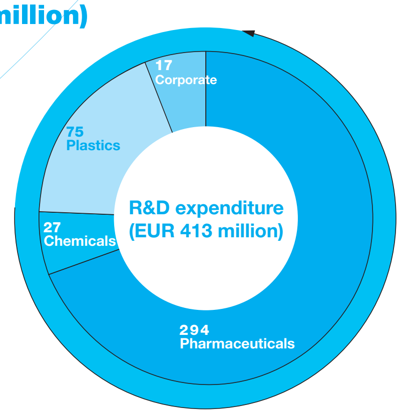
Equity earnings from the high density polyethylene activities, although still negative (EUR -10 million), improved from 2003 (EUR -48 million). It should be pointed out that Solvay sold its HDPE activities to BP on January 6, 2005 for just over EUR 1 billion. This sale is being taken into the 2005 accounts.

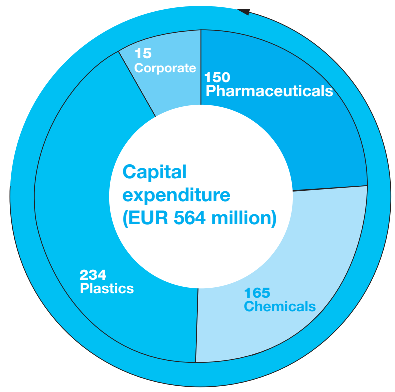
Depreciation and amortization increased 5% from 2003, following non-recurring depreciation, related primarily to the closing of soda ash production at Ebensee, Austria.

Cash flow was EUR 990 million, up 15%.

Cash flow (EUR million)

Expenditures for the future by Sector (EUR million)





2004 Investments amounted to EUR 564 million. Research and Development expenditure reached EUR 413 million, of which more than 70% in the Pharmaceuticals sector. This sector's research effort increased to EUR 294 million (17% of sales) in 2004, up 4% from the previous year. This figure includes a EUR 38 million provision for research after 2004 under the agreements with Wyeth, after deducting our partners' share of these costs (EUR 56 million).

The 2005 investment and R&D budgets are EUR 796 million and EUR 481 million respectively. In 2005, the Pharmaceuticals sector research effort should reach EUR 353 million (73% of Group's R&D expenses), including partners' contribution to research expenditure in this sector.

All this demonstrates the Group's active commitment to innovation, competitiveness and growth.

Balance sheet

Shareholders' equity at the end of 2004 was EUR 3 792 million, up EUR 282 million on end-2003. At EUR 794 million, **Net Group debt** at 31 December 2004 was EUR 326 million lower than at 31 December 2003. The net debt/equity ratio was down to 21% from 32% in 2003.

SENSITIVITY TO ECONOMIC FACTORS

The Group is taking various measures to reduce its sensitivity to external economic factors such as foreign exchange fluctuations and energy prices.

Foreign exchange fluctuations

Foreign exchange fluctuations, and in particular the weakening of the US dollar, affected earnings throughout the year. In 2004 net sales increased in EUR by 4%. At constant exchange rates, they would have risen by 7%.

The geographic distribution of the Group's activities throughout the world enables it to diversify its currency risk. In many of its activities the Group produces and sells on local markets.

The Group's exchange risk hedging policy is based essentially on the principles of financing its activities in local currency, systematically covering transactional exchange risk at the time of invoicing (risks which are certain), and hedging budgeted foreign currency cash flows on certain of its activities.

The Group has also subscribed an Average Rate Option, covering the conversion into EUR of up to USD 50 million of earnings generated in the NAFTA zone.

(see also note 31: "Derivative financial instruments").

Energy situation

Solvay's energy policy is based on:
– diversifying its sources of supply (coal, gas)
– long-term contracting
– developing cogeneration and combined cycle plants.

In recent years the Group has installed, alone or with third parties, a growing number of cogeneration units. In 2004 the Group had around 900 MW of installed cogeneration capacity in 13 of its plants, including 12 in Europe, covering a considerable portion of its needs for steam.

Energy costs (coal, oil, gas) rose significantly in 2004, even if the effects were cushioned by the weaker USD.

This increase affects the different sectors of activity to differing degrees. Hardest hit is the chemical sector.

Given this situation and our energy policy (medium and long-term electricity contracts, cogeneration, etc.), our energy bill rose significantly in 2004 (+ 12% to 7.5% of net sales), though less steeply than energy prices.

The development of energy costs will depend in 2005 on the EUR/USD parity and on general economic activity. The energy environment remains tight, and we expect further relatively large energy price increases.

PARENT COMPANY RESULTS

EUR million	2003	2004
Net profit for the year available for distribution	203	226
Carried forward	343	347
Total available to the General Shareholders' Meeting	**546**	**573**
Allocations:		
Gross dividend	199	*209
Carried forward	347	*364
Total	**546**	**573**

* These amounts may increase slightly owing to the exercise of stock options covered by earlier share purchases.

Comments
Current profit before taxes amounts to EUR 87 million, compared with EUR 224 million in 2003. A net extraordinary gain of EUR 151 million compares with a net extraordinary loss of EUR 30 million in 2003.

Taking into account a EUR 12 million tax charge (EUR 18 million tax credit in 2003), Solvay SA's net income in 2003 was EUR 226 million, compared with EUR 212 million in 2003.

In the absence of any transfers to untaxed reserves, net income of EUR 226 million is available for distribution (11% more than in 2003).

STATUTORY AUDITOR'S EXAMINATION OF THE ACCOUNTS

On June 3, 2004 the General Shareholders' Meeting appointed Deloitte as Statutory Auditor. The Statutory Auditor's report can be found on page 84. In 2004 Deloitte received additional fees of EUR 214 997, mainly for activities in relation to the transition to IFRS accounting.

Deloitte's fees in 2004 for all consolidated Group companies together amounted to

– account auditing fees	3 037	thousand EUR
– other auditing and other services (mainly transition to IFRS)	323	thousand EUR
– consulting and tax advice	175	thousand EUR

Financial Statements

Consolidated income statement (Notes 1-2)

EUR million	Notes	2003	2004
Net sales		7 557	7 877
Cost of goods sold		-5 101	-5 273
Gross margin	(3)	2 456	2 604
Commercial and administrative costs	(4)	-1 359	-1 320
Research and development costs	(5)	-404	-413
Other operating gains and losses	(6)	-42	-54
Other financial gains and losses	(7)	22	-28
REBIT	(8)	673	789
Non-recurring items	(9)	-11	-33
EBIT		662	756
Charges on net indebtedness	(10)	-85	-91
Income taxes	(11)	-114	-129
Equity earnings	(12)	-48	-10
Income from investments	(13)	15	15
Net income of the Group	(14)	430	541
Minority interests		-34	-52
Net income (Solvay share)		396	489
Earnings per share		4.78	5.92
Diluted earnings per share	(15)	4.78	5.90
RATIOS			
Gross margin as a % of sales		32.5	33.1
Times charges earned*		7.9	8.7
Income taxes / Earnings before taxes (%)**		19.8	19.4

*Times charges earned = REBIT / Charges on net indebtedness.
**Earnings before taxes = REBIT - Charges on net indebtedness.

Explanatory notes are found after the financial statements.

Consolidated cash flow statement

EUR million	Notes	2003	2004
Cash flow from operating activities		870	970
EBIT		662	756
Depreciation, amortization and impairments	(16)	429	449
Changes in working capital		-103	-131
Changes in provisions		-7	154
Income taxes paid		-102	-114
Other non-cash items	(17)	-9	-144
Cash flow from investing activities		-369	-310
Acquisition / sale of investments	(18)	-67	100
Acquisition / sale of assets	(18)	-494	-431
Income from investments		15	15
Changes in financial receivables		179	16
Effect of changes in method of consolidation		-2	-10
Cash flow from financing activities		291	-445
Variation of capital (increase / decrease)		0	-4
Acquisition / sale of own shares	(19)	-18	-3
Changes in borrowings		629	-123
Charges on net indebtedness		-85	-91
Dividends	(20)	-235	-224
Net change in cash and cash equivalents		792	215
Currency translation differences		-25	-15
Opening cash balance		439	1 206
Ending cash balance	(30)	1 206	1 406

Explanatory notes are found after the financial statements.

Consolidated balance sheet

EUR million	Notes	2003	2004
ASSETS			
Non-current assets		5 519	5 560
Intangible assets	(21)	245	221
Consolidation differences	(22)	155	156
Tangible assets	(23)	3 459	3 453
Investments - equity accounting	(24)	312	293
Other investments	(25)	531	591
Deferred tax assets	(11)	528	571
Financial receivables and other non-current assets		289	275
Current assets		4 185	4 477
Inventories	(26)	1 059	1 132
Trade receivables	(27)	1 390	1 453
Income tax receivables		154	117
Other receivables		376	369
Cash and cash equivalents	(30)	1 206	1 406
Total assets		**9 704**	**10 037**
EQUITY & LIABILITIES			
Shareholders' equity	(28)	3 510	3 792
Capital and Reserves		2 641	2 882
Minority interests		869	910
Non-current liabilities		3 907	3 863
Long-term provisions	(29)	1 796	1 841
Deferred tax liabilities	(11)	163	136
Long-term financial debt	(30) (31)	1 912	1 850
Other non-current liabilities		36	36
Current liabilities		2 287	2 382
Short-term provisions	(29)	67	181
Short-term financial debt	(30) (31)	414	350
Trade liabilities		1 009	1 050
Income tax payable		118	143
Other current liabilities	(32)	679	658
Total equity & liabilities		**9 704**	**10 037**
RATIOS			
Return on equity (ROE)		12.4	14.6
Net debt to equity ratio		31.9	20.9

ROE = net income of the Group / total equity before direct allocation to equity.
Net debt to equity ratio = net debt / total equity.
Net debt = short and long-term financial debt less cash and cash equivalents.
Certain balance sheet items for 2003 have been restated (see notes 28 and 29).

Explanatory notes are found after the financial statements.

Statement of changes in equity

EUR million	Capital	Issue premiums	Reserves	Own shares	Currency translation differences	Direct allocations to equity	Capital and reserves	Minority interests	Total shareholders' equity
Balance at 31/12/2002	1 269	14	1 667	-101	-211	23	2 661	881	3 542
Net profit for the period			396				396	34	430
Dividends			-199				-199	-36	-235
Currency translation differences					-211		-211	-10	-221
Acquisitions/sale of own shares				-18			-18		-18
Net gains and losses not recognized in the income statement						12	12		12
Issue of share capital							0		0
Others						0			
Balance at 31/12/2003	1 269	14	1 864	-119	-422	35	2 641	869	3 510
Net profit for the period			489				489	52	541
Dividends			-198				-198	-30	-228
Currency translation differences					-85		-85	-4	-89
Acquisitions/sale of own shares				-3			-3		-3
Net gains and losses not recognized in the income statement						46	46		46
Issue of share capital							0		0
Others			-8				-8	23	15
Balance at 31/12/2004	1 269	14	2 147	-122	-507	81	2 882	910	3 792

Shareholders' Equity at the end of 2002 and 2003 has been restated (see notes 28 and 29).

The continuing fall of the US dollar gave a closing balance sheet exchange rate of 1.3621 at the end of 2004 compared with 1.2630 at the end of 2003. This is the essential cause of the increase in the negative currency translation differences component of shareholders' equity from EUR 422 million at the end of 2003 to EUR 507 million at the end of 2004 (EUR - 85 million).

Gains and losses not recognized in the income statement reflect the marking to market of financial derivative instruments and listed securities. The variation in 2004 was positive as a result of rising stock market prices, despite the sale of a portion of our Sofina shares.

IFRS valuation rules

The main accounting policies used in preparing these consolidated financial statements are set out below:

1. Accounting system

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

No standard which becomes mandatory only after December 31, 2004 was applied in advance at that date.

The financial statements also include all the information required by the 4th and 7th European directives.

2. Consolidation

Companies controlled by the Group (i.e. in which the Group has, directly, or indirectly, an interest of more than one half of the voting rights or is able to exercise control over the operations) have been fully consolidated. Separate disclosure is made of minority interests. All significant transactions between Group companies have been eliminated on consolidation.

Companies over which the Group exercises joint control with a limited number of partners (joint ventures) are consolidated using the proportionate consolidation method.

Investments in companies over which the Group exercises significant influence, but which it does not control, are accounted for using the equity method.

3. Goodwill (consolidation difference)

Goodwill represents the difference between the cost of acquisition and the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associated company or joint venture, at the acquisition date.

Positive goodwill existing before March 31, 2004 has continued to be amortized on a straight-line basis until December 31, 2004. Positive goodwill arising on acquisitions made after March 31, 2004 is not amortized, but tested at least annually for impairment. Any negative goodwill is immediately credited to the income statement.

4. Foreign currencies

Foreign currency transactions by Group companies are recorded initially at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in such currencies are then re-translated at the exchange rates prevailing at the end of the accounting period with resulting profits and losses recorded in the income statement for the period.

Assets and liabilities of foreign entities included in the consolidation are translated into EUR at the exchange rates prevailing at the end of accounting period. Income statement items are converted into EUR at the average exchange rates for the period. The resulting translation differences arising are transferred to the equity item "currency translation differences".

5. Retirement benefit costs

The Group operates a number of defined benefit and defined contribution retirement benefit plans. Payments to defined contribution benefit plans are charged as an expense as they fall due.

The Group's commitments under defined benefits plans, and the related costs, are valued using the "projected unit credit method" in order to determine the present value of the obligation at closing date.

The amount recorded in the balance sheet represents the present value of the defined benefit obligations, adjusted for actuarial differences, for unrecognized past services costs and for the fair value of external plan assets, limited in the case of a surplus to the present value of available refunds and/or reductions in future contributions.

Actuarial differences exceeding the higher of 10% of the present value of the retirement benefit obligations and 10% of the fair value of the assets of the external plan assets at balance sheet closing date, are amortized over the expected average remaining working life of the participating employees.

6. Income taxes

Income taxes on profits for the period include both current and deferred taxes. They are recorded in the income statement except where they relate to items recorded directly in equity, in which case they too are recorded in equity.

Current taxes are taxes payable on the taxable profit for the period, calculated at the tax rates prevailing at the balance sheet closing date, as well as adjustments relating to previous periods.

Deferred tax assets and liabilities are required to be measured at the tax rates that are expected to apply to the financial year in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities relating to subsidiaries' profits that the Group does not intend distributing in the foreseeable future are not accounted for.

Deferred tax assets are recognized only where taxable profits are likely to be realized, against which the deferred tax assets will be imputed.

7. Tangible and intangible assets

Tangible and intangible assets are carried at their historical cost less depreciation/amortization. Depreciation/amortization is included in the income statement under cost of goods sold, commercial and administrative costs, and in R&D costs.

Depreciation/amortization is calculated on a straight-line basis, according to the useful life listed below:

Buildings	30 years
IT equipment	3 - 5 years
Machinery and equipment	10 - 20 years
Transportation equipment	5 - 20 years
Patents and trademarks	5 - 20 years

Assets held under finance leases are recognized as assets at the lower of their fair value or the present value of the minimum lease payments related to the contracts. The corresponding liability is included in financial debts. Financial charges, representing the difference between the full amount of the lease obligations and the fair value of the assets acquired, are charged to the income statement over the duration of the contract.

Borrowing costs directly attributable to the acquisition, construction or production of an asset requiring a long preparation period are added to the cost of this asset until it is ready for use.
Grants for the purchase of assets are recorded net of the value of these assets.

8. Research and Development costs

Research costs are charged in the period in which they are incurred.

Development costs are capitalized only if all the following conditions are fulfilled:
– the product or process is clearly defined and the related costs are measured reliably and can be separately identified;
– the technical feasibility of the product has been demonstrated;
– the product or process will be placed on the market or used internally;
– the assets will generate future economic benefits (a potential market exists for the product or, where it is to be used internally, its future utility is demonstrated);
– the technical, financial and other resources required to complete the project are available.

The capitalized development costs are amortized on a straight-line basis over their useful lives.

9. Impairment

At each balance sheet date, the Group reviews the carrying amounts of goodwill, investments and tangible and intangible assets to determine whether there is any indication that any of these assets might have suffered a reduction in value. Where such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell the asset and its value in use. The value in use is the net present value of the estimated future cash flows from the use of an asset. The recoverable amount is calculated at the level of the cash-generating unit to which the asset belongs. Where the recoverable amount is below the carrying amount, the latter is reduced to the recoverable amount. This impairment is immediately charged to the income statement through non-recurring items. Where a previously recorded impairment no longer exists, the carrying amount is partially or totally re-established through non-recurring items.

10. Inventories

Inventories are stated at the lower of purchasing cost (raw materials and merchandise) or production cost (work in progress and finished goods) and net realizable value. Net realizable value represents the estimated selling price, less all estimated costs of making the product ready for sale, including marketing, selling and distribution costs. Inventories are generally valued by the weighted average cost method. Cost of inventories includes the purchase, conversion and other costs incurred to bring the inventories to their present location and condition.

11. Financial instruments

- Trade receivables
Trade receivables are stated at their nominal value less estimated non-recoverable amounts.

- Listed financial investments
Listed financial investments not considered as trading assets are valued at the stock market price on each closing date. Unrealized profits and losses are recorded directly to equity. When such assets are sold, any profit or loss already taken into equity is then included in the net income for the period.

- Bank borrowings
Bank loans and overdrafts are accounted for in the amount of the net proceeds received. Financial charges, including any settlement or redemption premiums, are charged over the term of the facility.

- Trade liabilities
Trade liabilities are stated at their nominal value.

- Derivative financial instruments
Derivative financial instruments are initially recorded at cost and re-measured to their fair value at every closing date. Changes in fair value linked to designated and effective cash flow hedges are recognized immediately in equity. Changes in fair value not linked to cash flow hedging operations are recorded in the income statement.

- Cash and cash equivalents
The cash and cash equivalents heading consists of cash and sight deposits, short-term deposits (under 3 months) and highly liquid investments which are easily convertible into a known cash amount and where the risk of a change in value is negligible.

12. Provisions

A provision is set up whenever the Group has a legal or implicit obligation at a balance sheet date:
– resulting from a past event and
– which is likely to result in charges and
– where the amount of such charges can be reliably estimated.

Commitments resulting from restructuring plans are recognized at the time these plans are announced to the persons concerned.

13. Segment information

Segment information is produced according to two distinct criteria: a primary criterion based on the Group's Sectors of activity, and a secondary criterion based on the main geographical regions.

14. Revenue recognition

A revenue is recognized once it is probable that it will be acquired and its amount can be reliably measured.

Net sales consist of sales to third parties, less trade discounts. They are recognized when the significant risks and rewards attached to the ownership of the goods are transferred to the buyer.

Dividends are recorded in the income statement when declared by the Shareholders' Meeting of the distributing company.

Interest income is recognized pro rata temporis based on the effective yield of the investment.

The main exchange rates used according to the principles described under item 4 are:

		Year-end rate		Average rate	
		2003	**2004**	2003	**2004**
1 Euro =					
Pound sterling	GBP	0.7048	0.7051	0.6916	0.6786
US Dollar	USD	1.2630	1.3621	1.1306	1.2437
Argentinian Peso	ARS	3.7258	4.0506	3.3378	3.6637
Brazilian Real	BRL	3.6646	3.6177	3.4733	3.6338
Thai Baht	THB	50.0250	53.0000	46.9043	50.0654
Japanese Yen	JPY	135.0500	139.6500	130.8688	134.4093

Notes to the financial statements

The notes below are cross-referenced to the summary consolidated financial statements.

Consolidated income statement

(1) Financial data by business Sector

Until 2004, the Group was organized into 4 operating sectors: Pharmaceuticals, Chemicals, Plastics and Processing. In 2005 the Plastics and Processing sectors have been merged by decision of the Board of Directors.

These sectors form the basis for the reporting by primary segments.

Information by primary segment for 2003 is presented below:

2003 EUR million

Income statement items	Pharmaceuticals	Chemicals [4]	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Net sales	1 832	2 617	2 105	1 423	0	7 977	124	8 101
- Inter-segment sales[1]	0	-231	-303	-10	0	-544	0	-544
External sales	1 832	2 386	1 802	1 413	0	7 433	124	7 557
Gross margin	1 325	463	419	224	0	2 431	25	2 456
REBIT	243	182	155	70	-40	610	63	673
Non-recurring items	-17	4	-5	-3	-1	-22	11	-11
EBIT	226	186	150	67	-41	588	74	662

Cash flow items	Pharmaceuticals	Chemicals [4]	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Recurrent depreciation and amortization	59	172	110	65	17	423	5	428
Impairments	0	0	0	1	0	1	0	1
Changes in provisions and other non-cash items	-11	7	8	-5	-13	-14	-2	-16
Changes in working capital	-53	23	-54	43	-46	-87	-16	-103
Cash flow from operating activities before taxes	221	388	214	171	-83	911	61	972
Capital expenditures	153	182	114	73	15	537	18	555

Balance sheet and other items	Pharmaceuticals	Chemicals [4]	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Investments[2]	736	1 885	1 252	440	132	4 445	519	4 964
Working capital[3]	333	358	315	129	46	1 181	12	1 193
Provisions	230	619	179	98	684	1 810	53	1 863
Headcount at Jan. 1 of following year	7 530	9 203	5 194	6 068	1 746	29 741	398	30 139

[1] Inter-segment transfer prices are based on market prices.
[2] Non-current assets with the exception of deferred tax assets and other long-term assets.
[3] Short-term assets and liabilities and other non-current assets and liabilities, with the exception of dividends payable.
[4] The salt activities in the Chemical Sector which were sold in 2004 have been reclassified under "discontinued operations".

Information per segment for 2004 is presented below:

2004 EUR million

Income statement items	Pharmaceuticals	Chemicals	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Net sales	1 745	2 693	2 485	1 450	0	8 373	67	8 440
- Inter-segment sales[1]	0	-260	-287	-16	0	-563	0	-563
External sales	1 745	2 433	2 198	1 434	0	7 810	67	7 877
Gross margin	1 336	428	598	224	0	2 586	18	2 604
REBIT	236	180	330	67	-49	764	25	789
Non-recurring items	-9	-44	-6	-10	3	-66	33	-33
EBIT	227	136	324	57	-46	698	58	756

Cash flow items	Pharmaceuticals	Chemicals	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Recurrent depreciation and amortization	63	157	120	68	16	424	2	426
Impairments	2	17	1	1	2	23	0	23
Changes in provisions and other non-cash items	23	-13	20	4	10	44	-34	10
Changes in working capital	0	-54	-144	-2	76	-124	-7	-131
Cash flow from operating activities before taxes	315	243	321	128	58	1 065	19	1 084
Capital expenditures	150	165	166	68	15	564	0	564

Balance sheet and other items	Pharmaceuticals	Chemicals	Plastics	Processing	Unallocated	Sub-total	Discontinued operations	Consolidated
Investments[2]	755	1 651	1 189	376	537	4 508	434	4 942
Working capital[3]	352	422	471	126	-64	1 307	4	1 311
Provisions	280	723	227	107	684	2 021	1	2 022
Headcount at Jan. 1 of following year	7 988	8 594	5 394	5 682	1 642	29 300	0	29 300

[1] Inter-segment transfer prices are based on market prices.
[2] Non-current assets with the exception of deferred tax assets and other long-term receivables.
[3] Short-term assets and liabilities and other non-current assets and liabilities, with the exception of dividends payable.

At the end of June 2004, Solvay sold its share in the ESCO joint venture (Salt activities) to its partner Kali & Salz. The balance sheet items and earnings for this activity have therefore been reclassified under “discontinued operations” in the 2003 and 2004 financial statements. The result on the sale is also included in non-recurring items.

The high density polyethylene activities were undertaken on a joint venture basis with BP. Given the existence of a put option on this holding and the sale of a participating interest in this option to Solvay Finance Jersey Ltd., our participation in the two polyethylene joint ventures was equity consolidated in the “discontinued operations” in 2004 as in earlier years. Solvay Finance Jersey, which is fully consolidated and co-owned with various banks which have subscribed the preference capital of EUR 800 million, represents the greater part of the minority interests item in the balance sheet. Following the exercise of our put option and the sale of the company to BP, this activity was closed out on January 6, 2005. The preference capital of Solvay Finance Jersey was redeemed simultaneously with the sale. These movements will be visible in the 2005 accounts.

Under IFRS rules, the “unallocated” section contains items that cannot be allocated to any of the other segments. Results in this segment deteriorated in 2004, as earnings from reinsurance activities included in it in 2003 have been allocated from mid-2004 to each of the sectors concerned.

(2) Financial data by region

Group sales by market location are as follows:

EUR million	2003	%	2004	%
Europe	4 685	62%	4 829	61%
Nafta	1 874	25%	1 809	23%
Mercosur	346	5%	485	6%
Asia-Pacific and others	652	8%	754	10%
Total	**7 557**	**100%**	**7 877**	**100%**

Invested capital and capital expenditure by geographical segment are shown below.

	Invested capital*				Capital expenditure			
EUR million	2003	%	2004	%	2003	%	2004	%
Europe	4 319	70%	4 455	71%	421	76%	424	75%
Nafta	1 489	24%	1 348	22%	95	17%	92	17%
Mercosur	155	3%	269	4%	17	3%	35	6%
Asia-Pacific and others	194	3%	181	3%	22	4%	13	2%
Total	**6 157**	**100%**	**6 253**	**100%**	**555**	**100%**	**564**	**100%**

* Invested capital includes the non-current assets and working capital as defined in the financial data per sector above

(3) Gross margin

Expressed as a percentage of sales, gross margin rose from 32.5% in 2003 to 33.1% in 2004.

(4) Commercial and administrative costs

The Group's commercial and administrative costs decreased by 2.9% between 2003 and 2004. This reflects decreases in the Chemicals (-7.2%), Plastics (-3.6%) and Processing (-4.4%) and status quo in Pharmaceuticals, despite increased work on preparing new product launches.

Write-downs on trade receivables and finished goods inventories were similar to 2003 (2004: EUR 15 million, 2003: EUR 12 million).

(5) Research and development costs

Taken together, these have risen slightly (+2.2%) since last year.

Research and development expenditure continued to rise in the Pharmaceuticals Sector (+ 3.7%), despite lower sales in EUR, to 16.9% of sales against 15.5% in 2003. In 2004 research and development costs in this sector include a EUR 38 million provision for future expenditure commitments linked to the agreements with Wyeth. In 2004 the sector accounted for 71.3% of all Group research and development expenditure (70.2% in 2003).

Research and development expenditure decreased in the Chemicals (-9.6%) and in Plastics (-3.9%) Sectors, whilst increasing in the Processing Sector (+ 27.9%), where, in response to the requirements of the automobile market, Inergy has launched new research projects for treating and reducing diesel motor emissions, as well as new capless filler head systems.

(6) Other operating gains and losses

EUR million	2003	2004
Start-up, formation and preliminary study costs	-13	-8
Cost of closures and demolitions	-13	-13
Costs of trials and tests	-6	-5
Amortization of consolidation differences	-16	-17
Miscellaneous gains and losses	6	-11
Other operating gains and losses	-42	-54

This item yielded a net charge of EUR 54 million, 29% higher than in 2003.

Start-up and preliminary study costs reduced by 39%. In 2003 these costs were particularly high, owing to the cost of starting production of fluorinated products (Solkane®365mfc) in France.

The other headings in this category include the significantly higher cost of restructuring plans (EUR -27 million compared with EUR – 8 million in 2003), the cost of competitiveness improvement plans, earnings on sales of underground cavities in Germany (EUR 15 million compared with EUR 7 million) and results on sales of non-strategic pharmaceutical products, down to EUR 12 million from EUR 16 million.

(7) Other financial gains and losses

EUR million	2003	2004
Cost of discounting provisions	-59	-65
Income from investments allocated by segment and interest on external financial receivables	20	15
Net foreign exchange gains and losses	4	5
Others*	57	17
Other financial gains and losses	22	-28
* Including valuation of the "put" option on our HDPE activities	45	11

The EUR 50 million reduction in this item compared with 2003 is explained essentially by the lower revaluation of the put option of our HDPE activities, given their improvement in 2004 (see note 12 below). The item includes, however, higher cost of discounting provisions (following their rise) and lower income on the loans to the polyethylene joint ventures with BP.

(8) REBIT

In a concern to clearly identify non-recurring elements and maintain comparability with past years' operating earnings, the Group has created an additional earnings level, labelled "Recurring Earnings before Interest and Taxes". This item increased by 17%.

EBIT is the earnings recorded from the ongoing activities of the Group prior to net debt expenses, income taxes and earnings from companies accounted for by the equity method (our share of the polyethylene activity) and income from investments which are not allotted to particular segments (Fortis and Sofina).

(9) Non recurring items

These are non-recurring earnings, stated prior to any income tax impact.

Non-recurring items break down as follows:

EUR million	2003	2004
Non-recurring depreciation and amortization	0	-23
Other expenses and income	-11	-10
Non-recurring items	-11	-33

The non-recurring depreciation and amortization relate primarily to the closing of the Ebensee plant in Austria (EUR 8 million), and impairments on assets in Italy (EUR 3 million), Portugal (EUR 2 million) and the United States (EUR 2 million).

The other expenses and income, which net out close to the 2003 figure, include the pre-tax profits on the sale of Sofina shares (EUR 73 million) and of our participating interest in ESCO (EUR 33 million), a provision to cover the ongoing proceedings with the European competition authorities concerning peroxides, the costs associated with closing the Ebensee Soda Ash plant in Austria (EUR 40 million) and those of closing the Foch Solvay Pharma site at Châtillon, France (EUR 12 million).

(10) Charges on net indebtedness

EUR million	2003	2004
Cost of borrowings	-100	-121
Interest on lending and short-term deposits	19	34
Others	-4	-4
Charges on net indebtedness	-85	-91

Charges on net indebtedness have increased by 7% from EUR 85 million in 2003 to EUR 91 million in 2004.

Although average net indebtedness is lower than in 2003, this development is explained essentially by:

- EUR 21 million higher interest charges, representing the cost for the whole year of the bonds issued in 2003 - EUR 300 million in June and EUR 500 million in December 2003 - when the Group took advantage of market opportunities to prefinance its growth strategy at very favorable conditions;
- a EUR 15 million increase in income on short-term deposits, representing the interest on the placing of the proceeds of the 2003 bond loans on short-term deposit with credit institutions, at interest rates below those of the bonds (negative carry).

(11) Income taxes

Tax charges on income

Components of the tax charges

The tax charge on income consists of current tax and deferred tax.
– Current tax represents the tax paid or payable (recovered or recoverable) in respect of the taxable profit (tax loss) for the past year, as well as any adjustments to tax paid or payable (recovered or recoverable) in relation to previous years.
– Deferred tax represents the tax which will be owed (or recovered) during future years, but which has already been recognized during the past year, and which corresponds to the variation in the deferred tax items recorded in the balance sheet (see below).

The deferred tax charge referring to items accounted for under shareholders' equity is also recorded in this latter item.

The tax charge breaks down as follows:

EUR million	2003	2004
Current taxes related to current year	-145	-165
Current taxes related to prior years	12	-17
Deferred income tax before valuation allowance	-6	23
Valuation allowance on deferred tax assets (-/+)	32	26
Tax effect of changes in the nominal tax rates on deferred taxes	-7	4
Total	**-114**	**-129**

EUR million	2003	2004
Income tax on items allocated directly to equity	4	11
Total	**4**	**11**

Reconciliation of the tax charge

The effective tax charge has been reconciled with the theoretical tax charge obtained by applying to the pre-tax profit of each Group entity the nominal tax rate prevailing in the country in which it operates.

EUR million	2003	2004
Total tax charge of the Group entitites computed on the basis of the respective local nominal rates	-187	-211
Tax effect of non-deductible expenses	-113	-76
Tax effect of tax-exempt revenues	143	130
Tax effect of changes in tax rates	-5	4
Tax effect of current and deferred tax adjustments related to prior years	16	-2
Valuation allowance on deferred tax assets	32	26
Effective tax charge	**-114**	**-129**

Analysis of the past year's tax charge

The income tax charge amounts to EUR 129 million, equivalent to a tax rate of around 20%. It has been favorably influenced by the reversal of valuation allowances on deferred tax assets in Germany (EUR 63 million).

Deferred taxes on the balance sheet

Deferred tax assets and liabilities are recorded in the balance sheet in respect of temporary differences arising from the fact that the tax authorities apply different rules when assessing assets and liabilities than those used for drawing up annual accounts.
Variations occurring during the year in the deferred taxes recorded in the balance sheet are taken into income, except where they relate to items that are recorded directly in shareholders' equity (cf. above).
Deferred taxes are calculated based on the prevailing tax rates, or where they have been changed, at the enacted rates that are expected to apply at the time of recording the taxes payable (or recoverable) in the statutory accounts.
Deferred tax assets are written down to the extent that it appears unlikely, in the light of expected future tax situations, that they will in the future generate either a reduction in the tax base or tax credits.
Unless a dividend payment is planned, no deferred tax is calculated on the undistributed profits of subsidiaries as these profits are, as a general rule, reinvested locally.
The deferred taxes recorded in the balance sheet fall into the following categories:

	Deferred tax assets		Deferred tax liabilities	
EUR million	2003	2004	2003	2004
Employee benefits obligations	204	210		
Provisions other than employee benefits	252	229	-1	
Tax losses	421	356		
Tax credits	100	100		
Depreciation of tangible assets and amortization of intangible assets	409	408	-375	-378
Development costs			-10	-4
Others	161	164	-213	-211
Total	**1 547**	**1 467**	**-599**	**-593**
Valuation allowance on deferred tax assets	-583	-439		
Offset	-436	-457	436	457
Total (as shown in the balance sheet)	**528**	**571**	**-163**	**-136**

Certain of the 2003 headings have been adjusted (see notes 28 and 29).
All the Group's tax loss carryforwards have generated deferred tax assets, on certain of which valuation allowances have been recorded. These tax loss carryforwards are given below by expiry date.

EUR million	2003	2004
Within 1 year	55	2
Within 2 years	21	3
Within 3 years	77	72
Within 4 years	111	49
Within 5 or more years	211	155
No time limit	839	915

(12) Equity earnings

Earnings from companies accounted for by the equity method refer to the polyethylene joint venture with BP. Although improving, this item remained EUR 10 million negative in 2004.

(13) Income from investments

Income from investments consists of the dividends received from Fortis and Sofina. These have remained unchanged since 2003, the sales of half of the holding in Sofina having taken place in November, after payment of the dividend.

(14) Net income

Net income rose by 26% from EUR 430 million in 2003 to the record level of EUR 541 million in 2004. This includes EUR 52 million of minority interests. EUR 24 million of this figure is the preference dividend paid to the banks which subscribed to the preference shares in Solvay Jersey Ltd as part of the financing of the Ausimont acquisition (remunerated at 90 basis points over Euribor, or 3.03% for 2004). The other minority interests increased, owing essentially to the full consolidation of Solvay Indupa Argentina from July 2004. Solvay's own share of net income increased by 23%.

(15) Diluted earnings per share

The diluted earnings per share is obtained by dividing net income by the number of shares, increased by the number of potentially diluting shares attached to the issue of warrants and stock options.

Consolidated cash flow statement

(16) Depreciation, amortization and impairments

Depreciation, amortization and impairments (both recurring and non-recurring) rose by EUR 20 million in 2004, owing essentially to EUR 23 million of non-recurring items in 2004 compared with just EUR 1 million in 2003. These non-recurring items relate mainly to the closure of the Ebensee plant in Austria and impairments on assets in Italy, Portugal and the United States. Leaving aside these elements, the recurring depreciation and amortization figures are in line with those of 2003.

(17) Other non-cash items

This item serves to cancel the effect of non-cash components (essentially write-downs on investments), and the profits/losses on the sale of fixed assets and of investments, the proceeds of which are recorded in short-term investments.

(18) Acquisitions / sale of investments and Assets

2003 EUR million	Acquisitions	Disposals	Total
Investments	-42	-25	-67
Tangible/intangible assets	-513	19	-494
Total	**-555**	**-6**	**-561**
2004 EUR million			
Investments	-71	171	100
Tangible/intangible assets	-493	62	-431
Total	**-564**	**233**	**-331**

The Group has maintained its very selective investment policy. Acquisitions of fixed assets and investments amounted to EUR 564 million in 2004, close to the EUR 555 million spent in 2003.

On the other hand, the proceeds of disposals of fixed assets and investments rose sharply in 2004 to EUR 233 million following the sale of our investments in ESCO and Hedwin, and half of our holding in Sofina.

The acquisitions and disposals of investments relate to the Group's consolidated subsidiaries, to investments accounted for by the equity method and to unconsolidated investments (those that the Group does not control and those which do not reach the threshold of materiality for inclusion in the consolidation).

Acquisitions and disposals of consolidated subsidiaries in 2003 and 2004 are set out in the tables below:

Disposals of subsidiaries

EUR million	2003	2004
Non-current assets	2	73
Current assets	3	41
Non-current liabilities	2	30
Current liabililties	2	21
Net worth	1	63
Gain (loss) on disposal	1	48
Total consideration received	2	111
Satisfied by		
cash	2	111
deferred consideration		
Net cash inflow on disposal		
cash	2	111
bank balances and cash disposed of	-1	-2

Acquisitions of subsidiaries

EUR million	2003	2004
Non-current assets	30	5
Current assets	18	4
Non-current liabilities	13	1
Current liabililties	11	2
Net worth	24	6
Consolidation difference (goodwill)		5
Total consideration paid	24	11
Satisfied by		
cash	24	11
deferred consideration		
Net cash outflow on acquisition		
cash	24	11
bank balances and cash acquired	0	1

(19) Acquisition / sale of own shares

At the end of December 2003, Solvay SA held 1 929 338 of its own shares to cover the stock options offered to Group executives. In the course of 2004, it purchased another 419 991 and sold 388 100 shares following the exercise of these options by the parties concerned. At the end of 2004, the company held 1 961 229 of its own shares, which have been deducted from consolidated shareholders' equity.

As it has in every year since 1999, the Board of Directors renewed the share option plan offered to executive staff (around 300 persons) with a view to involving them more closely in the long-term development of the Group. The majority of the managers in question subscribed the options offered them with an exercise price of EUR 82.88, representing the average stock market price of the share for the 30 days prior to the offer.

Given that the company buys its own shares to cover the stock options it has granted, there is no charge against income. The only cost is the opportunity cost.

(20) Dividends

Apart from dividends to Solvay shareholders, the dividends item includes EUR 24 million for the minority shareholders in Solvay Finance Jersey Ltd and EUR 6 million for other minority shareholders.

Consolidated balance sheet

(21) Intangible assets

EUR million	Development costs	Patents and trademarks	Other intangible assets	**Total**
Gross carrying amount				
At 31 December 2003	53	329	51	433
Capital expenditures	14	15	5	34
Disposals	-4	-2	-1	-7
Changes in consolidation scope			3	3
Currency translation differences	-2	-12	-3	-17
Others		1	-13	-12
At 31 December 2004	61	331	42	434
Accumulated amortization				
At 31 December 2003	-18	-150	-20	-188
Amortization	-9	-23	-3	-35
Disposals		2		2
Currency translation differences	1	4	2	7
Others	1	-1	1	1
At 31 December 2004	-25	-168	-20	-213
Net carrying amount				
At 31 December 2003	35	179	31	245
At 31 December 2004	36	163	22	221

(22) Consolidation differences (goodwill)

EUR million	Positive	Negative	Total
Gross carrying amount			
At 31 December 2003	282	-3	279
Arising on acquisitions	9		9
Elimination on disposals			0
Currency translation differences	-8		-8
Others	19		19
At 31 December 2004	302	-3	299
Accumulated amortization and write-downs			
At 31 December 2003	-127	3	-124
Amortization	-17		-17
Write-backs			0
Impairment			0
Elimination on disposals			0
Currency translation differences	3		3
Others	-5		-5
At 31 December 2004	-146	3	-143
Net carrying amount			
At 31 December 2003	155	0	155
At 31 December 2004	156	0	156

(23) Tangible assets (including finance leases)

EUR million	Land & Buildings	Fixtures & Equipment	Other tangible assets	Properties under construction	Total
Gross carrying amount					
At 31 December 2003	1 987	6 998	69	308	9 362
Capital expenditures	38	155	2	264	459
Disposals and closures	-43	-124	-2		-169
Changes in consolidation scope	10	41	1	4	56
Currency translation differences	-23	-95	-1	-7	-126
Others	37	159	-4	-199	-7
At 31 December 2004	2 006	7 134	65	370	9 575
Accumulated depreciation					
At 31 December 2003	-1 057	-4 806	-40	0	-5 903
Depreciation	-61	-328	-6	-2	-397
Disposals and closures	38	107	2		147
Changes in consolidation scope	-8	-33			-41
Currency translation differences	8	45	1		54
Others	3	11	2	2	18
At 31 December 2004	-1 077	-5 004	-41	0	-6 122
Net carrying amount					
At 31 December 2003	930	2 192	29	308	3 459
At 31 December 2004	929	2 130	24	370	3 453

Finance leases

EUR million	Land and buildings	Fixtures and equipment	Total
Net carrying amount of finance leases included in the table above	5	5	10

The carrying amount of lease obligations approximates to their fair value.

Finance lease obligations

EUR million	Minimum lease payments		Present value of minimum lease payments	
Amounts payable under finance leases :	2003	2004	2003	2004
Within one year	17	4	15	4
In years two to five inclusive	17	12	14	11
Beyond five years	11	10	9	9
Less: future finance charges	-7	-2		
Present value of Lease Obligations	38	24	38	24
Less : Amount due for settlement within 12 months			15	4
Amount due for settlement after 12 months			23	20

Operating lease obligations

EUR million	2003	2004
Total minimum lease payments under operating leases recognized in the income statement of the year	41	40

EUR million	2003	2004
Within one year	36	37
In years two to five inclusive	74	109
Beyond five years	84	78
Total of future minimum lease payments under non-cancellable operating leases	194	224

(24) Investments – equity accounting

EUR million	2003	2004
Equity-consolidated investments		
Value at 1 January	322	312
Disposed of during the year	0	0
Acquired during the year	6	0
Earnings	-48	-10
Others	32	-9
Value at 31 December	312	293

(25) Other investments

EUR million	2003	2004
Fair value at 1 January	471	531
Disposed of during the year	26	-34
Acquired during the year	12	51
Increase (decrease) in fair value	7	37
Others	15	6
Fair value at 31 December	531	591
Of which recognized directly in equity	43	80

This item contains the shares held in Fortis, Sofina, Innogenetics, Arqule and Thai Olefins Company (TOC) as well as companies of non-significant size which are neither consolidated nor accounted for by the equity method. Fortis and Sofina are not allotted to segments, whilst Innogenetics and Arqule are allotted to the Pharmaceuticals Sector and TOC to the Plastics Sector.

(26) Inventories

EUR million, at December 31	2003	2004
Finished goods	558	618
Raw materials and supplies	425	443
Work in progress	84	87
Other inventories	21	17
Total	**1 088**	**1 165**
Write-downs	-29	-33
Net total	**1 059**	**1 132**

(27) Trade receivables

As in 2003, trade receivables represented 66 days' sales in 2004.
The carrying value of the trade receivables is a good approximation of the fair value at balance sheet closing date.

(28) Total shareholders' equity

An examination of environment provisions (see note no. 29) has revealed a valuation error of sufficient material significance (EUR 40 million offset by a EUR 18 million deferred tax asset) for the Executive Committee to decide to make a EUR 22 million correction to shareholders' equity, in accordance with IAS 8, article 42. This correction does not impact either 2003 or 2004 earnings.

(29) Provisions

EUR million	Employee benefits	Health, safety and environment	Litigation	Other	Total
At 1 January 2004	1 242	434	54	133	1 863
Additions*	170	21	93	96	380
Reversals	-9	-3	-4	-7	-23
Uses	-126	-20	-5	-35	-186
Currency translation differences	-10	-2		-4	-16
Acquisitions and changes in consolidation scope	2	13	1	3	19
Disposals	-7	-10			-17
Others	1	-12	-3	16	2
At 31 December 2004	1 263	421	136	202	2 022
of which short-term provisions	54	43	19	65	181
* of which interest cost	54	11			65

Provisions for post-employment benefits

Provisions for employee benefits represented EUR 1 263 million in 2004. These provisions have been set up primarily to cover post-employment benefits granted by most Group companies in accordance with local rules and customs.
Provisions for post-employment benefits amounted to EUR 1 060 million in 2004, before deducting the EUR 22 million capitalized pension asset. These provisions are set up on the basis of the IFRS valuation rules defined on page 51 of the present report and reflect the estimated compensation at the time of retirement.

The balance consists of provisions for benefits not valued in accordance with IAS 19 (EUR 10 million), provisions for other long-term benefits (EUR 49 million) and provisions for termination benefits (EUR 144 million).

The largest pension plans are in Belgium, France, Germany, the Netherlands, the United Kingdom and the United States. Certain companies provide post-employment health or life insurance cover to their employees and related beneficiaries. This cover is either financed under insurance contracts or is covered by provisions for post-employment benefits.

Total Group post-employment benefit obligations by country

	in % at end 2004
Netherlands	27%
Germany	24%
Belgium	17%
USA	13%
UK	6%
France	6%
Other countries	7%

Post-employment benefit plans are classified into defined contribution and defined benefit plans.

– Defined contribution plans
  Defined contribution plans are those for which the company pays fixed contributions into a separate entity or fund in accordance with the provisions of the plan. Once these contributions have been paid, the company has no further obligation. EUR 22 million of contributions to these plans were charged to income in 2004 (EUR 24 million in 2003).

– Defined benefit plans
  All plans which are not defined contribution plans are deemed to be defined benefit plans. These plans can be either unfunded or funded via outside pension funds or insurance companies. All main plans are assessed annually by independent actuaries. The amounts charged to income in respect of these plans are:

EUR million	2003	2004
Service cost: employer	56	56
Interest cost	124	125
Expected return on plan assets	-65	-71
Amortization of actuarial net losses / (gains)	4	7
Impact of change in asset ceiling - current year	2	-3
Past service cost - recognized in current year	2	-6
Losses / (gains) on curtailments / settlements	-1	-3
Net expense recognized - Defined benefit plans	122	105

The cost of these benefit plans is charged variously to cost of sales, commercial and administrative costs, research & development costs, other financial gains and losses and non-recurring items.

Globally, this charge reduced by EUR 17 million, owing mainly to:

– higher expected return on assets in 2004 (EUR 6 million reduction in the charge) due in particular to the good returns recorded in 2003, leading to an increase at the end of 2003 of the value of the assets which serve as the basis for calculating the expected return for 2004;

– the revision of post-retirement health care plans in the United States and the recognition in 2004 of the subsidy granted by the US government under the act revising the federal Medicare program (EUR 8 million);

– the restructuring plans in the Group.

With regard to the invested assets it should be noted that:

– they produced an actual return of EUR 67 million in 2004 (compared with EUR 112 million in 2003). This amount should be compared with the expected return of EUR 70 million (EUR 65 million in 2003);

– these assets do not contain any direct investment in Solvay Group shares, though this does not exclude Solvay shares being included in mutual investment fund type investments.

The amounts recorded in the balance sheet in respect of defined benefit plans are:

EUR million	2003	2004
Defined benefit obligations - funded plans	1 434	1 535
Fair value of plan assets at end of period	-1 070	-1 125
Deficit for funded plans	364	410
Defined benefit obligations - unfunded plans	781	852
Funded status	1 145	1 262
Unrecognized actuarial gains (losses)	-104	-260
Unrecognized past service cost	0	18
Amounts not recognized as asset due to asset ceiling	11	18
Net liability (asset) in balance sheet		
Liability recognized in the balance sheet	1 058	1 060
Asset recognized in the balance sheet	-6	-22

The net obligation recorded in the balance sheet includes the obligation to retired executive directors and surviving spouses; the amounts paid to the latter amounting to EUR 1.3 million in 2004.
The financing deficit in our post-employment benefit plans for former employees (total obligations less the value of the assets) increased by EUR 117 million.
This increase is due essentially to an estimated EUR +160 million increase in these commitments, following the lowering at the end of December 2004 of the discount rate applied to these commitments in the Eurozone, United States and United Kingdom. Elsewhere, changes in plans have contributed to reducing the deficit.

Changes in net obligations during the period:

EUR million	2003	2004
Net amount recognized at beginning of period	1 058	1 052
Net expense - Defined benefit plans	122	105
Company contributions / direct benefit payments (cash payments)	-106	-109
Impact of acquisitions / disposals	0	-3
Changes in consolidation scope	0	2
Currency translation differences	-26	-9
Others	4	
Net amount recognized at end of period	1 052	1 038

In the Netherlands, Solvay Pharmaceuticals has lent EUR 18 million to the pension fund in three successive EUR 6 million tranches (2003, 2004 and 2005). The first tranche, granted in 2003 (EUR 6 million), was converted into pension fund contributions in 2004.

Actuarial assumptions used in determining the pension obligation at December 31

	Eurozone		Europe Other		USA		Other	
	2003	2004	2003	2004	2003	2004	2003	2004
Discount rates	5,5%	5%	4%-7%	3.5%-7%	6.5%	6.0%	11.3%	11.3%
Expected rates of future salary increases	2.5%-5%	2.5%-4,75%	3.25%-6%	2%-6%	4%	4%	8%	8%
Expected rates of pension growth	0%-2.5%	0%-2%	0%-2.25%	0%-3%	NA	NA	NA	NA
Expected rates of medical care cost increases	2%-3%	2%-3%	NA	NA	7%	5%-9%	6.6%	6.6%

Actuarial assumptions used in determining the annual cost

	Eurozone		Europe Other		USA		Other	
	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Discount rates	5.5%	5.5%	4%-7%	3.75%-7%	6.75%	6.5%	11.3%	11.3%
Expected rates of future salary increases	2.5%-5%	2.5%-4.75%	3.25%-6%	2%-6%	4.5%	4%	8%	8%
Expected (long-term) rates of return on plan assets	5.5%-6.5%	5.5%-6.5%	4%-7.3%	3.75%-7.3%	8%-9%	9%	11.3%	11.3%
Expected rates of pension growth	0%-2.5%	0%-2%	0%-2.25%	0%-2.25%	NA	NA	NA	NA
Expected rates of medical care cost increases	2%-3%	2%-3%	NA	NA	7%	5%-9%	6.6%	6.6%

Health, safety and environment provisions

These provisions have been set up to cover liabilities and charges connected with the mining activities which underlie certain group products, the growing constraints on the elimination or processing of residues which remain technically inevitable in certain activities, and with the constant increase in other environmental protection concerns.

The estimated amounts are discounted as a function of the probable date of disbursement. Provisions are increased every year to reflect the increasing proximity of such disbursement. Such increases cost EUR 11 million in 2004.

The annual examination of the provisions in the Group accounts revealed that certain provisions had been under or overestimated in the light of the information available at time of the shift to IFRS.
This re-estimation, relating mainly to remaining Group commitments in relation to its former Salt activities, gives a net balance of EUR 40 million. An amount of EUR 22 million (after offsetting tax assets) was therefore charged to shareholders' equity in the 2004 opening balance, as provided for in the IAS 8 standard in the event of an error.

The 2004 opening balance is therefore EUR 434 million, as against the EUR 394 million published in the 2003 annual report.

Provisions for litigation

At EUR 136 million, provisions for litigation are EUR 82 million higher. This rise is due mainly to an additional recognition to cover various risks, including possible tax liabilities and the outcome of the European competition authorities' hydrogen peroxides inquiry. The Solvay Group has received a letter of complaint in this matter from the European authorities, and will be presenting its defense in the second half of 2005. Certain class actions have also been filed against the Group in the United States; in our opinion these are unfounded.

Other provisions

Other provisions, at EUR 201 million, are up EUR 68 million. The main reasons behind this increase are:

– a EUR 21 million provision for rehabilitating the closed soda ash production site at Ebensee, Austria;

– a EUR 38 million provision to cover the additional research costs in 2005 and beyond required for accelerating development of the mental health compounds in the agreement with Wyeth;

– an increase in the technical reserves in the Blair reinsurance subsidiary, following the rise in reinsurance deductibles.

Group policy on insurance

Solvay Group policy is to use insurance to cover all catastrophe hazards, in all cases where insurance is mandatory and also whenever insurance represents the best economic solution for allocating risk. In 2004, insurance and reinsurance markets eased slightly, but with new exclusions imposed, in particular in the area of civil liability for pharmaceutical risks. Most of these exclusions do not apply to the Group's activities, or it has been possible to exclude them. Overall, total premium costs have been lowered, mainly by increasing the Group's retention in its own reinsurance subsidiary.

The Group continues to scan insurance markets for new opportunities for covering its risks – providing the cost is acceptable - and so limit the financial consequences of incidents that could have a major impact on its assets, profits and its liability towards third parties.

This year, civil liability lawsuits were mainly in the USA and in the feminine hormone therapy field. These reflect the ongoing debate on hormone treatments, in particular the publication in July 2002 of the Women's Health Initiative (WHI) study, which gave rise in the United States to lawsuits against feminine hormone treatment producers. Whilst our specialty products do not feature the same hormonal compound as the products included in the WHI study, Solvay Pharmaceuticals is facing individual lawsuits.

At this early stage of proceedings, it is premature to predict the outcome of these lawsuits, numbering no more than a few hundred. The Group has decided to put together a team of specialist attorneys to vigorously contest any unjustified claim against it and seek intervention from its insurers.

The ongoing discussions with the FDA (Food and Drug Administration) on the administrative status of ESTRATEST® are continuing constructively. Parallel with this, Solvay Pharmaceuticals faces three class actions in the United States linked to this same status, one in California, one in Minnesota, and one in Tennessee. Solvay Pharmaceuticals is using every legal means to fight these cases, which it believes to be unfounded. Its position was recently upheld in a judgement in a similar lawsuit in Georgia.

(30) Net indebtedness

The Group's net indebtedness is the balance between its financial debts and available cash and cash equivalents. It fell during the year by EUR 326 million from EUR 1 120 million to EUR 794 million.

EUR million	2003	**2004**
Financial debt	2 326	2 200
- Cash and equivalents	-1 206	-1 406
Net indebtedness	1 120	794

The Group's net debt to equity ratio decreased from 32% at end-2003 to 21% at end-2004.

Financial liabilities

Financial debt contracted by EUR 126 million from EUR 2 326 to 2 200 million. Apart from contractual repayments, the EUR equivalent of the USD-denominated debt fell by EUR 20 million. Both short and long-term financial debts were lower, by EUR 64 million and EUR 62 million respectively.

EUR million	2003	**2004**
Subordinated loans	7	7
Bonds	1 616	1 585
Long-term finance lease obligations	23	20
Long-term debts to financial institutions	203	171
Other long-term debts	63	67
Amount due within 12 months (shown under current liabilities)	52	52
Other short-term borrowings (including overdrafts)	362	298
Total financial debt (short and long-term)	2 326	2 200
The financial debt is repayable as follows :		
on demand or within one year	414	350
in year two	123	816
in years three to five	969	224
beyond five years	820	810

Analysis of total financial debt by currency

EUR million	EUR	USD	GBP	Others	Total	Average interest rate paid
2003	1 866	341	8	111	2 326	6%
2004	1 787	293	2	118	2 200	5%

Borrowings and credit lines

The largest borrowings maturing after 2004 are:
in Belgium: EMTN-note type bond issues by Solvay SA :
- 5.5% EUR 700 million, maturing 2006*;
- 4.99% EUR 500 million, maturing 2014 ;
- 4.75% EUR 300 million, maturing 2018 ;
in the United States: USD 105 million repayable in equal installments from 2004 to 2007, at an interest rate of 8.55%*
in Germany: our 75% share in the EUR 110 million borrowed to finance SolVin (of which EUR 90 million at the fixed rate of 3.54%; final maturity 2008) ;
in Thailand: our 48.6% share in the THB 2.7 billion borrowed to finance Vinythai (straight-line repayment, 5.75% variable interest rate, final maturity 2006).

In addition the Group has access to:
a USD 500 million commercial paper program, USD 220 million of which was utilized at the end of 2004. This program is covered by back-up credit lines which were unused at the end of 2004;
a EUR 350 million bank credit line (unused at end-2004), maturing in July 2008;
a EUR 850 million bank credit line (unused at end-2004), maturing in October 2011.

* Issue swapped at a floating interest rate in December 2003

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 1 406 million. This is EUR 200 million higher than at the end of 2003.

EUR million	2003	2004
Fixed-income securities	6	18
Term deposits	974	1 251
Cash	226	137
Cash and cash equivalents	1 206	1 406

(31) Derivative financial instruments

The Solvay Group uses derivatives to cover clearly identified foreign exchange and interest rate risks (hedging instruments). However, the required criteria to apply hedge accounting according to IFRS are not met in all cases. This means that this form of accounting is not always applicable when the Group covers its economic risks.

Managing the transactional exchange risk

This is the exchange risk which attaches to a specific transaction, such as a Group company buying or selling in a currency other than its functional currency.

a) Hedging transactional exchange risk when certain

Subsidiaries are required to transfer their foreign exchange positions when certain (e.g. customer invoices, supplier invoices, etc.) to the Coordination Center-CICC, which is a consolidated subsidiary. This systematic hedging has the effect of centralizing the Group's foreign exchange position at CICC and relieving operating subsidiaries of the administrative burden of managing the exchange risk.

CICC's foreign exchange position is then managed under rules and specific limits which have been set by the Group.
The main management tools are the spot and forward purchase and sale of currencies, and the purchase of options.

b) Hedging forecast short /medium-term foreign currency flows

Forecasted foreign currency flows are regularly mapped, by SBU, in order to measure the Group's expected exposure to transactional exchange risk on an annual horizon.

In its present structure, the Group's exposure is essentially linked to the EUR / USD risk: the Group is "long" in USD, i.e. the Group's overall activities generate a net positive USD flow.

Based on this mapping and depending on market conditions, foreign exchange hedging can be carried out on the basis of budgeted flows. The main financial instruments utilized are forward currency sales and the purchase of options.

From the accounting point of view, where applicable this hedging is documented in such a way that it can be processed as a "perfect hedge".

During 2004, the Solvay Group sold forward a total of USD 200 million, for terms ranging between March 2004 and March 2005.
The cost of this hedging is allocated by SBU and is accounted for under other financial gains and losses.

Managing the exchange risk on debt

Group borrowings are generally carried out by the Group's financial companies, which make the proceeds of these borrowings available to the operating entities.

The choice of borrowing currency depends essentially on the opportunities offered by the various markets. This means that the selected currency is not necessarily that of the country in which the funds will be invested. Nonetheless, in principle operating entities are financed in their own local currencies, with this currency being obtained, where appropriate, by currency swaps against the currency held by the financing company. The cost of these currency swaps is included under the cost of borrowing. These enable us to limit the exchange risk both in the financial company and in the company finally using the funds.

In emerging countries it is not always possible to borrow in local currency, either because local financial markets are too narrow and funds are not available, or because the financial conditions are too onerous. In such a situation the Group has to borrow in a strong currency. Nonetheless the Group has taken advantage of any opportunities to refinance its borrowing in emerging countries with local currency debt.

In this way, at the end of 2004, the Group had no foreign exchange exposure on its residual currency borrowings.

Managing the translation exchange risk

The translation exchange risk is the risk affecting the portion of the Group's consolidated earnings generated by subsidiaries operating in a currency other than the EUR (the Group's functional currency).

For the Solvay Group, this risk relates mainly to the translation into EUR of earnings generated in the Nafta region.

Based on the expected net earnings in the Nafta region for the period in question and depending on market conditions, steps may be taken to hedge this translation risk. The main financial instrument used here is the Average Rate Option. The cost of this hedging is also recorded under other financial gains and losses.

In 2004, the Solvay Group hedged USD 50 million of translation risk.

Managing interest rate risk

Interest rate risk is managed at Group level, based on net indebtedness by currency. At December 31, the Group's only fixed rate debt was in EUR and USD.

Apart from locking in the interest rates at the time of issue of its two bond loans (EUR 300 million for 15 years, EUR 500 million for 10 years), the two main interest rate management transactions undertaken by Solvay are:

– in July 2001, the Group locked in a part of its USD debt with an interest rate swap (USD 220 million at 5.42%, maturing 2006);
– in December 2003 the Group used an interest rate swap to place its EUR 700 million bond issue (EMTN) back on a floating basis, so as to rebalance its fixed/variable rate exposure in EUR.

Identical financial instruments relating to the same operation are not included in the table below.

	2003		2004	
EUR million	Notional amount	Fair value	Notional amount	Fair value
Foreign currency derivatives				
Foreign exchange contracts and swaps	337	2	358	5
Options				
Interest rate derivatives				
Swaps	1 017	-8	1 004	3
Others				
Other derivatives	0	0	0	0
Total derivative financial instruments	**1 354**	**-6**	**1 362**	**8**

(32) Other current liabilities

The reduction in other current liabilities is explained by the EUR 21 million reduction in other current debts.
EUR 2 million in respect of 2003 has also been reclassified under provisions.

(33) Commitments to acquire tangible and intangible assets

EUR million	2003	2004
Commitments for the acquisition of tangible and intangible assets	27	27
of which: JV's	0	4

(34) Contingent liabilities

EUR million	2003	2004
Liabilities and commitments of third parties guaranteed by the company	133	130
Pledges given or irrevocably committed by Group companies on their own assets as security for their own or third-party liabilities and commitments	126	110
Commitments resulting from technical guarantees attached to sales of goods or services	0	0
Litigation and other major commitments	34	34

EUR 28 million under the litigation and other major commitments heading consists of a liability linked to the supply of ethylene (2003: EUR 32 million).

The following amounts relating to Joint Ventures are included in the previous table.

EUR million	2003	2004
Liabilities and commitments of third parties guaranteed by the company	8	1
Pledges given or irrevocably committed by Group companies on their own assets as security for their own or third-party liabilities and commitments	12	6
Commitments resulting from technical guarantees attached to sales of goods or services	0	0
Litigation and other major commitments	0	0

(35) Joint Ventures

The Joint Ventures are proportionately consolidated in the annual accounts at the following amounts (see the list of proportionately consolidated companies below).

EUR million	2003	2004
Non-current assets	804	760
Current assets	511	532
Non-current liabilities	372	350
Current liabilities	433	423
Net sales	1 651	1 834
Cost of sales	-1 385	-1 497

2003 figures have been restated.

2004 Consolidation Scope

The Group consists of Solvay SA and a total of 387 subsidiaries and associated companies in 51 countries.

Of these, 155 are fully consolidated, 76 are proportionately consolidated, 13 are accounted for using the equity method, whilst the other 143 do not meet the criteria of significance.

In accordance with the principle of materiality, certain companies which are not of significant size have not been included in the consolidation scope. Companies are deemed not to be significant when they do not exceed any of the three following thresholds in terms of their contribution to the Group's accounts:

– sales of EUR 20 million:
– balance sheet total of EUR 10 million;
– headcount of 150 persons.

Companies that do not meet these criteria are, nevertheless, consolidated where the Group believes that they have a potential for rapid development, or where they hold shares in other companies that are consolidated under the above criteria.

List of companies entering or leaving the Group

Ch = Chemicals / Ph = Pharmaceuticals / Pl = Plastics / Pr = Processing / - = not allocated

Companies entering the Group

Country	Company	Sector	Commentary
BELGIUM	Solvay Participations Belgique SA	-	meets the criteria for consolidation
	Financière Keyenveld SA	-	new company
NETHERLANDS	Pipelife Finance B.V.	Pr	meets the criteria for consolidation
GERMANY	Pipelife Deutschland GmbH & Co KG Bad Zwischenahn	Pr	meets the criteria for consolidation
	Pipelife Deutschland Asset Management GmbH	Pr	meets the criteria for consolidation
IRELAND	Inergy Reinsurance Ltd	Pr	new company
ROMANIA	Inergy Automotive Systems Romania S.R.L.	Pr	meets the criteria for consolidation
POLAND	Solvay Pharma Sp. Zoo	Ph	meets the criteria for consolidation
FINLAND	Propipe OY	Pr	new company
RUSSIA	Solvay Pharma OOO	Ph	meets the criteria for consolidation
	Soligran ZAO	Pl	meets the criteria for consolidation
INDIA	Solvay Pharma India Ltd	Ph	meets the criteria for consolidation

Companies leaving the Group

Country	Company	Sector	Commentary
BELGIUM	Solvay Automotive Management and Research S.N.C.	Pr	liquidated
NETHERLANDS	Frisia Zout B.V.	Ch	sold
	Solvay Indupa Nederland B.V.	-	liquidated
FRANCE	Défense-Guynemer Participations SA	-	absorbed by Solvay Participation France SA
	Esco France SA	Ch	sold
GERMANY	ESCO International GmbH	Ch	sold
	ESCO - European Salt Company GmbH & Co KG	Ch	sold
PORTUGAL	Solvay Portugal Serviços Lda	Ch	absorbed by Solvay Portugal - Produtos Quimicos SA
	Solvay Portugal - Participaçoes (SGPS) Lda	-	absorbed by Solvay Portugal - Produtos Quimicos SA
SINGAPORE	Ausimont Singapore Ltd	Ch/Pl	liquidated
UNITED STATES	Hedwin Corporation	Pr	sold
	Solvay Interox, Inc	Ch	absorbed by Solvay Chemicals, Inc.
	Solvay Soda Ash Holdings, Inc.	Ch	absorbed by Solvay Chemicals, Inc.

List of fully consolidated Group companies

indicating the percentage holding, followed by the Sector
Ch = Chemicals / Ph = Pharmaceuticals / Pl = Plastics / Pr = Processing / - = not allocated

BELGIUM		
Alkor Draka SA, Oudenaarde	100	Pr
Financière Keyenveld SA, Bruxelles	100	-
Mutuelle Solvay S.C.S., Bruxelles	99 ,9	-
Peptisyntha SA, Neder-Over-Heembeek	100	Ph
Solvay Benvic & Cie Belgium S.N.C., Bruxelles	100	Pl
Solvay Chemicals International SA, Bruxelles	100	Ch
Solvay Chemie SA, Bruxelles	100	Ch
Solvay Coordination Internationale des Crédits Commerciaux (CICC) SA, Bruxelles	100	-
Solvay Industrial Foils Management and Research SA- SIFMAR, Bruxelles	100	Pr
Solvay Participations Belgique SA, Bruxelles	100	-
Solvay Pharma & Cie S.N.C., Bruxelles	100	Ph
NETHERLANDS		
Physica B.V., Weesp	100	Ph
Sodufa B.V., Weesp	100	-
Solvay Chemie B.V., Linne-Herten	100	Ch
Solvay Draka B.V., Enkhuizen	100	Pr
Solvay Finance B.V., Weesp	100	-
Solvay Interox Holding B.V., Weesp	100	Ch
Solvay Pharma B.V., Weesp	100	Ph
Solvay Pharmaceuticals B.V., Weesp	100	Ph
FRANCE		
Alkor Draka SAS., Roissypole Le Dôme	100	Pr
Ondex SAS., Chevigny-St-Sauveur	100	Pr
Solvay Benvic France SAS., Paris	100	Pl
Solvay - Carbonate - France SAS., Paris	100	Ch
Solvay - Electrolyse - France SAS., Paris	100	Ch
Solvay Finance France SA, Paris	100	-
Solvay - Fluorés - France SAS., Paris	100	Ch
Solvay Immo François 1er SAS., Paris	100	-
Solvay - Olefines - France SAS., Paris	100	Pl
Solvay Participations France SA, Paris	100	-
Solvay Pharma SAS., Suresnes	99 ,9	Ph
Solvay Pharmaceuticals SAS., Suresnes	99 ,9	Ph
Solvay Solexis SAS., Paris	100	Pl
Solvay - Spécialités - France SAS., Paris	100	Ch
ITALY		
Adriaplast S.p.A., Monfalcone	100	Pr
Caleppiovinil S.p.A., Fucine di Ossana	100	Pr
GOR Applicazioni Speciali S.p.A., Buriasco	100	Pr
SIS Italia S.p.A., Rosignano	100	-
Società Elettrochimica Solfuri e Cloroderivati (ELESO) S.p.A., Milano	100	Ch
Società Generale per l'Industria della Magnesia (SGIM) S.p.A., Angera	100	Ch
Solvay Bario e Derivati (SABED) S.p.A., Massa	100	Ch
Solvay Benvic - Italia S.p.A, Rosignano	100	Pl
Solvay Chimica Italia S.p.A., Milano	100	Ch
Solvay Finanziaria S.p.A., Milano	100	-
Solvay Padanaplast SpA, Roccabianca	100	Pl
Solvay Pharma S.p.A., Grugliasco	100	Ph
Solvay Solexis S.p.A., Milano	100	Pl

GERMANY		
Solvay GmbH, Hannover	100	-
Alkor GmbH Kunststoffe, München	100	Pr
Alkor Draka Handel GmbH, Wuppertal	100	Pr
Alkor Folien GmbH, Thansau	100	Pr
Cavity GmbH & Co KG, Hannover	100	Ch
Hispavic GmbH, Hannover	100	Pl
Kali-Chemie AG, Hannover	100	-
Salzgewinnungsgesellschaft Westfalen mbH & Co KG, Epe	65	Ch
Solvay Advanced Polymers GmbH, Hannover	100	Pl
Solvay Arzneimittel GmbH, Hannover	100	Ph
Solvay Barium Strontium GmbH, Hannover	100	Ch
Solvay Chemicals GmbH, Hannover	100	Ch
Solvay Elektrolysespezialitäten GmbH, Hannover	100	Ch
Solvay Fluor GmbH, Hannover	100	Ch
Solvay Fluor und Derivate GmbH, Hannover	100	Ch
Solvay Infra GmbH, Hannover	100	Ch
Solvay Infra Bad Hoenningen GmbH, Hannover	100	Ch
Solvay Interox GmbH & Co KG, Hannover	100	Ch
Solvay Interox Beteiligungs GmbH, Hannover	100	Ch
Solvay Interox Bitterfeld GmbH, Bitterfeld	100	Ch
Solvay Kali-Chemie Holding GmbH	100	-
Solvay Management Support GmbH, Hannover	100	-
Solvay Pharmaceuticals GmbH, Hannover	100	Ph
Solvay Salz Holding GmbH, Hannover	100	Ch
Sovlay Salz Beteiligungs GmbH & Co KG, Hannover	100	Ch
Solvay Verarbeitung Holding GmbH I.L., Hannover	100	Pr
Solvay Verwaltungs-und Vermittlungs GmbH, Hannover	100	-
SPAIN		
Alkor Draka Iberica SA, Barcelona	100	Pr
Electrolisis de Torrelavega A.E.I., Torrelavega	100	Ch
Solvay Benvic Iberica SA, Barcelona	100	Pl
Solvay Ibérica S.L., Barcelona	100	-
Solvay Fluor Iberica SA, Tarragona	100	Ch
Solvay Interox SA, Barcelona	100	Ch
Solvay Pharma SA, Barcelona	100	Ph
Solvay Quimica S.L., Barcelona	100	Ch
SWITZERLAND		
Solvay (Schweiz) AG, Zurzach	100	Ch
Solvay Pharmaceuticals Marketing & Licensing AG, Allschwil	100	Ph
Solvay Pharma AG, Bern	100	Ph
PORTUGAL		
Solvay Farma Lda, Lisboa	100	Ph
Solvay Interox - Produtos Peroxidados SA, Lisboa	100	Ch
Solvay Portugal - Produtos Quimicos SA, Lisboa	100	Ch
AUSTRIA		
Solvay Österreich GmbH, Wien	100	Ch
Solvay Pharma GmbH, Klosterneuburg	100	Ph
GREAT BRITAIN		
Alkor Draka (UK) Ltd, Watford	100	Pr
Alkor Draka Limited, Cramlington	100	Pr
Solvay Chemicals Ltd, Warrington	100	Ch
Solvay Finance (Jersey) Ltd, St Helier	100	-
Solvay Healthcare Ltd, Southampton	100	Ph

Solvay Interox Ltd, Warrington	100	Ch
Solvay UK Holding Company Ltd, Warrington	100	-
Solvay Speciality Chemicals Ltd, Warrington	100	Ch
IRELAND		
Solvay Healthcare Ltd , Dubin	100	Ph
Solvay Finance Ireland Ltd , Dublin	100	-
DENMARK		
Alkor Draka Nordic K/S, Albertslund	100	Pr
FINLAND		
Oy Finnish Peroxides AB, Voikkaa	100	Ch
POLAND		
Solvay Pharma Sp. z o.o., Piaseczno	100	Ph
BULGARIA		
Solvay Bulgaria AD, Devnya	100	Ch
CZECH REPUBLIC		
Solvay Alkor Folie Spol sr.o., Most	100	Pr
RUSSIA		
Solvay Pharma OOO, Moscow	100	Ph
UNITED STATES		
Solvay America, Inc., Houston, TX	100	-
American Soda LLP, Parachute, CO	100	Ch
Ausimont Industries, Inc., Wilmington, DE	100	Pl
Montecatini USA, Wilmington, DE	100	Pl
Solvay Advanced Polymers, LLC, Alpharetta, GA	100	Pl
Solvay Alkalis, Inc., Houston, TX	100	Ch
Solvay America Funding Company, Houston, TX	100	-
Solvay America Holdings, Inc., Houston, TX	100	-
Solvay Automotive Plastics & Systems, Inc., Troy, MI	100	Pr
Solvay Chemicals, Inc., Houston, TX	100	Ch
Solvay Draka, Inc., Commerce, CA	100	Pr
Solvay Engineered Polymers, Inc., Houston, TX	100	Pl
Solvay Finance (America) Inc., Houston, TX	100	-
Solvay Fluorides, LLC., Greenwich, CT	100	Ch
Solvay HDPE, L.P., Houston, TX	100	Pl
Solvay Information Technologies, Inc., Houston, TX	100	-
Solvay Management Services, Inc., Houston, TX	100	-
Solvay PE, Inc., Houston, TX	100	Pl
Solvay Polyolefins, Inc., Houston, TX	100	Pl
Solvay Pharmaceuticals, Inc., Marietta, GA	100	Ph
Solvay Polymers, Inc., Houston, TX	100	Pl
Solvay Realty Holding LLC, Housotn, TX	100	-
Solvay Soda Ash Joint Venture, Houston, TX	80	Ch
Solvay Soda Ash Expansion JV, Houston, TX	80	Ch
Solvay Solexis, Inc., Wilmington, DE	100	Pl
Unimed Pharmaceuticals Inc., Deerfield, IL	100	Ph
CANADA		
Solvay Engineered Polymers (Canada), Inc., Concord	100	Pl
Solvay Pharma, Inc., Scarborough	100	Ph
Solvay Pharma Canada, Inc., Scarborough	100	Ph
MEXICO		
Solvay Engineered Polymers Mexico SA de C.V., Monterrey	100	Pl
Solvay Fluor Mexico SA de C.V., Ciudad Juarez	100	Ch
Solvay Mexicana S. de R.L. de C.V., Monterrey	100	Ch
Solvay Quimica Y Minera SA de C.V., Monterrey	90	Ch

BRAZIL		
Solvay Farma Ltda, Sao Paulo	100	Ph
Solvay do Brasil Ltda, Sao Paulo	100	-
Solvay Indupa do Brasil SA, Sao Paulo	60 ,7	Pl
Solvay Quimica Ltda, Sao Paulo	100	Ch
ARGENTINA		
Solvay Indupa SAI.C., Bahia Blanca	60 ,7	Pl
Solvay Argentina SA, Buenos Aires	100	-
Solvay Quimica SA, Buenos Aires	100	Ch
AUSTRALIA		
Solvay Interox Pty Ltd, Banksmeadow	100	Ch
JAPAN		
Nippon Solvay KK, Tokyo	100	-
Solvay Advanced Polymers KK, Tokyo	100	Pl
Solvay Seiyaku KK, Tokyo	100	Ph
Solvay Solexis KK, Minato Ku-Tokyo	100	Pl
THAILAND		
Peroxythai Ltd, Bangkok	83 ,9	Ch
SINGAPORE		
Solvay Singapour Pte Ltd, Singapore	100	-
INDIA		
Solvay Pharma India Ltd, Bombay	63 ,9	Ph
CAYMAN ISLANDS		
Solvay Finance (Cayman) Ltd ,Georgetown	100	-
Blair International Insurance (Cayman) Ltd, Georgetown	100	-

List of proportionately consolidated Group companies

BELGIUM		
Inergy Automotive Systems (Belgium) N.V., Herentals	50	Pr
Pipelife Belgium SA, Kalmthout	50	Pr
Inergy Automotive Systems Research SA , Bruxelles	50	Pr
Solvic SA, Bruxelles	75	Pl
Solvin SA, Bruxelles	75	Pl
NETHERLANDS		
Inergy Automotive Systems Netherlands Holding B.V., Weesp	50	Pr
Pipelife Finance B.V., Enkhuizen	50	Pr
Pipelife Nederland B.V., Enkhuizen	50	Pr
FRANCE		
Inergy Automotive Systems SA, Paris	50	Pr
Inergy Automotive Systems France SAS., Compiègne	50	Pr
Inergy Automotive Systems Management SA, Paris	50	Pr
Pipelife France S.N.C., Gaillon	50	Pr
Solvin France SA, Paris	75	Pl
ITALY		
Solvin Italia S.p.A., Ferrara	75	Pl
GERMANY		
Inergy Automotive Systems (Germany), Karben	50	Pr
Pipelife Deutschland Verwaltungs-GmbH Bad Zwischenahn, Bad Zwischenahn	50	Pr
Pipelife Deutschland GmbH & Co KG Bad Zwischenahn, Bad Zwischenahn	50	Pr
Pipelife Deutschland Asset Management GmbH, Bad Zwischenahn	50	Pr
Solvin GmbH & Co KG, Hannover	75	Pl
Solvin Holding GmbH, Hannover	75	Pl
SPAIN		
Hispavic Iberica S.L., Barcelona	75	Pl
Inergy Automotive Systems (Spain) S.L., Vigo	50	Pr
Inergy Automotive Systems Valladolid, S.L., Gava	50	Pr
Pipelife Hispania SA, Zaragoza	50	Pr
Vinilis SA, Barcelona	48 ,8	Pl
PORTUGAL		
Pipelife Portugal-Sistemas de Tubagens Plasticas Lda, Nogueira Da Maia	50	Pr
AUSTRIA		
Pipelife International GmbH, Wiener Neudorf	50	Pr
Pipelife Austria GmbH & Co KG, Wiener Neudorf	50	Pr
Solvay Sisecam Holding AG, Wien	57 ,5	Ch
GREAT BRITAIN		
Inergy Automotive Systems (UK), Telford	50	Pr
IRELAND		
Inergy Reinsurance Ltd , Dublin	50	Pr
SWEDEN		
Pipelife Sverige A.B., Oelsremma	50	Pr
Pipelife Hafab A.B., Haparanda	50	Pr
Pipelife Nordic A.B., Göteborg	50	Pr
NORWAY		
Pipelife Norge AS, Surnadal	50	Pr
FINLAND		
Pipelife Finland OY, Oulu	50	Pr
Pipelife M-Plast OY, Kaavi	50	Pr
Propipe OY, Oulu	50	Pr

POLAND		
Pipelife Polska SA, Karlikowo	50	Pr
Inergy Automotive Systems Poland Sp. z o.o., Warszawa	50	Pr
ROMANIA		
Inergy Automotive Systems Romania S.R.L., Pitesti	50	Pr
Pipelife Romania S.R.L., Cluj-Napoca	25	Pr
SLOVENIA		
Pipelife Slovenija, d.o.o., Trzin	50	Pr
ESTONIA		
Pipelife Eesti AS, Tallinn	50	Pr
LITHUANIA		
Pipelife Lietuva UAB, Vilnius	50	Pr
LATVIA		
Pipelife Latvia SIA, Riga	50	Pr
BULGARIA		
Solvay Sodi AD, Devnya	57 ,5	Ch
CROATIA		
Pipelife Hrvatska Republika d.o.o., Karlovac	50	Pr
HUNGARY		
Pannonpipe Müanyagipari KFT, Budapest	25	Pr
CZECH REPUBLIC		
Pipelife Czech s.r.o., Otrokovice	50	Pr
SLOVAKIA		
Inergy Automotive Systems Slovakia sr.o., Bratislava	50	Pr
Pipelife Slovakia s.r.o., Piestany	50	Pr
GREECE		
Pipelife Hellas SA, Moschato Attica	50	Pr
TURKEY		
Arili Plastik Sanayii AS, Pendik	50	Pr
RUSSIA		
Soligran ZAO, Moscou	50	Pl
UNITED STATES		
Inergy Automotive Systems Holding (USA), Troy, MI	50	Pr
Inergy Automotive Systems (USA) LLC, Troy, MI	50	Pr
Pipelife Jet Stream, Inc. Siloam Springs, AR	50	Pr
CANADA		
Inergy Automotive Systems (Canada), Inc., Blenheim	50	Pr
MEXICO		
Inergy Automotive Systems Mexico SA de C.V., Ramos	50	Pr
BRAZIL		
Dacarto Benvic SA, Santo André	50	Pl
Peroxidos do Brasil Ltda, Sao Paulo	69 ,4	Ch
Inergy Automotive Systems Brazil Ltda, Sao Paulo	50	Pr
ARGENTINA		
Inergy Automotive Systems Argentina SA, Buenos Aires	50	Pr
CHINA		
Changzhou Pipelife Reinforced Plastic C° Ltd, Changzhou	32 ,5	Pr
Chengdu Chuanwei Plastic Pipe Co. Ltd, Longquanyi District	45	Pr
Chuanlu Plastic Sales & Service Co. Ltd, Chengdu, Sichuan	25 ,5	Pr
Pipelife (Guangzhou) Plastic Pipe Mfg Ltd, Nansha	50	Pr
Sichuan Chuanxi Plastic Co. Ltd, Xipu Pixian County	25 ,5	Pr
THAILAND		
Inergy Automotive Systems Thailand Ltd, Bangkok	50	Pr
Vinythai Public Company Ltd, Bangkok	48 ,6	Pl

SOUTH KOREA		
Daehan Specialty Chemicals Co., Ltd, Seoul	60	Ch
Inergy Automotive Systems Co., Ltd, Kyungju	50	Pr
JAPAN		
Inergy Automotive Systems KK, Tokyo	50	Pr
SOUTH AFRICA		
Inergy Automotive Systems South Africa (Pty) Ltd, Brits	50	Pr
VIRGIN ISLANDS		
Pipelife Holding (HK) Ltd, Tortola	50	Pr

List of Group companies accounted for using the equity method

BELGIUM		
BP Solvay Polyéthylène (Belgique)	50	Pl
Solvay Polyolefins Europe - Belgium SA, Bruxelles	100	Pl
FRANCE		
BP Solvay Polyéthylène (France)	50	Pl
Solvay Polyolefins Europe - France SA, Paris	100	Pl
ITALY		
BP Solvay Polyéthylène (Italie)	50	Pl
Solvay Polyolefins Europe - Italy S.p.A. , Rosignano	100	Pl
GERMANY		
BP Solvay Polyéthylène (Deutschland) GmbH, Hannover	50	Pl
SPAIN		
BP Solvay Polyéthylène Iberica S.L., Barcelona	50	Pl
GREAT BRITAIN		
BP Solvay Polyéthylène (UK) GCAS, Grangemouth	50	Pl
Solvay Polyolefins (UK) Ltd, Hemel Hempstead	100	Pl
UNITED STATES		
BP Solvay Olefins, LP, Houston, TX	51	Pl
BP Solvay Polyéthylène North America, Houston, TX	51	Pl
BRAZIL		
Solvay Polietileno Ltda, Sao Paulo	100	Pl

Summary financial statements of Solvay SA

The annual financial statements of Solvay SA are presented in summary format below. In accordance with the Companies Code, the annual financial statements of Solvay SA, the management report and the statutory auditor's report will be deposited with the National Bank of Belgium. These documents are also available on request from:
Solvay SA
Rue du Prince Albert 33
B -1050 Brussels

The Statutory Auditor has issued an unqualified opinion on the annual financial statements of Solvay SA

Balance sheet of Solvay SA (summary)

EUR million at December 31	2003	2004
ASSETS		
Fixed assets	4 925	4 349
Start-up expenses and intangible assets	67	69
Tangible assets	63	90
Financial assets	4 795	4 190
Current assets	1 680	2 550
Inventories	30	21
Trade receivables	88	134
Other receivables	103	870
Short-term investments and cash equivalents	1 459	1 525
Total assets	**6 605**	**6 899**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	3 552	3 595
Capital	1 269	1 269
Other equity	1 936	1 962
Net earnings carried forward	347	364
Investment grants		
Provisions and deferred taxes	339	337
Financial debt	2 355	2 532
- due in more than one year	2 315	1 517
- due within one year	40	1 015
Trade liabilities	77	91
Other liabilities	282	344
Total shareholders' equity and liabilities	**6 605**	**6 899**

Income statement of Solvay SA (summary)

EUR million	2003	2004
Operating income	1 066	827
Sales	463	166
Other operating income	603	661
Operating expenses	-1 105	-858
Operating profit / loss	-39	-31
Financial gains / losses	263	118
Current profit before taxes	224	87
Extraordinary gains / losses	-30	151
Profit before taxes	194	238
Income taxes	18	-12
Profit for the year	212	226
Transfer to (-) / from (+) untaxed reserves	-9	-
Profit available for distribution	203	226

Statutory Auditor's Report

on the Consolidated Financial Statements for the Year ended December 31, 2004 to the shareholders' meeting of Solvay SA

To the shareholders,

In accordance with the legal and statutory requirements, we report on our audit assignment which you have entrusted to us.

We have examined the consolidated annual accounts for the year ended December 31, 2004. Those include the consolidated balance sheet and the consolidated income statement, the consolidated cash flow statement, the consolidated table of the evolution of shareholders' equity and the notes. Those statements have been prepared under the responsibility of the Board of Directors. The balance sheet amounts to 10 037 million EUR and the income statement results in a profit for the year (Group's share) of 489 million EUR.

Financial statements of subsidiaries included in the consolidation for a balance sheet total of 1 586 million EUR and consolidated revenue of the year of 3 326 million EUR have been audited by other auditors ; we relied on their opinion. In addition, we have performed specific procedures with respect to the Director's report.

Unqualified audit opinion on the consolidated financial statements

Our examination has been conducted in accordance with the auditing standards of the "Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free of material misstatement and are in compliance with the Belgian legal and regulatory requirements.

In accordance with these standards we have taken into account the administrative and accounting organization of your company as well as the procedures of internal control. The responsible officers of the company have clearly replied to all our requests for information and explanations. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the accounting policies used, the significant estimates made by the company and the overall presentation of the consolidated annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits and the other auditors' reports, the consolidated financial statements of Solvay SA as at and for the year ended December 31, 2004 give a true and fair view of the Group's consolidated assets, liabilities, consolidated financial position, consolidated results of its operations and cash flows in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and the information given in the notes to the financial statements is adequate. Those consolidated financial statements also comply with the legal and regulatory requirements applicable in Belgium to consolidated financial statements and related notes.

Additional certification

We supplement our report with the following certification which does not modify our audit opinion on the consolidated financial statements :

- The Director's report includes the information required by the Companies Code and is in accordance with the consolidated financial statements.

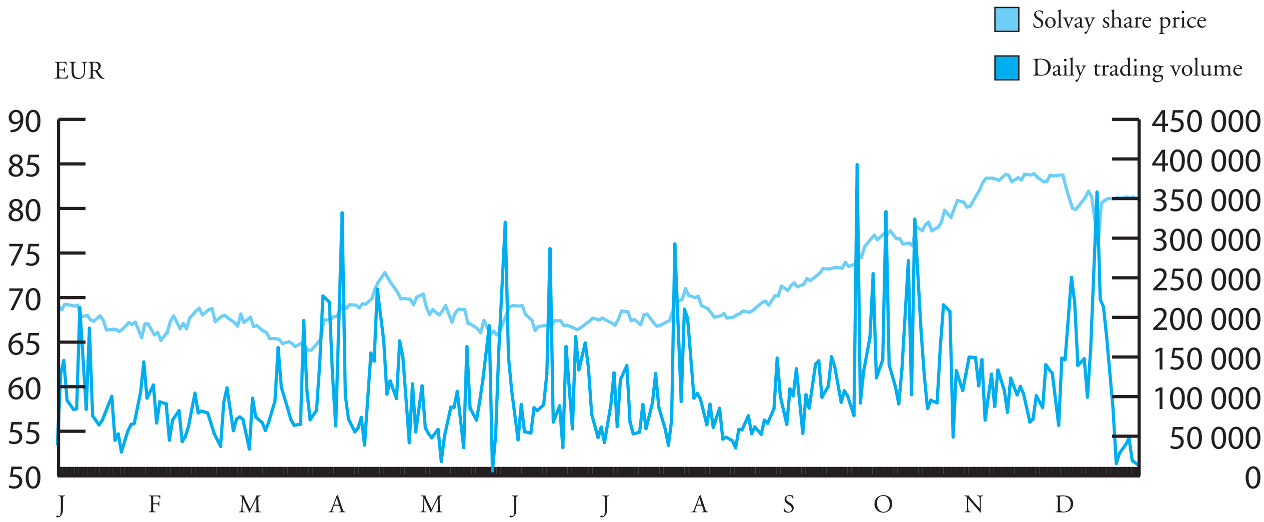
Brussels, February 23, 2005
The Statutory Auditor

DELOITTE & TOUCHE Reviseurs d'Entreprises
SC s.f.d. SCRL
Represented by Michel Denayer

Information for shareholders

SOLVAY SHARE PERFORMANCE

The Solvay share in 2004: price and trading volumes



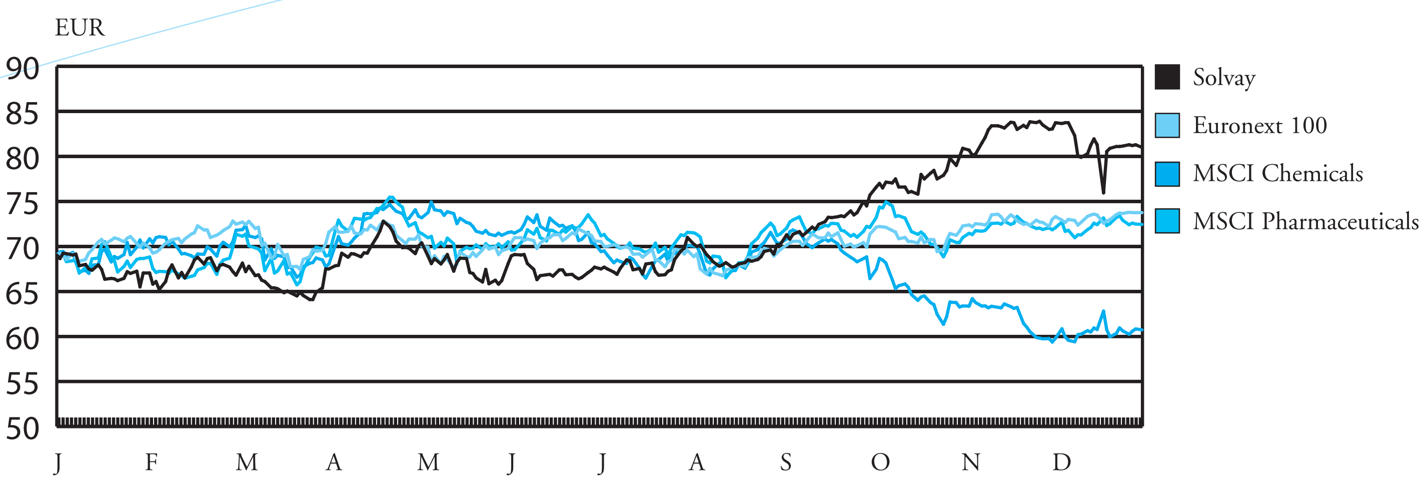
The Solvay share price rose by 18% between January 1 and December 31, 2004. This points to strong investor interest in the Group's activities and in its significant strategic advance. It also reflects the Group's steadily improving results in a more favorable economic environment compared with 2003.

The lowest price during the year was EUR 64.1 (March 26, 2004) as against EUR 47.6 in 2003. The highest price was EUR 83.9 (November 26, 2004) as against EUR 69.3 in 2003, a new historic record beating the earlier record set in 2000.

Average daily trading volume was over 100 000 securities, as in 2003, with higher average volumes (115 000) recorded in the second half of the year.

The Solvay share compared with the indexes

Solvay share price since January 1, 2004



From 01/01/04 to 31/12/04	
Solvay	19%
Euronext 100	8%
MSCI Chemicals	6%
MSCI Pharmaceuticals	-11%

In 2004 the Solvay share (+19%) outperformed the reference Euronext 100 (+8%), MSCI Chemicals (+6%) and MSCI Pharmaceuticals (-11%) indexes.

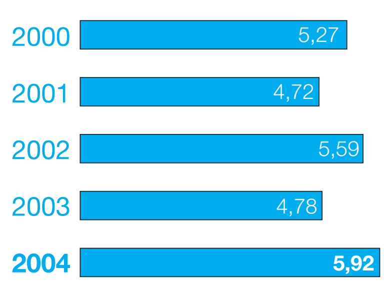
The Solvay share price can be consulted directly on 2 internet sites:
> www.solvay-investors.com
> www.euronext.com

Financial Information per share

Net Group income was EUR 541 million. Minority interests in this amount total EUR 52 million, of which EUR 24 million of preference dividends linked to the EUR 800 million financing of the Ausimont acquisition and EUR 28 million reflecting, among other things, the 100% consolidation of Solvay Indupa activities since July 2004.

In 2004 earnings per share were up 24% at EUR 5.92.

Net earnings per share (in EUR)



Under IFRS rules, net earnings per share is calculated by dividing net income (Solvay share) by the weighted average number of shares, less own shares bought in by the company to cover stock option programs.

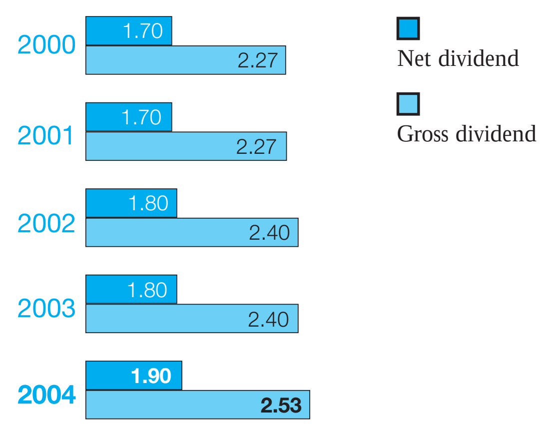
Readers are reminded that, under Belgian law, net earnings per share used to be obtained by dividing net income (Solvay share) by the total number of shares on December 31.

Dividend

The net dividend for 2004 proposed to the General Shareholders' Meeting of June 2, 2005 is EUR 1.90 per share. This is 5.6% higher than in 2003. Given that an interim dividend of EUR 0.70 net per share (coupon no. 75) was already paid on January 13, 2005, the balance of EUR 1.20 per share will be paid on June 9, 2005 (coupon no. 76).

This increase is in line with Group policy of increasing the dividend whenever possible and, as far as possible, not reducing it. Over the past 20 years the dividend has been steadily increased and never reduced.

Gross and net dividend per share (in EUR)



The dividend is payable at the following institutions:
– Banque Fortis SA, Montagne du Parc 3 – B-1000 Brussels
– ING Belgium South WestEurope, Cours Saint Michel 60 – B-1040 Brussels
– KBC Bank SA, Havenlaan 2 – B-1080 Brussels
– Banque Générale du Luxembourg SA, Boîte Postale 1906 – L-2951 Luxembourg
– Crédit Suisse, Paradeplatz 8 – CH-8021 Zürich
– Deutsche Bank, Taunusanlage 12 – D-60262 Frankfurt–am–Main
– ABN Amro B.V., Foppingsdreef 22/AA 3330 – NL-1102 BS Amsterdam.

For ADRs the dividend is payable by Morgan ADR Service Center, P.O. Box 8205 – USA-Boston, MA 02266-8205.

Shareholders and investors relations

Active and much appreciated financial communication

Best Financial Information Prize

In 2004, as in 2003, Solvay was nominated for the Association of Belgian Financial Analysts' (ABAF) Prize for the Best Financial Information. The Award Commission's report hails Solvay's continuous improvement of its financial information, the move to quarterly reporting, and its adoption of international accounting standards (International Financial Reporting Standards).

Shareholder and Investor Clubs

In 2004, the Solvay Group actively continued its meetings with individual investors. In March 2004 was present at the "Investors Happening" organized in Antwerp by the Flemish Association of Investors and Investors' Clubs and at the Action Day organized by Cash magazine; in October Mr A. Michielsen was the guest of "Trends Lunchtimes"; and in November, for the first time, Solvay presented itself to French investors by taking part in the Actionaria Fair and Agora at the Paris Palais des Congrès.

Roadshows and meetings for professionals

Roadshows and meetings with Group management are organized regularly for international professionals (analysts, portfolio managers, press, etc.)

The Group wishes to thank its shareholders, and all others, in particular financial journalists and analysts, for their continuing confidence in Solvay.

Contacts:

The Investor Relations Team is ready to assist shareholders and investors with any question concerning the activities of the Solvay Group and the Solvay share and to provide any information (annual report, detailed accounts of Solvay SA, information by sector or market,…):

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also by Email : investor.relations@solvay.com.

A specific Internet site, www.solvay-investors.com provides shareholders and investors with useful information and documentation together with financial and strategic information about the Group. Visitors to this site can also register with the shareholders' and investors' club to be notified by e-mail of the publication of most of this information.

For further information on the ADRs, a hotline is also available at 1-800-428-4237 (from the United States and Canada) and at 1-781-575-4328 (from other countries).

Shareholders' Diary

- April 29, 2005: announcement of three months 2005 earnings and annual analysts' and investors' meeting
- June 2, 2005 : Annual General Meeting and Extraordinary General Meeting (10.00 a.m.)
- June 9, 2005 : payment of the balance of the 2004 dividend (coupon no. 76)
- July 29, 2005 : announcement of six months 2005 earnings
- October 28, 2005 : announcement of nine months 2005 earnings
- December 15, 2005 : announcement of the interim dividend for 2005 (payable in January 2006, coupon no. 77)
- Mid-February 2006: publication of the 2005 results

Consolidated data per share

	Belgian accounting		IFRS		
	2000	2001	2002	2003	2004
Capital and reserves after distribution*	44.25	35.46	32.34	32.23	34.92
Cash Flow	11.39	10.82	12.95	9.91	12.00
EBITDA (Belgian accounting) / REBITDA (IFRS)	13.77	13.62	16.69	13.16	14.72
Net income	5.27	4.72	5.59	4.78	5.92
Net income (excluding discontinued operations)			5.64	4.83	5.50
Number of shares (in thousands) at December 31	84 365	84 445	84 600	84 610	84 623
Average number of shares (in thousands) for calculating IFRS earnings per share	n.a.	n.a.	83 059	82 748	82 521
Diluted net income	n.a.	n.a.	5.58	4.78	5.90
Diluted net income (excluding discontinued operations)			5.63	4.82	5.48
Average number of shares (in thousands) for calculating diluted IFRS earnings per share	n.a.	n.a.	83 208	82 776	82 751
Gross dividend	2.27	2.27	2.40	2.40	2.53
Net dividend	1.70	1.70	1.80	1.80	1.90
Highest price	83.90	67.65	78	69.3	83.9
Lowest price	53.05	52.65	58.7	47.6	64.1
Price at December 31	59.40	67.65	65.7	68.75	81
Price/earnings at December 31	11.4	14.3	11.88	14.4	13.7
Net dividend yield at December 31	2.9%	2.5%	2.7%	2.6%	2.3%
Gross dividend yield at December 31	3.8%	3.4%	3.7%	3.5%	3.1%
Annual volume (thousands of shares)	18 212	18 837	25 672	27 068	27 710
Annual volume (EUR million)	1 276	1 113	1 790	1 667	2 000
Market capitalization at December 31 (EUR billion)	5.0	5.7	5.6	5.8	6.9
Velocity (%)	21.9	23.3	30.9	32.3	31.5
Velocity adjusted by Free Float (73%) (in%)	29.4	31.0	41.2	44.2	43.1

*Capital and reserves per share fell significantly at the end of 2001 because, with the permission of the Banking and Finance Commission, goodwill arising from the acquisition of BP special polymers activities and Ausimont was set off against capital and reserves. Without this set-off, these would have amounted at the end of 2001 to EUR 44.93 per share.

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