

**Report on the application  
of the Solvay group's  
Corporate Governance rules  
in 2005**



## Introduction

This report presents the application in 2005 of the Solvay group's "Corporate Governance" rules.

With the Belgian Corporate Governance Code becoming fully effective on January 1, 2006, for the 2005 financial year, this report therefore represents the application of the Code's recommendations in accordance with the "comply or explain" principle.

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## 1. Legal and shareholding structure of Solvay S.A.

**1.1.** Solvay S.A. is a société anonyme (public limited liability company) created under Belgian law, having its registered office at 33, rue du Prince Albert, Brussels, Belgium. The company's by-laws can be found on the Solvay internet site: [www.solvay-investors.com](http://www.solvay-investors.com). Its company purpose consists of pharmaceutical, chemical and plastic activities.

**1.2.** Its shares are either bearer shares (in denominations of 1, 10, 100 or 1,000 shares) or registered shares, at the shareholder's choice. Shares may be converted through a simple request to the company, accompanied by the share ownership certificate. (Service des Actionnaires, rue du Prince Albert 33, B-1050 Brussels (Belgium), Tel.: +32-2-509.63.09).

At December 31, 2005, the capital of Solvay S.A. was represented by 84 696 133 shares, including 1 961 695 shares held by Solvay S.A. itself to cover the stock option program (further details under 2.1. "Company capital").

Each share entitles its holder to one vote whenever voting takes place (except for the shares held by Solvay S.A. itself, the voting rights for which are suspended). All shares are equal and common.

The share is listed on Euronext Brussels.

Solvay's share price is included in several indexes:

- Euronext 100, consisting of the leading 100 European companies listed on EURONEXT, where Solvay ranks in 59<sup>th</sup> place (0.42% of the index) (at January 1, 2006).
- The Bel 20 index, based on the 19 most significant shares listed on Euronext Brussels. At January 1, 2006, Solvay represented around 5.4% (7<sup>th</sup> position by value in this index). Solvay shares are included in the 'Chemicals - Specialties' category of the Euronext Brussels sectoral index.
- Various European indexes: Stoxx, Euro Stoxx, FTSE 300, ...

In the USA shareholders can acquire Solvay shares in the form of ADRs (American Depositary Receipts) under a program (no. 834437-10-5) sponsored by Solvay S.A. and managed by J.P. Morgan Chase & Co (New York). These ADRs are not listed in the USA. One ADR represents one share and entitles its holder to vote on the basis of the underlying share.

**1.3.** Solvay S.A.'s main shareholder is Solvac S.A., a registered company which at January 1, 2006 held 27% of Solvay's capital and voting rights. Solvac S.A. is the only Solvay S.A. shareholder to have filed the transpa-

rency declarations that are required for shareholdings exceeding the thresholds of 3 and 5% (and multiples thereof). The latest declaration is available on the internet site [www.solvay-investors.com](http://www.solvay-investors.com).

Solvac S.A. is a société anonyme established under Belgian law and listed on Euronext Brussels. Its shares, all of which are registered, may be held by physical persons only. The very large majority (around 80%) of its capital is held by members of the families of the founders of Solvay S.A.

This gives Solvay S.A. a free float of 73%. This amount is held by:

- Individual shareholders who hold shares directly in Solvay S.A. None of these persons, either individually or in concert with others, reaches the 3% transparency declaration threshold.
- European and international institutional shareholders, the number and growing interest of whom can be measured by the intensity of contacts at the many roadshows, by the regular publication of analysts' reports and by the significant increase in trading volumes over recent years (an average daily trading volume of 170 000 shares in 2005 compared with 105 000 shares in 2004).

The company has been informed that certain individual shareholders have decided to arrange to consult together when questions of particular strategic importance are submitted by the Board of Directors to the Shareholders' Meeting. Each of these shareholders remains, however, free to vote as he chooses.

**1.4.** At the June 2004 and June 2005 Shareholders' Meetings, shares were deposited and votes cast in respect of an average 41.75% of Solvay S.A.'s capital.

## 2. 2. Capital and dividend policy

### 2.1. Policy in respect of capital

2.1.1. Since being listed on the Stock Exchange and converted into a société anonyme in 1969, the company has not made public calls for capital from its shareholders, instead self-financing out of its profits, only a portion of which are distributed (see “Dividend policy” below).

2.1.2. In December 1999 the company introduced a new annual stock option program for Group executives worldwide. Unlike the earlier system, based on warrants convertible into new shares with capital increases, the new program is covered by own shares purchased by Solvay on the stock exchange. Authorisations of this new system, have been granted several times by extraordinary Shareholders’ Meetings for 18-month periods each time. The extraordinary Shareholders’ Meeting of June 2, 2005 renewed this authorisation for a further 18 months.

The most recent annual program of stock options (exercisable from February 13, 2009 to December 13, 2013) was offered at the end of 2005 to around 300 Group executives, at an exercise price of EUR 97.3 per share. This price represents the average closing price of the Solvay share on Euronext during the 30 days preceding the offering of options. 98.8% of these stock options were accepted by these executives.

In 2005, stock options representing a total of 988 900 shares, were exercised as follows (it should be noted that options are in principle exercisable over a period of 5 years after being frozen for 3 years):

- 1999 stock option plan: 305 900 shares
- 2000 stock option plan: 395 700 shares
- 2001 stock option plan: 287 300 shares

As authorised by the Shareholders’ Meeting, the stock option program is covered by buy-ins of own shares on the stock market. At December 31 2005, the own shares held in portfolio by Solvay S.A. represented

2.3% (1 929 695 shares) of the capital of the company.

Voting and dividend rights attached to these shares are suspended as long as they are held by the company.

2.1.3. In 2003 the company decided not to renew the “poison pill” defensive warrants that allowed it to oppose any hostile takeover bid through a capital increase of 24 million new shares reserved for four allied companies, including Solvac S.A. It has, however, retained the ability to buy back up to 10% of its own shares on the stock market in the event of a threat of serious and imminent damage, such as, for example, a hostile public takeover bid. This system was renewed in June 2005 for a three-year period by an extraordinary Shareholders’ Meeting of the company.

2.1.4. The company’s by-laws contain so-called “authorised capital” provisions empowering the Board of Directors to increase the capital of the company within certain limits. During the past five years this right has been used only to cover the former stock option scheme and to absorb Solvay Sports S.A.

### 2.2. Dividend policy

2.2.1. Board policy is to propose a dividend increase to the Shareholders’ Meeting whenever possible, and as far as possible, never to reduce it.

This policy has been followed for very many years.

The graph (to see page 6) illustrates the application of this policy over the past 20 years.

2.2.2. The annual dividend is paid in two instalments. The Board decides in December every year to pay an advance on the dividend the following January. This is currently set at EUR 0.933 gross (EUR 0.70 after 25% Belgian investment withholding tax). On approving the annual statements it then proposes a dividend, in accordance with the policy described above, which it

### Stock option programs

Issue date	Exercise price (in EUR)	Exercise dates	Acceptance rate
1999	76.14	02/2003-12/2007	99.2 %
2000	58.21	02/2004-12/2008	98.9 %
2001	62.25	02/2005-12/2009	98.6 %
2002	63.76	02/2006-12/2010	98.4 %
2003	65.83	02/2007-12/2011	97.3 %
2004	82.88	02/2008-12/2012	96.4 %
2005	97.3	02/2009-12/2013	98.8 %

\* increased to 8 years in the case of the 1999 to 2002 Stock Options Plans, for beneficiaries in Belgium.

submits to the ordinary Shareholders' Meeting for approval. The second instalment of the dividend, i.e. the balance after deducting the advance payment, is payable in May.

The net dividend for 2005 proposed to the General Shareholders' Meeting of May 9, 2006 is EUR 2.00 per share, up 5.3% from that for 2004. Given the advance dividend payment made on January 12, 2006 (EUR 0.70 net per share – coupon no. 77), the balance of EUR 1.30 net per share will be payable from May 16, 2006 (coupon no. 78).

2.2.3. Shareholders opting to hold registered shares receive the advance dividend and the balance of the dividend automatically and free of charge by transfer to the bank account they have indicated, on the dividend payment date.

Shareholders opting to hold bearer shares, either in a bank account or physically, receive their dividends via their banks or as they elect and arrange.

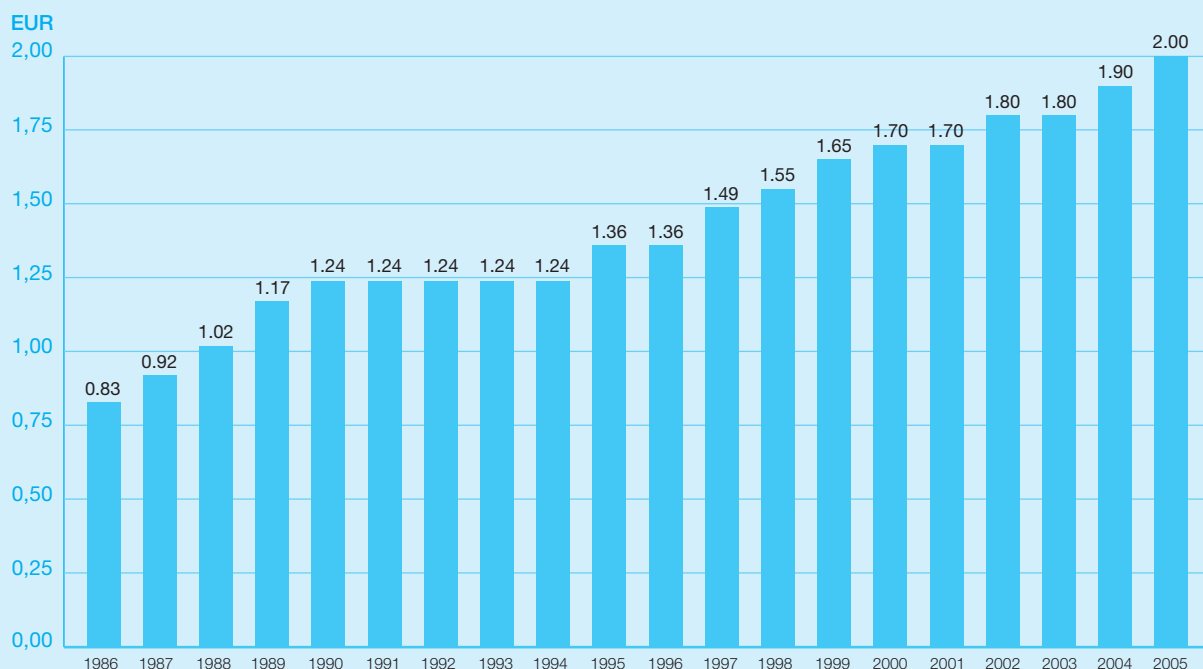
Coupons representing the advance dividend and dividend balance are payable at the banking institutions below, with which the company has established payment procedures:

- Fortis Bank S.A.,  
Montagne du Parc 3 – 1000 Brussels
- ING Belgium South West Europe,  
Cours Saint Michel 60 – 1040 Brussels
- KBC Bank S.A., Havenlaan 2 – 1080 Brussels
- Fortis Banque Luxembourg,  
50, av. J.F. Kennedy, L-2951 Luxembourg
- Crédit Suisse, Paradeplatz 8 – CH-8021 Zürich
- Deutsche Bank,  
Taubusanlage 12 – D-60262 Frankfurt-am-Main
- ABN Amro B.V.,  
Foppingsdreef 22/AA 3330 – NL-1102 BS Amsterdam.

Dividends in respect of ADRs are payable by Morgan ADR Service Center, P.O. Box 8205 – USA-Boston, MA 02266-8205.

2.2.4. The company does not have any reduced-tax VPR shares, given that almost its entire capital was issued before the introduction of this pro-dividend tax regime. The company has not, up to this point, proposed optional dividends to its shareholders, i.e. stock instead of cash dividends, as this option does not offer any tax or financial benefit to make it attractive to investors.

### Evolution of the Solvay dividend of 1986 to 2005



## 3. Shareholders' meetings

### 3.1. Place and date

The company's annual ordinary Shareholders' Meeting is held on the second Tuesday of May at 14.30 in the Auditorium, 44 rue du Prince Albert, Ixelles.

The Board tries to organise any necessary extraordinary Shareholders' Meeting immediately before or after the annual Shareholders' Meeting.

### 3.2. Agenda of the Shareholders' Meeting

The Shareholders' Meeting is convened by the Board of Directors, which also sets its agenda. Shareholders may, however, request the call of a Shareholders' Meeting and/or the addition of an item to the agenda if those shareholders together represent 20% of the capital, as required by Belgian law.

The agenda of the ordinary annual Shareholders' Meeting as a rule includes the following items:

- the Board of Directors' and the auditor' reports on the financial year;
- the Corporate Governance report for the financial year;
- approval of the annual financial statements;
- setting the dividend for the year;
- discharge of the directors and the statutory auditor in respect of the financial year;
- setting the number of directors and of independent directors, the length of their terms of office and the rotation of renewals;
- election of directors and of the external auditor (renewals or new appointments);
- setting of directors' fixed compensation and attendance fees for their work in the Board of Directors or on the Committees (only in the case of changes);
- setting the auditor's annual fee for the external audit for the duration of the auditor's appointment; and
- approval of change of control clauses in significant contracts (e.g. joint ventures).

Extraordinary Shareholders' Meetings are required in particular for all matters affecting the content of the company's by-laws.

Every time the Board of Directors prepares a special report in advance of an extraordinary Shareholders' Meeting, this special report is enclosed with the notice of the meeting and is published on the company's internet site.

### 3.3. Procedure for calling meetings

The notices convening Shareholders' Meetings contain the place, date and time of the meeting, the agenda, the reports, proposed resolutions on each item to be voted on, and the procedure for taking part in the meeting or

for appointing proxies. Holders of registered shares receive notice of the meeting by mail at the address they have given, including notification of participation and proxy forms. Holders of bearer shares are notified of meetings by announcements in the Belgian press.

Notices of meetings are published in the official Belgian gazette (Moniteur Belge/Belgisch Staatsblad) and in Belgium's French and Dutch-language financial newspapers (L'Echo and De Tijd).

The major banks established in Belgium also receive the necessary documentation to pass on to Solvay shareholders among their clients.

### 3.4. Blocking of shares and appointment of proxies

Belgian legislation provides for the temporary blocking of shares to enable the company to identify with certainty the shareholders authorised to vote at the Shareholders' Meeting.

3.4.1. For holders of registered shares, shares are blocked automatically to the extent that their rights are represented by an entry in the shareholders' register held by the company itself.

All that is required is for them to send either their notification of participation or proxy form to the company's General Secretariat.

In both cases, documents must reach the company five working days before the Shareholders' Meeting for the shareholder to be permitted to vote.

3.4.2. For holders of bearer shares, the procedure is not automatic and the shareholder must block his shares until the Shareholders' Meeting, either with his bank, which will advise the General Secretariat, or at the company's registered office. Notice of blocking must be in the hands of the General Secretariat five working days before the Meeting for the shareholder to be entitled to vote. Similarly, a shareholder wishing to be represented by another party must also send a proxy form that reaches the General Secretariat at least five working days before the Meeting.

3.4.3. The exercise of voting rights attached to shares that are jointly-owned or the usufruct and bare property rights of which have been separated, or shares belonging to a minor or a legal incapacitated person, follows special legal and statutory rules, a common feature of which is the appointment of a single representative to exercise the voting right. Failing this, the voting right is suspended until such appointment.

3.4.4. When a proxy is appointed, this proxy must be a shareholder himself for the appointment to be valid

(with certain exceptions i.e. a spouse or legal person). The company will count proxy votes in accordance with the mandating party's instructions. Where the proxy wishes to modify the instruction in a mandate during the course of the Shareholders' Meeting, the shareholder must state this expressly, on his or her responsibility, at the time of the vote. Blank proxy forms are treated as positive votes unless otherwise stated by the proxy at the time of the vote. Invalid proxy forms are excluded from the count. "Abstentions" formally expressed as such during a vote or on proxy forms are counted as such.

### 3.5. Procedure

3.5.1. The annual Shareholders' Meeting is chaired by the Chairman of the Board or, in his absence, by the Vice-Chairman. The Chairman will preside over the discussions following Belgian practice for deliberative meetings. He will take care to ensure that questions from the Meeting are answered, whilst respecting the agenda. He will appoint the tellers as well as the secretary of the meeting, who as a rule is the Corporate Secretary.

3.5.2. Resolutions in ordinary Shareholders' Meetings are passed by a simple majority of votes of shareholders present and represented on a "one share, one vote" basis.

3.5.3. In the case of extraordinary Shareholders' Meetings, the law requires a quorum (including proxies) of 50% of the capital, failing which a new Shareholders' Meeting must be convened, which may deliberate even if a quorum has still not been achieved. Additionally, resolutions need to be passed by qualified majorities, in most cases of at least 75% of votes cast.

3.5.4. Voting is, as a general rule, public, by show of hands. Votes are counted and the results announced immediately. Provision is made for secret balloting in exceptional cases when a particular person is involved and when expressly requested by a shareholder holding at least 5 000 shares. This procedure has never been requested until now. This by-law will be revised by an extraordinary Shareholders' Meeting in 2006 to set a threshold of 1% of capital to be reached by one or more shareholders acting in concert, and only when there is more than one candidate for a given office. The minutes of the Shareholders' Meeting are drawn up and adopted by shareholders at the end of the meeting. They are signed by the Chairman, secretary, tellers and those shareholders who wish to do so. Minutes of extraordinary Shareholders' Meetings are notarized.

3.5.5. Minutes of the most recent Shareholders' Meetings are published on the company's internet site ([www.solvay.investors.com](http://www.solvay.investors.com)). Copies or official extracts may be obtained on request by shareholders under the signature of the Chairman of the Board.

### 3.6. Documentation

Documentation relating to Shareholders' Meetings (notice of meeting, agenda, proxy and notification of participation forms, special report of the Board of Directors, etc.) is available every year on the Internet site [www.solvay-investors.com](http://www.solvay-investors.com). This documentation is available in French and Dutch (official versions) and in English (unofficial translation).

## 4. The Board of Directors

### 4.1. Role and mission

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

In the case of Solvay S.A., the Board of Directors has reserved certain key areas for itself and has delegated the remainder of its powers to an Executive Committee (see below). It has not opted to set up a Management Committee (Comité de Direction/Directiecomité) as defined by Belgian law.

The main key areas which the Board of Directors has reserved for itself are:

1. Matters for which it has exclusive responsibility, either by law or under the by-laws, for example:
  - the preparation and approval of the consolidated periodical financial statements and those of Solvay S.A. (quarterly - consolidated only, half-yearly and annual) and the related communications.
  - adoption of accounting standards (in this case the IFRS standards for the consolidated accounts and Belgian standards for the Solvay S.A. unconsolidated accounts).
  - convening Shareholders' Meetings and drawing up the agenda and proposals for resolutions to be submitted to them (concerning, for example, company financial statements, dividends, amendments to the by-laws, etc.).
2. Setting the main policies and general strategic directions of the Group.
3. Adopting the budget and long-term plan, including investments, R&D and financial objectives.

4. Appointing the Chairman and members of the Executive Committee and the Corporate Secretary, and setting their missions and the extent of the delegation of powers to the Executive Committee.
5. Supervision of the Executive Committee and ratification of its decisions, where required by law.
6. Appointing from among its members a Chairman and a Vice-Chairman, and creating from among its members an Audit Committee, a Compensation and Appointments Committee and a Finance Committee, defining each Committee's mission and determining its composition and its duration.
7. Major decisions concerning acquisitions, divestitures, the creation of joint ventures and investments. Major decisions are considered to be those involving amounts of EUR 50 million or more.
8. Setting the compensation of the Chairman of the Executive Committee, of Executive Committee members and of General Managers belong to the Office of the Comex.
9. Establishing internal "Corporate Governance" and "Compliance" rules.

In all matters for which it has exclusive responsibility, the Board of Directors works in close cooperation with the Executive Committee, which in particular is responsible for preparing most of the proposals for decisions by the Board of Directors.

#### 4.2. Modus operandi and representation

4.2.1. Board Members have available to them the information needed to carry out their functions in the form of dossiers drawn up under instructions from the Chairman and sent out to them by the Corporate Secretary several days before each session.

They may also receive additional information of any kind that may be of use to them from, depending on the nature of the question, the Chairman of the Board, the Chairman of the Executive Committee or the Corporate Secretary.

Decisions to obtain outside expertise, when necessary, are taken by the Board of Directors, for those subjects falling within its authority.

4.2.2. The company is validly represented with regard to third parties by the joint signature of persons with the following capacities: the Chairman of the Board of Directors and/or directors belonging to the Executive Committee. For documents relating to the day-to-day management of the company, the signature of a single director on the Executive Committee is sufficient. Powers may also be delegated on a case-by-case basis as needs arise.

#### 4.3. Composition of the Board of Directors

##### 4.3.1. Size of the Board of Directors

At January 1, 2006, the Board of Directors consisted of 16 members.

##### 4.3.2. Composition

At January 1, 2006, the Board of Directors was composed of (to see page 10).

**4.3.3. Baron Daniel Janssen steps down from his position as Chairman of the Board of Directors on May 9, 2006, to be replaced immediately by Mr. Alois Michielsens.**

The position of Vice-Chairman of the Board of Directors is entrusted to Mr. Denis Solvay.

Baron Daniel Janssen's directorship also expires at the end of the May 2006 Annual Shareholders' Meeting. As Baron Daniel Janssen reached the age of 70 at in early 2006, a proposal will be made to the ordinary Shareholders' Meeting to allocate his vacant directorship to Mr. Anton van Rossum. Mr. Ken Minton has also asked to resign his directorship one year before reaching the age limit. A proposal will be made to the ordinary Shareholders' Meeting to allocate his directorship to Prof. Dr. Scheuble.

A proposal will also be made to the same ordinary Shareholders' Meeting to renew the directorships of Mr. Denis Solvay and Mr. Jean-Martin Folz for a further four-year term.

Mr. René Degrève resigned his directorship at the end of February 2006 to take up executive functions in North America. He remains a member of the Executive Committee. His directorship has been taken over by Mr. Bernard de Laguiche effective March 1, 2006 by decision of the ordinary Shareholders' Meeting of June 2005.

##### Terms of office and age limit

Directors are appointed by the Shareholders' Meeting for 4 years, they may be reappointed.

To avoid all directorships terminating at once, a rotation was established by lot when the company was converted into a société anonyme over 35 years ago.

The age limit for membership of the Board is the ordinary Shareholders' Meeting following the member's 70<sup>th</sup> birthday.

In this case, the director in question resigns, and is replaced, for his remaining term of office, by a successor appointed by the Shareholders' Meeting.

Following the recommendations of the Belgian Corporate Governance Code on the terms of directorships, the Shareholders' Meeting decided in 2005 to shorten directors' terms of office from 6 to 4 years.

	Year of birth	Year of 1st appointment	Solvay S.A. mandates, and expiry date of directorship	Changes during 2005/early 2006	Diplomas and activities outside Solvay
Baron Daniel Janssen (B)	1936	1984	2006 Chairman of the Board of Directors and of the Finance and Compensation/ Appointments Committees	May 9, 2006 Leaves the Board of Directors and his positions as its Chairman and as Chairman of the Finance and Compensation and Appointments Committees	Civil engineering degree in electromechanical engineering (Free University of Brussels), Master of Business Administration (Harvard), Managing Director of Solvac S.A., Vice-Chairman of the Board of UCB, Chairman of the Board of Financière de Tubize, Director of Fortis and Sofina
Mr. Aloïs Michielsens (B)	1942	1990	2009 Director and Chairman of the Executive Committee(*), Member of the Finance and Compensation/ Appointments Committees	9 mai 2006 Leaves the Executive Committee and his position as its Chairman. Becomes Chairman of the Board of Directors and of the Finance and Compensation and Appointments Committees	Civil engineering degree in chemistry and MA in Applied Economics (Catholic University of Louvain), Business Administration (University of Chicago) Director of Miko
Mr. Christian Jourquin (B)	1948	2005	2009 Director	May 9, 2006 Becomes Chairman of the Executive Committee and member of the Compensation and Appointments and Finance Committee.	Chemical Engineering degree (Free University of Brussels) ISMP Harvard
Mr. René Degréve (B)	1943	1998	2010 Director and member of the Executive Committee (*) Member of the Finance Committee	February 28, 2006 Steps down from the Board of Directors and the Finance Committee	Commercial engineering degree (Free University of Brussels), Master of Business Administration (INSEAD)
Baron Hubert de Wangen (F)	1938	1981	2009 Independent Director		Chemical engineering degree (Ecole Polytechnique Fédérale de Lausanne), Former Executive Director of Kawasaki and non-executive Director of Jorace (Spain)
Mr. Jean-Marie Solvay (B)	1956	1991	2008 Independent Director and member of the New Business Board		CEO of Thomas Ernst Immobilien GBR, Berlin
Chevalier Guy de Selières de Moranville (B)	1952	1993	2009 Independent Director Member of the Audit Committee	May 9, 2006 Becomes member of Finance Committee	Civil engineering degree in mechanical engineering, and MA in Economics (Catholic University of Louvain) Chairman of HB Advisors (UK), Director and Chairman of the Audit Committee of Norlisk Nickel and of Wimm-Bill-Dann Foods OJSC (Russia)
Mr. Kenneth Minton (GB)	1937	1996	2007 Independent Director Chairman of the Audit Committee	Steps down from the Board of Directors on May 9, 2006 and the Audit Committee on December 31, 2005	Mining engineering (Leeds University) Chairman of 4imprint PLC, Non-executive Director of Tomkins PLC and of PayPoint PLC (UK)
Mr. Denis Solvay (B)	1957	1997	2006 Independent Director Member of the Audit Committee	May 9, 2006 Becomes Vice-Chairman of the Board of Directors and member of the Compensation and Appointments Committee	Commercial engineering degree (Free University of Brussels) Director (and Member of the Audit Committee) of Eurogentec, Director of Abelag Group and CEO of Abelag Aviation
Mr. Nicolas Boël (B)	1962	1998	2009 Independent Director Member of the Compensation and Appointments Committee		MA in Economics (Catholic University of Louvain), Master of Business Administration (College of William and Mary – USA) General Manager of Myriad – Corus Colors (France)
Mr. Whitson Sadler (US)	1940	2002	2007 Non-executive Director Member of the Audit Committee	Becomes Chairman of the Audit Committee on January 1, 2006	Bachelor of Arts in Economics (University of the South, Sewanee – USA), Master of Business Administration in Finance (Harvard), Retired General Manager of the Solvay Group companies for the NAFTA region
Mr. Jean van Zeebroeck (B)	1943	2002	2010 Independent Director Member of the Compensation and Appointments Committee		Doctorate of Law and diploma in Business Administration (Catholic University of Louvain), MA in Economic Law (Free University of Brussels), Master of Comparative Law (University of Michigan – USA) Corporate Secretary of European Owens Corning
Mr. Jean-Martin Folz (F)	1947	2002	2006 Independent Director Member of the Compensation and Appointments Committee		Ecole Polytechnique and Mining Engineer (France) Chairman of PSA Peugeot Citroën and Director of Saint-Gobain
Mr. Jacques Saverys (B)	1937	2003	2007 Independent Director		MA in Economics (University of Ghent) Director of Siemens Belgium, former Managing Director of Compagnie Maritime Belge, former Chairman of the Union des Armateurs de Belgique and the European Community Shipowners' Association, former Director of the Office National du Dueroire
Mr. Karel van Miert (B)	1942	2003	2009 Independent Director Member of the Finance Committee		MA in Diplomacy (University of Ghent) Former Competition Commissioner for the European Commission Board member of Agfa Gevaert and the Persgroep group, member of the Supervisory Boards of Royal Philips Electronics, RWE AG, Münchener Ruck and Anglo American Vivendi Universal, Member of the Advisory Boards of Guidant Europe, Eli Lilly Holdings Ltd, Fitch, Toyota and Goldman Sachs International, former Chairman of the Executive Board of the University of Nijmegen (Netherlands)
Dr Uwe-Ernst Bufe (G)	1944	2003	2009 Independent Director Member of the Finance Committee		Doctorate in Chemistry (Technical University of Munich) Member of the Supervisory Board of UBS AG, Germany, member of the Supervisory Board of Altana AG, Rütgers AG and Akzo Nobel, Director of Umicore
Mr. Bernard de Laguiche (F)	1959	2006	2009 Member of the Executive Committee	March 1, 2006 Becomes a Director and a member of the Finance Committee	Commercial Engineering degree – Lic. oec. HSG (University of St. Gallen, Switzerland)
Prof. Dr. Bernhard Scheuble (G)	1953	2006	2010 Independent Director	May 9, 2006 Will be proposed for election as an Independent Director	MSc, Nuclear Physics & PhD, Solar Energy (Freiburg University)
Mr. Anton van Rossum (NL)	1945	2006	2010 Independent Director	May 9, 2006 Will be proposed for election as an Independent Director	Economics and Business Administration (Erasmus University), Board member of the Credit Suisse Group and Vice-Chairman of the Board of Winterthur, Member of the Supervisory Board of VNU, Chairman of the Supervisory Board of Erasmus University, Trustee of the Conference Board, President of the European League for Economic Cooperation

\* Full-time activity in the Solvay group

#### 4.3.4. Criteria for appointments

The Board of Directors applies the following primary criteria when nominating candidates for election to directorships by the ordinary Shareholders' Meeting:

- ensuring that a substantial majority of directors on the Board are "non-executive";
- during 2005, 13 out of 16 directors were non-executive, and three belonged to the Executive Committee (Messrs Aloïs Michielsens, René Degrève and Christian Jourquin);
- Belgian law and the by-laws of the company permit shareholder nominations for the post of director. These must be addressed to the company in writing at least 30 days before the ordinary Shareholders' Meeting. Exercise of this right is not encouraged;
- ensuring that a large majority of non-executive directors are independent according to the independence, defined by law and further tightened by the Board of Directors (see "criteria of independence" below). In this respect, the independent status of 12 out of 13 non-executive directors has been recognised by the ordinary Shareholders' Meeting. Baron Daniel Janssen, the chairman of the Board of Directors, has not been presented as independent, given his position as managing director of Solvac S.A., which is Solvay S.A.'s main shareholder;
- ensuring that the members of the Board of Directors together reflect the shareholder structure and possess the wide range of competences and experience required by the Group's activity;
- ensuring that the Board of Directors' international composition appropriately reflects the geographic extent of its activities. In 2005, the Board included members of five different nationalities;
- ensuring that the candidates it presents commit to devoting sufficient time to the task entrusted to them. Attendance at Board Meetings was a very high 95.7% in 2005;
- ensuring, finally, that it does not select any candidate holding an executive position in a competing company or who is involved in the external audit of the Group.

The Chairman of the Board gathers the information allowing the Board of Directors to verify that the selected criteria have been met at the time of appointment, renewal and during the term of office.

#### 4.3.5. Criteria for independence

Based on Belgian law, the Board of Directors sets the criteria for determining directors' independence. Each director fulfilling these criteria is presented to the ordinary Shareholders' Meeting for confirmation.

The Board has chosen to apply in particular the following criteria:

- to be viewed as independent, a director may not have exercised an executive function within the Solvay group for at least three years. In this respect the Board of Directors is stricter than the law, which sets a limit of only two years. According to this criterion, Messrs Aloïs Michielsens, René Degrève and Christian Jourquin, as members of the Executive Committee, are not independent. The same applies to Mr. Bernard de Laguiche from March 2006. Mr. Whitson Sadler became independent in June 2005, three years after retiring as General Manager of the NAFTA Region. Finally, Mr. Denis Solvay's executive position at the Mutuelle Solvay has not been considered sufficiently significant to disqualify him as an independent director of Solvay S.A.;
- being a non-executive director of a local Group holding company has not been considered as an obstacle to independence. This was the case of Mr. Ken Minton as non-executive Chairman of the Board of Directors of Solvay Holding UK, Ltd, which holds the shareholdings in the Group's British subsidiaries, and of Mr. Whitson Sadler, who remains a non-executive director of Solvay America, Inc.;
- a director who is a major shareholder is not considered as being independent. The law considers a shareholding to be significant when it reaches or exceeds 10%. This is the case of Solvac S.A., the managing director of which is Baron Daniel Janssen. The Board of Directors therefore considered that Baron Janssen could not be considered as being independent given his function at Solvac S.A.;
- No director holds more than 1% of Solvay shares;
- finally, to be viewed as independent, a director may not have business or other relations with the Solvay group, for example as a customer or supplier, the nature or size of which could potentially affect the independence of his judgment. In this respect, the fact that PSA is a customer of the Inergy joint venture in the fuel systems field has not been considered as potentially affecting Mr. Jean-Martin Folz's independence of judgment.

At January 1, 2006, 12 out of 15 directors fulfilled the criteria of independence, as confirmed by a vote of the ordinary Shareholders' Meeting.

#### 4.3.6. Appointment, renewal, resignation and dismissal of directors

The Board of Directors submits directors' appointments, renewals, resignations or dismissals to the ordinary Shareholders' Meeting for approval, after first seeking the opinion of the Compensation and Appointments Committee.

The ordinary Shareholders' Meeting decides on proposals

made by the Board of Directors in this area by a simple majority.

When a directorship becomes vacant during a term of office, the Board of Director may appoint a new member, subject to ratification by the next following ordinary Shareholders' Meeting.

#### **4.3.7. Frequency, preparation and holding of Board meetings**

The Board of Directors met six times in 2005.

Five meetings are planned in 2006.

The dates of ordinary meetings are set by the Board of Directors itself about six months before the start of the year.

Additional meetings can, if needed, be called by the Chairman of the Board, after consulting with the Chairman of the Executive Committee.

The agenda for each meeting is set by the Chairman of the Board of Directors after consulting with the Chairman of the Executive Committee.

The Corporate Secretary is charged, under the supervision of the Chairman of the Board of Directors, with organising meetings, and sending notices of meetings, agendas and the dossier containing the item-by-item information required for decision-making.

To the extent possible, he ensures that directors receive notices of meetings and complete files at least five days before the meeting.

The Corporate Secretary prepares the minutes of the Board Meetings, presenting the draft to the Chairman and then to all members.

Finalised minutes that have been approved at the following Board meeting are signed by all directors having taken part in the deliberations.

The Board of Directors takes its decisions in a collegial fashion by a simple majority of votes. Certain decisions that are considered particularly important by the company's by-laws require a three-quarters majority.

The Board may not validly transact its business unless half of its members are present or represented.

Given the very high level of attendance, the Board of Directors has never been being unable to transact its business.

### **4.4. Board Committees**

#### **4.4.1. Rules common to the various Committees**

- The Board of Directors has set up three specialized Committees: the Audit Committee, the Finance Committee and the Compensation and Appointments Committee.
- These Committees do not have decision-making powers. They are advisory in nature and report to the Board of Directors, which takes the decisions. They are also called on to give opinions at the request of the Board of Directors or Executive Committee. After

presentation to the Board of Directors, the Committees' reports are attached to the minutes of the next following Board meeting.

- All terms of office on the three Committees are for two years. These were renewed and/or revised by the Board of Directors meetings of February 2005 and February 2006.
- Committee members (except for Executive Committee members) receive separate compensation for this task.

#### **4.4.2. The Audit Committee**

In 2005, the Audit Committee was composed of Mr. Ken Minton (Chairman), Mr. Denis Solvay, Chevalier Guy de Selliers de Moranville and Mr. Whitson Sadler, that is, independent non-executive directors. In 2006 the position of Chairman was taken over by Mr. Whitson Sadler. Subject to their election as directors by the Shareholders' Meeting of May 9, 2006, Messrs Bernhard Scheuble and Anton van Rossum will become members of the Audit Committee. The Secretariat is provided by a member of the Group's internal legal staff.

This Committee met four times in 2005, with one meeting before each Board meeting scheduled to consider the publication of periodical results (quarterly, half-yearly, annual).

The Audit Committee oversees the internal control of Group and Solvay S.A. accounting, checking in particular its reliability and compliance with legal and internal accounting procedures. Its mission has been set out in an internal "Terms of Reference" document (see Annexe 1). At each meeting, the Audit Committee hears reports from Mr. René Degrève (General Manager for Finance), Mr. Alain Chif (Head of the Internal Audit department) and Deloitte & Touche, represented by Mr. Denayer in his capacity as the auditor in charge of the external audit. It also examines the quarterly report of the Group's Legal Competence Center on significant ongoing legal disputes (including tax and intellectual property disputes). It meets alone with the auditor in charge of the external audit whenever it deems such meetings useful.

The Chairman of the Executive Committee is invited, once a year, to discuss the major risks to which the Group is exposed.

#### **4.4.3. The Finance Committee**

In 2005 the Finance Committee consisted of Baron Daniel Janssen (Chairman of the Committee), Messrs Aloïs Michielsens (Chairman of the Executive Committee), René Degrève (General Manager for Finance), Karel Van Miert and Uwe-Ernst Bufe (non-executive, independent directors).

From May 9, 2006 it will be chaired by Mr. Aloïs Michielsens. Mr. Christian Jourquin and Mr. Bernard de Laguiche will become members in their respective capacities as Chairman of the Executive Committee and General Manager for Finance, as well as

Chevalier Guy de Selliers de Moranville as non-executive, independent director.

The Corporate Secretary, Mr. Jacques Lévy-Morelle, acts as secretary to the Committee. This Committee met four times in 2005, giving its opinion on financial matters such as the amounts of the interim and final dividends, the levels and currencies of indebtedness in the light of interest rate developments, the hedging of foreign exchange and energy risks, the content of financial communication, etc. It may also be called on to give opinions on Board policies on these matters.

#### 4.4.4. The Compensation and Appointments Committee

In 2005 this Committee consisted of Baron Daniel Janssen (Chairman of the Committee), Messrs Aloïs Michielsens (Chairman of the Executive Committee), Jean-Martin Folz, Jean van Zeebroeck and Nicolas Boël (independent non-executive directors). From May 9, 2006, it will be chaired by Mr. Aloïs Michielsens. Mr. Christian Jourquin will be invited as Chairman of the Executive Committee. Mr. Daan Broens, the Group's General Manager Human Resources, reports to the Committee and acts as secretary. The Committee met five times in 2005. It gives its opinion on appointments to the Board of Directors (Chairman, Vice-Chairman, new members, renewals and Committees), to Executive Committee positions (Chairman and members) and General Manager positions.

In the area of compensation, it advises the Board of Directors on compensation policy and compensation levels for members of the Board of Directors, the Executive Committee and General Management. It also gives its opinion to the Board of Directors and/or Executive Committee on the Group's main compensation policies (including stock options).

### 4.5. Compensation of the Board of Directors

#### 4.5.1. General principles

Directors of Solvay S.A. are compensated with fixed emoluments, the common basis of which is set by the ordinary Shareholders' Meeting, and any supplement thereto by the Board of Directors on the basis of article 27 of the by-laws.

Directors do not receive any variable compensation linked to results or other performance criteria. They are not entitled to stock options, nor to any supplemental pension scheme.

#### 4.5.2. Fixed basic compensation

- The ordinary Shareholders' Meeting of June 2005 decided to set director's compensation as follows, starting in the 2005 financial year: a gross fixed annual emolument of EUR 35 000 per Director, and an individual

attendance fee of EUR 2 500 gross per meeting for Directors attending Board meetings.

- To confirm the attendance fees of the Audit Committee; EUR 4 000 gross for members and EUR 6 000 gross for the Chairman.
- Finally, to grant attendance fees to members of the Compensation and Appointments Committee and of the Finance Committee: EUR 2 500 gross per member and EUR 4 000 gross for the Chairmen of these Committees. The Chairman of the Board of Directors, the Chairman of the Executive Committee and Executive Directors will not, however, receive attendance fees for participating in these Committees.

#### 4.5.3. Additional compensation

The Board of Directors has used the authorisation given to it by article 27 of the by-laws to grant additional fixed compensation to the Chairman of the Board of Directors in the light of his workload and the additional responsibility attached to his task.

#### 4.5.4. Total compensation

In 2005 directors together received basic and additional compensation totalling EUR 1 480 520 in respect of their Board and Committee work. In 2004, this total gross compensation amounted to EUR 1 275 592.

#### 4.5.5. Expenses

The company reimburses directors' travel and subsistence expenses for meetings and while exercising their Board and Board Committee functions. The Chairman of the Board of Directors is the sole non-executive director having permanent logistics support (office, secretariat, car). The other non-executive directors receive logistics support from the General Secretariat as and when needed.

The company also carries customary insurance policies covering the activities of Board Members in carrying out their duties.

### 4.6. Ethical rules

4.6.1. The Board of Directors subscribes to the Group rules on ethical values, in particular as regards confidentiality and non-usage of insider information. In particular, it has adopted strict rules defining the periods during which members should abstain from all direct or indirect transactions involving Solvay shares (and related derivative instruments) before the publication of results or other information that could affect the market price of Solvay shares.

These rules are monitored by the Compliance Officer, who is the Corporate Secretary.

4.6.2. In 2005 members of the Board of Directors were not confronted with conflict of interest situations requiring

the implementation of the legal procedures provided for by the Companies' Code. On the other hand, and in a very limited number of cases, one or the other member has preferred, for ethical reasons, to withdraw and to abstain from participating in debates and in voting, for example directors on the Executive Committee when the Board of Directors is deciding on the renewal of their terms of office, on their bonus or the number of stock options to allocate to them.

## 5. The Executive Committee

### 5.1. Role and Mission

5.1.1. The Board of Directors defines the role and mission of the Executive Committee. The main discussion and decisions on this subject date back to December 14, 1998. There have been no significant changes since then.

5.1.2. The Executive Committee, as a group, has been assigned the following main tasks by the Board of Directors:

- day-to-day management of the company is delegated to it;
- it ensures that the company, its subsidiaries and its affiliates are properly organised, through the choice of members of their governing bodies (boards of directors, etc.);
- it appoints senior managers (except to those functions where the decision lies with the Board of Directors);
- it supervises subsidiaries;
- it has delegated authority from the Board of Directors for investment and divestiture decisions (including acquisitions and sales of know-how) up to a ceiling of EUR 50 million. At each meeting, the Board of Directors is informed of and ratifies the Executive Committee's decisions and recommendations in respect of investments of between 10 and 50 million for the immediately previous period;
- it sets Group policies, except for the most important ones, which it proposes to the Board of Directors;
- it sets executives' compensation (except where the decision lies with the Board of Directors);
- it prepares and proposes to the Board of Directors, for its decision:
  - General strategies (including the effect of strategies on the budget and 5-year plan and the allocation of resources);
  - General internal organisation;
  - Major financial steps that have the effect of modifying the company's financial structure;
  - The creation and termination of major activities, including the corresponding entities (branches, subsidiaries, joint ventures); and
  - The company's financial statements.

- it submits to the Board of Directors all questions lying within the latter's competence, and reports to the Board on the exercise of its mission;
- it executes the decisions of the Board of Directors.

### 5.2. Delegation of powers

The Executive Committee operates on a collegial basis, whilst consisting of members exercising General Management functions.

The execution of Executive Committee decisions and the following up of its recommendations is delegated to the Executive Committee member (or another General Manager) in charge of the activity or of the function corresponding to the decision or recommendation.

### 5.3. Composition of the Executive Committee

#### 5.3.1. Size of the Executive Committee

At January 1, 2006, the Executive Committee had seven members.

#### 5.3.2. Composition of the Executive Committee

At January 1, 2006, the Executive Committee was composed of the following persons, bearing in mind that from May 9, 2006, Mr. Christian Jourquin will succeed Mr. Aloïs Michielsens as Chairman of the Executive Committee, Mr. Christian Jourquin having himself been replaced by Mr. Vincent De Cuyper as member of the Executive Committee in charge of the Chemicals Sector since May 1, 2006. Also, within the existing Executive Committee, Mr. Bernard de Laguiche took over Finance and Information Systems on March 1, 2006, whilst Mr. René Degrève took over the post of Regional Manager NAFTA.

#### 5.3.3. Terms of office and age limits

Executive Committee members are appointed by the Board of Directors for two-year renewable terms. The Board of Directors has set an age limit of 65 for Executive Committee membership.

#### 5.3.4. Criteria for appointment

The Executive Committee is a collegial body made up of specialist members, generally from the Group's General Managements. Members must be full-time employees at Group companies. With the exception of the Chairman, its members were in 2005 the General Manager for Finance, the General Managers of the three Sectors (Chemicals, Plastics and Pharmaceuticals), the Managing Director of Solvay Solexis until September and the General Manager for Research and Technology. All Executive Committee members have employment contracts with the Group companies, except for the

Chairman, who has self-employed status. The post of Chairman of the Executive Committee may not be held concurrently with that of Chairman of the Board of Directors.

### 5.3.5. Appointment and renewal procedure

The Chairman of the Executive Committee is appointed by the Board of Directors based on a proposal by the Chairman of the Board of Directors with recommendations by the Compensation and Appointments Committee and the outgoing Chairman of the Executive Committee. The other Executive Committee members are also appointed by the Board of Directors, but on the proposal of the Chairman of the Executive Committee in agreement with the Chairman of the Board of Directors and with the concurrence of the Compensation and Appointments Committee.

Executive Committee members' performance is assessed annually by the Chairman of the Executive Committee. This assessment is undertaken together with the Chairman of the Board and with the Compensation and Appointments Committee whenever proposals are made for setting variable compensation.

### 5.4. Frequency, preparation and procedure of Executive Committee meetings

5.4.1. The Executive Committee met 20 times in 2005. Meetings are generally held at the Company's registered office, but can also be held elsewhere at the decision of the Executive Committee Chairman. The Executive Committee sets the dates of its meetings

around six months before the start of the year. Additional meetings can be convened by the Chairman of the Executive Committee, who sets the agenda based on proposals from the General Managements.

5.4.2. The Corporate Secretary, who acts as secretary to both the Board of Directors and the Executive Committee, is responsible, under the supervision of the Chairman of the Board of Directors, for organising meetings and sending out notices of meetings, agendas and the dossiers containing the item-by-item information required for decision-making.

He makes sure that members receive notices and dossiers – complete whenever possible – at least five days before meetings.

The Corporate Secretary draws up the minutes of Executive Committee meetings and has them approved by the Chairman of the Executive Committee and subsequently by all members. Minutes are formally approved at the following meeting. They are not signed, but the Chairman of the Executive Committee and the Corporate Secretary may deliver certified conformed extracts.

5.4.3. The Executive Committee takes its decisions by a simple majority, with its Chairman having a casting vote. If the Chairman of the Executive Committee finds himself in a minority he may, if he wishes, refer the matter to the Board of Directors which will then decide on the matter. In practice, however, almost all Executive Committee decisions are taken unanimously, so that the Chairman has never made use of his casting vote. Attendance at meetings was close to 100% in 2005.

	Year of birth	Year of 1 <sup>st</sup> appointment	Term of office ends	Diplomas and main Solvay activities
Mr. Alois Michielsens (B)	1942	1990	2006	Civil engineering degree in chemistry and MA in Applied Economics (Catholic University of Louvain), Business Administration (University of Chicago) Chairman of the Executive Committee
Mr. René Degrève (B)	1943	1994	2006	Commercial engineer's degree (Free University of Brussels), Master of Business Administration (INSEAD) Executive Committee member in charge of Finance/Information Systems
Mr. Christian Jourquin (B)	1948	1996	2007	Commercial engineering degree (Free University of Brussels) Executive Committee member in charge of the Chemicals Sector
Mr. Bernard de Laguiche (F)	1959	1998	2006	Commercial Engineer's degree – MA in economics HSG (University of St Gallen – Switzerland) Member of the Executive Committee, Managing Director of Solvay Solexis (Italy)
Mr. Luigi Belli (I)	1942	1998	2006	Civil Engineering degree in Mechanics (University of Pisa) Executive Committee Member in charge of Research & Technology
Mr. Jacques van Rijckevorsel (B)	1950	2000	2007	Civil Engineering degree in Mechanics (Catholic University of Louvain) Advanced studies in Chemical Engineering (Free University of Brussels) Member of the Executive Committee in charge of the Plastics Sector
Mr. Werner Cautreels (B)	1952	2005	2007	Bachelor and Master of Science in Chemistry and Doctorate in Chemistry (University of Antwerp), Business Administration (Harvard) Executive Committee member in charge of Pharmaceuticals activities
Mr. Vincent De Cuyper (B)	1961	2005	2007	Chemical engineering degree (Catholic University of Louvain) Master in Industrial Management (Catholic University of Louvain) Member of the Executive Committee in charge of Chemicals activities from May 1, 2006.

The Executive Committee has not appointed any specialist Committees from among its members. It does, however, set up ad-hoc working teams, led mainly by General Managers chosen on the basis of the competences required.

The Executive Committee regularly invites other employees to its discussions on specific subjects.

5.4.4. Every three years the Executive Committee holds an off-site meeting to discuss the group's strategic directions. A meeting of this type will be organised in 2006 at the initiative of the new Chairman of the Executive Committee.

## 5.5. Compensation of the Executive Committee

### 5.5.1. General principles

The compensation of Executive Committee members is set as a global gross amount. This includes not only the gross compensation earned at Solvay S.A., but also amounts received as compensation or as directors' fees, from companies throughout the world in which Solvay S.A. holds majority or other shareholdings. In 2005 the Board of Directors updated, based on a proposal from the Compensation and Appointments Committee, a compensation policy applicable to its main executives, including the members of the Executive Committee. This policy is set out in an annexe.

### 5.5.2. Fixed and variable compensation levels

For 2005 the Board of Directors awarded to the seven members of the Executive Committee together gross fixed and variable compensation (excluding stock options) amounting to EUR 5 706 414, representing EUR 2 902 598 of gross fixed compensation and EUR 2 803 816 of gross variable compensation (paid in 2006 but relating to the objectives for 2005). Total gross compensation for 2004 amounted to EUR 4 961 552, of which EUR 2 813 298 of gross fixed compensation and EUR 2 148 254 EUR of gross variable compensation.

In the above 2005 figures, the Chairman of the Executive Committee received gross fixed compensation of EUR 452 625 and gross variable compensation of EUR 1 184 067.

### 5.5.3. Level of stock options (to be completed)

In December 2005 the Board of Directors awarded, on the proposal of the Compensation and Appointments Committee, share options to Group executives.

In accordance with the above-mentioned method for setting the price, the exercise price is EUR 97.30 per option with a three-year freeze.

120 000 of this total number were awarded to and accepted by Executive Committee members in 2005, compared with 80 000 in 2004. Of these the Chairman of

the Executive Committee received and accepted 50 000 (of which 30 000 on an exceptional basis for the results achieved at the end of his term as chairman).

### 5.5.4. Extra-legal pensions

Given his self-employed status in Belgium, the Chairman of the Executive Committee has his own separate contractual arrangement, with pension, life insurance and disability provisions, which (excluding any personal contributions) are financially comparable with those applicable to his Executive Committee colleagues subject to the Pension I regulations for executives in Belgium.

### 5.5.5. Expenses and insurance

Executive Committee members' expenses are governed by the same rules that apply to all management staff, i.e. item-by-item justification of professional expenses incurred. Private expenses are not reimbursed.

In the case of mixed professional/private expenses (such as cars), a proportional rule is applied in the same way as to all management staff in the same position.

In the area of insurance, the Company provides the same type of coverage - in particular for civil liability - as it does for senior managers.

## 5.6. Ethical and "compliance" rules

The Executive Committee respects the same ethical and compliance rules as the Board of Directors (see above). These rules are, however, tighter in at least two respects:

- In questions of insider information, given the Executive Committee's participation in major decisions, including the establishment of the results, and in the stock option plan, stricter rules apply to avoid any insider trading, for example, as regards the sale during possibly sensitive periods of shares obtained from the exercise of stock options.
- In the area of "compliance," given the problems recently encountered again with regard to the compliance with competition rules, in particular in Europe, compliance policy is being tightened at all levels, including the Executive Committee.

## 6. Chairmen's roles in achieving harmony between the Board of Directors and the Executive Committee

The Chairman of the Board of Directors and the Chairman of the Executive Committee work together to harmonise the work of the Board of Directors (including its committees) with that of the Executive Committee.

The following measures have been introduced to achieve this:

- the two Chairmen meet as often as is necessary on matters of common interest to the Board of Directors and the Executive Committee;
- the Chairman of the Board of Directors is invited once a month to join the Executive Committee meeting during its discussion of the most important items to be proposed to the Board of Directors;
- the Chairman of the Executive Committee (and the Finance Manager, a member of the Executive Committee), is also a member of the Board of Directors, where he presents the Executive Committee's proposals.

## 7. Internal organisation of the Solvay group

**7.1.** The activities of the Solvay group are organised as follows:

- The Pharmaceuticals Sector
- The Chemicals Sector
- The Plastics Sector

**7.2.** Each Sector, except Pharmaceuticals, is in turn divided by business area into Strategic Business Units (SBUs). Each SBU's field of activity is set out in greater detail in the pages of the annual report devoted to the Sectors.

The SBUs in the Chemicals and Plastics Sectors are almost entirely composed of individual subsidiaries by business area and by company. In most cases these subsidiaries are held by local national holding companies, particularly where tax consolidation is permitted. Two examples of this are Solvay America, Inc. in the USA and Solvay GmbH (formerly Solvay Deutschland GmbH) in Germany.

A different subsidiary holding structure exists for the Pharmaceuticals activity. Rather than being held by national holding companies, all the Group's pharmaceutical subsidiaries are, or will be, held by a single holding company, Solvay Pharmaceuticals Sàrl, in Luxembourg. This pharmaceuticals holding company is in turn 100% owned by Solvay S.A.

**7.3.** The Sectors and Functions are supported by four Functional Managements (Finance, Research & Technology, Human Resources and Corporate Secretariat), in turn subdivided into Competence Centers. Nearly all Functional Managements and their Competence Centers include employees located at Solvay S.A. in Brussels and in national holding companies, where they are part of Regional or Country Managements.

**7.4.** Sectors and SBUs are also supported by specialist services organised into Business Support Centers (BSCs). These BSCs can be international, national or site-specific.

Depending on their specific purpose, they are attached to a Functional Management, to a Sector, to an SBU or to a Regional or Country Management.

**7.5.** The Executive Committee is assisted in its task by the "Office of the Comex", composed of:

- the Corporate Secretary/General Counsel and the General Manager Human Resources
- the Regional Managers for Europe, NAFTA, Mercosur and Asia-Pacific
- the General Secretariat (SG-CA)
- the Shareholder Services Department
- Corporate Development
- the Group Head of Communications
- the Group Head of Public Affairs
- the Group Innovation Champion.

The "Office of the Comex" is not a collegiate body. It consists of individual persons and of three departments chosen to provide the Comex with advice or, in the case of the Corporate Secretariat, to provide logistic and operational support.

## 8. Relations with shareholders and investors

**Information is also given in the annual report in the section on shareholder information**

### 8.1. Active financial communication

Throughout the year the Investor Relations Team is ready to meet individual and institutional shareholders and investors, to answer their questions and to explain short and long-term developments at the Group to them, with appropriate regard for the equal treatment of all shareholders. The Group's communication policy is to disseminate, as soon as reasonably possible, information that is of material interest for the market in the form of press releases and/or press conferences.

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## 8.2. Shareholder and Investor Clubs

For many years the Group has maintained very close relations with clubs of individual investors both by taking part in fairs and conferences and by providing regular information on the life of the Group (press releases, the annual report, etc.) on request.

## 8.3. Roadshows and meetings for professionals

Roadshows and meetings with Group management are also organised on a regular basis for professionals (analysts, portfolio managers, press, etc.) both on the EURONEXT stock markets (Belgium, France, the Netherlands) and in the USA, UK, Germany, Switzerland, Luxembourg, Italy and Spain.

Similarly, the annual analysts' meeting in October – which is open to the financial press – serves to explain in greater detail Group strategy, major changes in the portfolio of activities and the latest developments, and in particular the strategic directions of the Pharmaceuticals Sector for the coming years following the acquisition in July 2005 of Fournier Pharma, a French pharmaceuticals group specializing in dyslipidemia treatment.

## 8.4. A specific Internet site

A dedicated Internet site, [www.solvay-investors.com](http://www.solvay-investors.com), has been established to provide shareholders and investors with up-to-date Group financial and strategic information.

The site provides investors and shareholders with many useful contact addresses, such as the financial department. It also provides useful contacts with chemical and pharmaceutical analysts who track the Group on a regular basis.

On the Internet site, one can also join a Shareholders' and Investors' Club in order to receive e-mail notification in three languages (French, Dutch, English) of the publication of various forms of information: agendas of certain meetings, including the Annual Shareholders' Meeting, draft wording of by-law amendments, special reports of the Board of Directors, publication of the annual report, unconsolidated parent company accounts, payment of dividends, etc.

## 8.5. Quarterly earnings publication

Out of a desire to provide ever more finely tuned and regular communication, the Group began in 2003 to publish quarterly results in accordance with International Financial Reporting Standards (IFRS).

## ANNEXE 1

# AUDIT COMMITTEE « Mission Statement »

### 1. Members

The Audit Committee consists of a Chairman and at least two members, all of whom are non-executive directors and at least two of whom are independent directors.

### 2. Guests

The Audit Committee generally invites the following persons to report to its meetings:

- a) the Group's chief financial officer;
- b) the head of the internal audit department;
- c) a representative of the Group's statutory auditor.

### 3. Frequency of meetings

The Audit Committee meets at least four times a year prior to the publication of the annual, half-yearly and quarterly results. Additional meetings may be organized to discuss and agree on the scope of audit plans and on audit costs, and to discuss other important financial questions.

### 4. Main tasks of the Audit Committee

- The Audit Committee ensures that the annual report and accounts, the periodic financial statements and all other important financial communications by the Group conform to generally accepted accounting principles (IFRS for the Group, Belgian accounting law for the parent company). These documents should provide a fair and relevant view of the business of the Group and of the parent company and meet all legal and stock-market requirements.
- The Audit Committee regularly examines the accounting strategies and practices that are applied in preparing the Group's financial reports, making sure that these conform to good practices and meet the requirements of the appropriate accounting standards.
- The Audit Committee regularly examines the scope of the external audit and the way it is implemented across the Group. The Audit Committee studies the recommendations of the external audit and the auditor's report to the Board of Directors.
- The Audit Committee monitors the effectiveness of the Group's internal control systems, and in particular the financial, operational and standards controls, along with risk management. The Audit Committee also satisfies itself that the electronic data processing systems used to generate financial data meet the required standards. The Audit Committee ensures that these systems meet legal requirements.
- In respect of the internal audit, the Audit Committee verifies the scope/programs/results of the work of the internal audit department and makes sure that the internal audit organization has the necessary resources. The Audit Committee checks that internal audit recommendations are properly followed up.

(f) The Audit Committee examines the appointment of the Statutory Auditors and assesses the appropriateness of their fees. In consultation with the chief financial officer, the Audit Committee participates in the choice of head of the internal audit department.

(g) The Audit Committee examines areas of risk that can potentially have a material effect on the Group's financial situation. These include, for example, the foreign exchange risk, major legal disputes, environmental questions, product liability issues, etc.

During such examination, the Audit Committee examines the procedures in place to identify these major risks and to quantify their potential impact on the Group and the way the control systems work.

## 5. Minutes

As a sub-committee of the Group's Board of Directors, the Audit Committee prepares minutes of each of its meetings and submits them to the Board.

## ANNEXE 2 COMPENSATION POLICY FOR GENERAL MANAGERS

### IN GENERAL

This compensation policy applies to Solvay's General Managers, i.e. the CEO, the members of the Executive Committee and the General Managers and members of the Office of the Comex.

General Managers' compensation is set by the Board of Directors based on the recommendations of the Compensation and Appointments Committee.

The guiding principles of Solvay's compensation policy for its General Managers can be summarized as follows:

- ensure overall competitive compensation opportunities which will enable Solvay to attract, retain, motivate and reward executives of the highest calibre essential to the successful leadership and effective management of a global chemical and pharmaceutical company;
- focus executives' attention on critical success factors for the business that are aligned with the company's interests in the short, medium and long term;
- encourage executives to act as members of a strong management team, sharing in the overall success of the Group, while still assuming individual roles and responsibilities;
- maintain and further strengthen the performance culture of the Group by linking compensation directly to the fulfilment of demanding individual and collective performance targets.

The structure and level of the General Managers' total compensation is reviewed annually.

Compensation reflects overall responsibility as well as individual experience and performance. It takes into account relevant competitive practice considering the nature and level of the position as well as specific characteristics of the business sectors in which Solvay operates. Other factors which are deemed relevant, such as internal equity, are also taken into consideration.

To assess relevant competitive practice, Solvay considers a blend of some 20 leading European chemical and pharmaceutical companies as its frame of reference, taking into consideration Solvay's relative size in terms of sales revenues and headcount vis-à-vis these companies. The composition of this group will be reviewed on a periodic basis to assure that it continues to reflect the company's strategic orientation. For executives with a non-European home country and who are based outside Europe, the home country practice (ideally weighted towards the chemical and pharmaceutical sectors) constitutes the reference.

For external market data, the services of internationally recognised compensation consultants are retained.

Solvay's objective is to provide total compensation levels which are at or around the median of the retained reference market for normal performance and close to the upper quartile level of the market in case of outstanding collective and individual performances.

### ELEMENTS OF COMPENSATION

The compensation of the General Managers comprises base salary, annual incentives (i.e. performance related cash bonuses) and long-term incentives, which constitute the General Managers' total direct compensation. General Managers also enjoy other benefits such as, in essence, retirement, death, disability and medical benefits.

Performance-based and, hence, variable pay represents at a minimum close to 50% of the General Managers' total direct compensation.

### BASE SALARY

Base salary is reviewed - but not necessarily changed - on an annual basis. This review assesses current levels against median levels of the reference market taking into account the responsibilities and scope of the position of the General Manager, as well as individual competencies, relevant professional experience, potential for future development and sustained performance over time.

## ANNUAL INCENTIVES

The target incentive levels related to the full achievement of all pre-set performance objectives range from 50% to 100% of the base salary depending upon the position in the (Office of the) Comex.

These percentages have been determined taking into consideration median target bonus levels observed in the retained reference market and Solvay's policy regarding the target compensation mix and competitive positioning. Generally speaking, Solvay aims at offering, on average, base salary plus annual incentive opportunities close to the median levels observed in the reference market.

The actual annual bonus amount varies according to the performance of the Solvay group, its various sectors and the individual General Managers' performances. The actual bonus ranges from zero (in case of truly poor performances) up to 150% of the amount corresponding to normal performance in case of outstanding achievements.

The overall business performance is measured in terms of ROE (return on equity); the individual performance is measured against a set of pre-determined region/business-sector/function goals as well as other executive-specific critical objectives approved by the Board of Directors.

## LONG-TERM INCENTIVES

The long-term incentive is delivered through periodic grants of stock options.

Each year, the Board of Directors, upon the recommendation of the Compensation and Appointments Committee, sets the number of stock options that are granted respectively to the Chairman of the Executive Committee, the members of the Executive Committee and the other members of the Office of the Comex. In determining the actual number of options to be granted to each group of General Managers, the Board is guided by prevailing long-term incentive levels and practices in the reference market.

The options' strike price is equal to the average closing price of the Solvay share on Euronext Brussels during the 30 days preceding the start of the offer. The options expire eight years after the date of grant. They vest as from the first day of the year following the third anniversary of the grant and can be exercised during specified "open periods".

## OTHER BENEFITS

The General Managers are entitled to retirement, death and disability benefits, as a rule, on the basis of the provisions of the plans applicable in their home country. Other benefits, such as medical care and company cars or car allowances, are also provided according to the rules applicable in the host country.

The nature and magnitude of these other benefits are largely in line with the median market practice. The retained reference market is, as a rule, a blend of some 20 leading Belgian companies and Belgian subsidiaries of foreign-owned organisations generally considered as attractive employers by national and international executive talent and for which the representative benefit practices can be regarded as sufficiently in line with prevailing European standards at executive level.

