S07.03-SCF-FCF

Simplified Cash Flow (SCF) and Free Cash Flow (FCF)

Introduction of cash flow

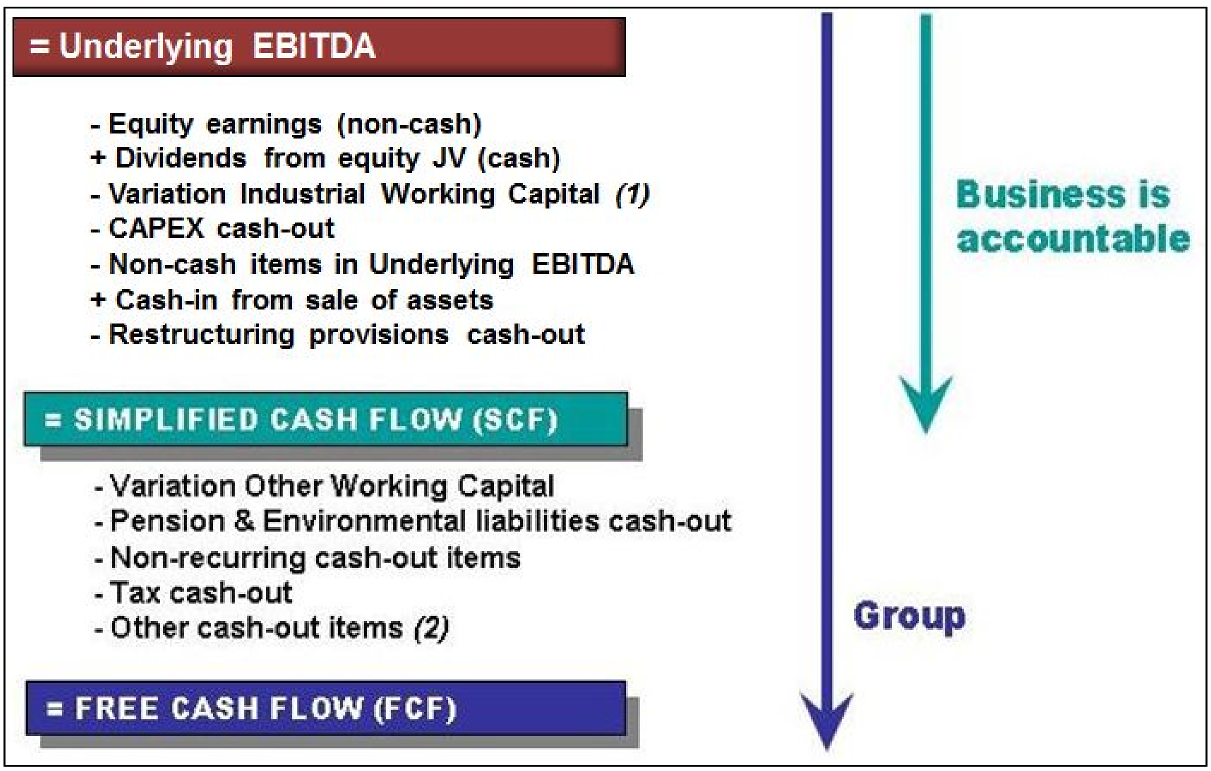
Cash flow is a complex and multi-dimension indicator implying both

- operating parameters under direct business control
  - **Underlying EBITDA**
  - Industrial Working Capital
  - CAPEX
  - ...
- non-operating parameters not fully under business control
  - non-operating Working Capital
  - Tax
  - ...

Solvay has defined 2 levels of cash flow

- **Simplified Cash Flow** (SCF) under direct business control and responsibility
- **Free Cash Flow** (FCF) at Group level

Computation of the Simplified and Free Cash Flow



1. = Year-1 Working Capital (WC), restructured and translated using the month rate (actual), less actual WC at month end.

2. Examples:

- *prepaid expenses,*
- *neutralization of OOIE (Other Operating Income and Expenses), excluding gain/loss on disposal, and recognition of OOIE cash for the period,*
- *payment delay for employee benefits and tax liabilities*

Managing Cash Flow: On top of Underlying EBIDTA, managing cash flow adds few more levers:

- Working Capital: management of
  - receivables
    - minimize overdues (pre-collection and pre-litigation monitoring)
    - payment terms extension at contract negociation
- inventories
  - "just needed" inventories tool from industrial function to set targets
  - supply chain optimization (e.g.: "make to order" approach vs "make to inventory", constant adjustment of production to demand)
- payables
  - optimum purchase timing / schedule

- payment terms optimization at purchase negociation
- CAPEX
  - identify right timing to invest
  - investigate alternatives and non-capital solutions
  - Arbitration between Underlying EBITDA and Cash Flow