

SOLVAY Q2'13 earnings analyst call

Jean-Pierre Clamadieu

SOLVAY - CEO

Bernard de Laguiche

SOLVAY - CFO

Jean-Pierre Clamadieu - SOLVAY - CEO

Thank you very much, operator. Thanks everyone to participate in our Q2 2013 results call. I am here in sunny Brussels with Bernard de Laguiche and Maria Alcon, and we would like as usual to walk you through the main points of this results presentation before going into a Q&A session. So clearly we are seeing results which show the challenges in which, challenging environment in which we are operating, and at the same time it's very important to realise that the group is continuing its transformation. I guess what we see short term gives us even more reasons to continue the transformation of the group.

So, Q2 results reflect both the challenging environment I was mentioning, but also the fact that we have very demanding comparable. Indeed, Q2 2012 was probably one of the best, if not the best quarter results for SOLVAY. We are seeing our sales at 3,062 billion going down (4)% year on year in a deflationary context, very mild deflation, but reduction in prices and raw material and energy costs indeed. REBITDA down (14)% year on year at 487, mainly due to the Guar situation. As usual, a lot of different factors, but at the end of the day the 60 million impact that we see on Guar, part of it completely expected, which was the results of the end of the Guar bubble. Part of it, a surprise, was the strongest that we have seen in the oil and gas derivatives Guar business, explains this difference, and as I was mentioning, we continue with a very strong focus in the transformation of the group.

So going into a bit more details, top line, I was mentioning (4)% negative impact year on year. Volume were down (1)%, which is very, very mild. Prices down (2)%, and you will see that this is very much in line with what we see on the raw materials and energy France, and FOREX, (1)%, mostly caused by the US Dollar, Brazilian Real and Yen. In terms of regional dynamic slowdown in Europe continue weighing on our activities, and I would say we have a feeling in Europe that we are at the bottom, but no sign yet of a significant recovery, but no further deterioration.

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Latin America, very much in line with last year, which means disappointing when you look at what should be the growth potential of this region, especially Brazil, and Asia doing well. I know that there are plenty of comments on Asia, and yes, maybe Asia is a little bit less than some people expected, but overall still a good environment. In North America, an overall good environment, solid growth prospect, but it's really where we have been impacted by this specific Guar situation.

So, going into a bit more details, when you look at REBITDA, it's really today in our growth engine segment that we are affected by the current difficult environment, and also at our cycle sensitive businesses, and it's worth some comment. So first I was mentioning REBITDA down 14% year on year, 7.5% improvement quarter on quarter. As you have realised, part of this improvement is linked to our carbon credit situation. Because we have sold all the carbon credit we had available during this quarter.

If we exclude that, we see a 10% improvement of REBITDA versus Q1 2013. So, slight sequential improvement, and significant reduction versus last year REBITDA. So, if we look at the operating segment, Consumer Chemicals, that's probably where we see the biggest impact, 92 million, down (40)%, which is significant, (19)% year on year. In fact, the situation there is a combination of, it's all linked to Novecare and Guar. When I say Guar, it's really Guar on the oil field chemical segment.

We are seeing an effect which was expected, which was the end of the Guar bubble. We've signalled it for the last two or three quarterly presentations, but on top of that, we've seen something that we were not expecting. It's the fact that some service, oil service companies who are large users of Guar have built over the course of 2012 very large inventories, and they suddenly decided at the beginning of Q2 to reduce drastically these inventories, and to be simple they have just cut any order. So it means that we have not sold Guar to some of these large consumers during the course of last quarter.

We evaluate this impact in the 10 to 11 million range. I have to say that we are now back to a normal situation, which means that the inventory is back to a reasonable level at our customers, and we are seeing our customers re-taking what I would call a more normal order pattern. So this part of the Guar issue is behind us, but we will continue to see next quarter some impact coming from the disappearance of the Guar bubble.

The other businesses of Consumer Chemicals performed reasonably well. On advanced Materials, we have one business performing remarkably well, its silica. A one business facing

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very tough condition, that's Rare Earths due to low volume, mostly linked to what's happening on the lighting segment. And also some further decrease in Rare Earths, which has some impact on our margin. Specialty Polymers, the business is generating record profitability, good dynamics in most markets, healthcare, aerospace, consumer goods, but some delayed investment in energy, mostly oil field chemical. We were expecting some sales which didn't materialise, and we have also seen in smart devices market, some new project being slightly delayed, which create the situation in which we don't see meaningful volume growth at Specialty Polymers, while we see again record profitability.

Performance chemicals, in the context, I think good performance. Down 4% year on year, 16% sequential improvement, and when we look at the businesses, again to give you a simple view, Acetow has posted record performance, very, very strong performance in this business. EcoService is demonstrating the expected resilience. Essential Chemical overall had a good performance in bicarbonate and peroxides. However, low demand in Europe in soda ash, but good pricing, overall good performance of soda ash in North America, and still some challenges on the export market. But frankly speaking, when we look at Performance Chemicals, I think it demonstrates that yes, it's indeed a business which has the ability to resist in a challenging environment.

Functional Polymers generated €79 million, down 9% year on year, 10% improvement. So, still very tough trading conditions, and on top of that, polyamide was impacted by a significant six weeks long maintenance shutdown which takes place every 3 year at our Butcahimie plant. In energy and corporate, I mentioned that we have seen the last CER hedge sold. We have still a few CERs available, but we don't have any hedging. As you have seen, we have done quite well in terms of hedging. We have sold our CER for H1 2013 at an average price of €13.2 per tonne, while the spot price is below €1.

While we were facing this challenging environment, we continued the transformation of the portfolio. The key project, which is the JV creation with INEOS is moving well, both on the internal front, preparation of carve out, due diligence, negotiation of the details of the deal with INEOS. I think we are also making progress in our discussion with Europe antitrust authorities, although we are not yet at a point where the formal file has been submitted, but we expect to do that momentarily. We continue to believe that we will be able to close this deal by year end.

We have announced a couple of significant plans, a €100 million cost improvement on industrial footprint rationalisation at soda ash. We expect to close our Povia facility, Povia soda ash facility by year end, and negotiations are on-going regarding shutdown of this facility, and again I would

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say in a reasonable climate where we are trying to make sure that we have fair solutions to the people who are being impacted. But I don't expect any delays in the closure of this facility.

We have also €100 million profit improvement programme at polyamide, which is moving in terms of actual consolidation plans. We went through the usual union consultation, and now it's in the implementation phase, and on top of that, it's worth mentioning that our integration synergies are continuing. We did not give a detailed update, but the situation is moving in a very favourable way, both on the purchasing front and internal cost reduction. We have just got the go-ahead after the social consolidation for the last wave of synergy, which was linked to the implementation of our shared service costs centre. So, no delays, and still a very strong dynamic there.

So, before passing the word to Bernard, I have obviously to make a comment about news which probably surprised you this morning, but which did not surprise me because some months ago now Bernard told me that he was willing to turn the page and move to Brazil. Maybe you have not realised it, but Bernard is also a Brazilian national, and he has a strong interest in this country, and he wanted to pursue some personal project there, and he is moving to Brazil with his family.

He will continue with some ties with SOLVAY as he is currently a Board member, so he will continue to be a Board member, he will be a non executive Board member. My challenge when Bernard shared this personal project was to find a suitable replacement, and I'm very pleased to announce today that Karim Hajjar will join the group as a CFO. Karim has had extensive experience both in the financial activities, but also in financial function of industrial companies, but also in the operations in his career with Imperial Tobacco, Anglo American and Shell.

But as I have said in the internal announcement that we've made, my challenge was not just to find a new CFO, it was to find someone who could be a very strong change agent for SOLVAY because we are really in a situation where we still have a lot of transformation to implement. I was very impressed by Karim's operational insights and his ability to be a change agent. So I think Karim will be a great addition to the team. With that, Bernard.

Bernard de Laguiche - SOLVAY - CFO

Thank you, Jean-Pierre. As you said, I've decided to turn the page after a 26 year career and 7 years as a CFO, which were extremely interesting 7 years where the SOLVAY Group changed significantly. Obviously these are changes I think, I believe are very positive, and I am absolutely confident in the Group's future. As you said, now I will move to Brazil.

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Coming back to results, beyond REBITDA, one very important feature of these results are non-recurring items. They amounted in the quarter to €97 million. Of this €97, the main part is restructuring provisions, which represented together €81 million. These €81 million consist of €45 for soda ash restructuring, including social, environmental and legal costs. This is basically the stop of the Pova plant.

Further related charges linked to productivity actions in soda ash and essentials will not exceed, that will not exceed €15 million, will be booked progressively following the deployment of this three year programme. So €45 million soda ash, and then €26 million set up of SBS. SBS is our shared service organisation, and there is an initial charge of €26 million restructuring to set it up.

Beyond restructuring, this is €81 million together; non-recurring items also included a €32 million impairment on various assets, mainly related to new business developments participations. Charges in this caption were partially compensated by positive outcomes in respect of pending litigations. Another item in the PNL with a significant evolution were net financial expenses. They declined by roughly €50 million, compared to the same quarter of last year.

If you see that borrowing costs and financial revenues remained stable, and they include by the way a negative carry effect that we evaluate, a yearly effect of €90 million, but they remain constant. So what changed were the cost of discounting provisions, provisions, environment on one side, pensions on the other side. The cost of discounting provisions for environmental amounted to more or less €39 million. There were two one-off effects, one in 2013 for, totaling €17 million because in 2013 the discounting rate increased, and we had in 2012 the reverse. There was in Q2 2012 a one-off effect with a decrease in the rates amounting to €22 million. So €22 plus €17 is €39 million linked to environmental.

Also on pensions, the cost of discounting pension provisions decreased by €12 million also for the same reason, lower discount rates for these provisions. So all together that explains the €50 million decrease in net financial expenses linked to the cost of discounting provisions. In tax I would say we had a positive, or a low tax rate of 21% benefitting from a positive outcome of some tax litigations. For the year as usual we guide towards a 30% tax rate for the year.

Results from discontinued operations included an upward fair market valuation adjustment by €12 for SOLVAY Indupa, and a positive development relative to pharma that resulted in a reversal of our unutilised reserves of €16 million. Net income came at €148 million versus €239 million a year earlier.

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Now turning into operational cash management, our industrial working capital came out still high at 14.2% on sales. Similar to last quarter, industrial working capital needs were impacted by high inventory levels, anticipated scheduled manufacturing turnarounds for maintenance including a large six week, and you already mentioned, Jean-Pierre, turnaround in upstream polyamide.

While now inventory had started to reduce, payables stood very low, and as you know, payables reduce working capital, and so as a consequence of limited purchases during the turnaround. We expect to be able to start reducing working capital level as from Q3. It goes without saying that our objective remains intact, continued rising down, working capital between 11% to 12% on total sales over time.

CAPEX, the group is selective, both in terms of projects as well as in respect of timing. In Q2 the group invested €169 million, and we can say that probably we will spend less than our budget of €900 to €950 million.

And last caption, cash; in the quarter, free cash flow over the period amounted to €71 million, with industrial working capital outflows totalling €30 million. Over the period, and that explains the evolution of net debt, Solvay disbursed 60% dividend balance payment for a global amount of €240 million.

Jean-Pierre Clamadieu - SOLVAY - CEO

Thank you very much, Bernard. Let me just last comment before the Q&A, obviously about the outlook. What we see today is some small signs of improvement in various markets, but yet to be confirmed in our order book. Taking this into account, sorry, and knowing that there won't be any help from carbon credit in the second half of the year, we think that we'll be able to generate in 2013, REBITDA comparable to 2012, excluding the €190 million impact of guar exceptional profit, and [CER sales, which have now fully fed out. So, this is what we wanted to share with you, and now let's go to the Q&A. Operator, we'll start on the line.

Question and Answer

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Investor A

Yes, good afternoon, hi. So, you talked about small signs of improvement in various markets; could you be more specific on which markets, and what, exactly, are you seeing? And then, second question, it mentions in the release that there are some customers are delaying investments; is this mainly in oil and gas, or do you see this in other end markets as well? Thank you.

Jean-Pierre Clamadieu - SOLVAY - CEO

In fact, we are referring... I will take the second question before, but in fact, they are linked. It's related to the Specialty Polymers business and in oil and gas where we are selling some advanced polymer, which are used in various types of application. We've seen some customers delaying projects, and this is one of the reasons why we've not posted volume growth in Specialty Polymers. On top of that, and it's not investment, per se, it's more project, on the smart device business which is becoming important to us, we are, unfortunately, dependant on the project cycle of our customers, and last year, we were favoured by some significant launches of new products using our speciality polymer; this year, the situation is not exactly the same, but we expect this to come later on in the year.

And when we say, weak signs, yes, I think we are on one of the area we see some signs in the Specialty Polymers business. We tend to think, also, that in the automotive market in Europe, we have touch the bottom and there are signs here and there on the, either Specialty Polymers or engineering plastics, that things are getting...things could be getting slightly better. But I don't want to overplay the signs, and we are continuing to manage very tightly in a situation where we think that the whole year will be a challenging one, but again, we expect the second half to be slightly better than the first one.

Investor B

Yes, hello. I have three questions. The first question is on Novecare. You stated that there was a 60 million impact year on year; could you split that for me? How much of that was last year's peak guar prices, and what was the impact of the destocking that you saw this year? That's the first question. The second question is on capex; I saw that in the presentation, you reiterated your

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guidance of a total capex budget of 900 to 950 million this year, but so far, you've only spent 330 million, and I know you spend, usually, a lower amount in the first half, but just to confirm, are you holding on to that range, or should we expect that you would spend a lower amount than the rate that you've provided? And then, finally, on the guidance, could you talk a little bit about your view on which elements might make you exceed the targets that you've given, and what elements could make you miss this target? Thank you

Jean-Pierre Clamadieu - SOLVAY - CEO

Well, on the first one, on Novecare, I mentioned that the total impact linked to guar is 60 million. The impact which is linked to the unexpected destocking at our customers in Q2, represent around 12, I'd say, 11, on the introduction but in reality its €12 million out of the 60 m, so it's 48/12 is the spilt between the two. So 48 linked to the fact that the (unclear) has disappeared, and 12 linked to this unexpected destocking, which, in fact, is linked to one market, oil and gas, and I don't want to be too specific, but a very, very limited number of customers, so something that we can follow very well. And the destocking impact, we think is behind us, which means that customer orders have resumed at the end of June, at the usual level. We don't expect any restocking, but we expect to be back in the mode where we were without this stock adjustment impact.

Capex, I confirm your comment; I mean, we tend to spend less in the first half than the second half. Gut feeling today is that will probably be slightly below the budget, just because as activity is a little bit less than expected, our management teams will have tendency to delay a bit some projects, either significant capacity addition, or various upgrades in plant; we have not taken a view at corporate level that we should aggressively reduce our capex spending, because we expect better times to come back, one, because we have some very challenging growth objectives, mid-term, but overall expectation is that we will probably end up a little bit below what we've said as being our budget objective.

And third, well, that's a challenging question. In fact, what could expect...what could allow us to exceed our target is probably more small positive signs flowing in much higher number into our order book, and we have businesses like Specialty Polymers, but Novecare is a little bit the same story, where we feel that customers have been delayed some orders, have been delayed some projects, but are really expecting the right time to jump in so we could have some positives there. European environment as a whole, we expect things to very, very slowly improve, but today we...I think the readings...what we read in macro-study is a bit more positive, and when we

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actually see in our order book, so we can see the two things converging. Negative, I think, is that we are already in a situation which, in terms of the environment, which is challenging, so I think the balance is probably slightly to the upside today.

Investor C

Yes, good afternoon. Thank you for taking my questions. I would like to know whether you see, already, any sign Rare Earths of recovery in this lightning business? And could you figure out how much of these 190 you extract from the REBITDA last year, as a comparable base, how much of that was in total for the first half? And last but not least, Performance Chemicals was very strong Q on Q; could you elaborate a little bit more what the drivers were Q on Q, and how you see this going forward in the second half? Thank you.

Jean-Pierre Clamadieu - SOLVAY - CEO

Sorry, but your second question; could you repeat it?

Investor C

You strip out for the comparison from this year to last year in the REBITDA 190 million, the guar gum price impact and the CO2 certificate; how much this 190 were in the first half?

Jean-Pierre Clamadieu - SOLVAY - CEO

Okay, I will let Bernard answer this question. Rare Earths, simple answer, no. No, we don't see today improvement in the lightning market. I think, our customers, we are caught by surprise with the delay in the new regulation coming in North America, so they still have significant finished product inventories, and we don't have, yet, signs of improvement. Performance Chemicals, I tend to agree with your comment regarding the fact that we had strong performance; again, one driver in this, positive driver, or strong positive driver is Acetow today is running at...is showing some very significant improvement quarter after quarter, and this is linked to a lot of very good

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management in this business unit, in terms of cost base, in terms of customer contract, so that's a significant contributor to this very good performance.

Soda Ash is overall resistant, different situation in different geographies; quite good, in fact, in North America. Bit more challenging in Europe, but the challenge is mostly volume, not so much price, which is always a bit easier to deal with, and challenges on the export market, although we've signalled at this time that we are not ready to sacrifice prices by being aggressive on some export markets. And bicarbonates and peroxide are doing well. So that's the balance of these elements, which does more than compensate what we've seen as...in terms of difficulties in emerging bio chemicals, which is your other small piece in this overall cluster.

Bernard de Laguiche - SOLVAY - CFO

so on the 190, Jean Pierre mentioned the [guar] effects that...out of the 60, that was not destocking, that's 48. 48 out of 100, so that's more or less half the guar effect, and on CERs, as we said, we sold all of the hedged CERs this quarter, the remainder, so 100% of the CER effect is already in the two first quarters, and that was €90 million last year.

Jean-Pierre Clamadiou - SOLVAY - CEO

Thank you. Next question, please?

Investor D

Good afternoon; one quick question, just going back to your comments on capex; originally, when you outlined your strategy, you split the business into cash engines and growth engines, and clearly, at the moment, the cash engines aren't generating anything like the cash that they were when you outlined that strategy, and I wonder how that, sort of, impacts your... You know, you mentioned you hadn't changed the view on capex projects at the corporate level, but I wonder how...if you could just, sort of, outline the thought process behind that, and if that cash generation doesn't improve, you know, how you would think about expansionary capex over the next two or three years. Thank you.

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Jean-Pierre Clamadieu - SOLVAY - CEO

Well, first, not too disappointed by the cash generation of the company; I think, for the whole year, I have the feeling we'll be very much in line with our initial expectations. Second, I think strategy is not there for a quarter; strategy is there for several years, and overall, I don't see any reason why would need to change the way we look at any of our businesses. Probably the only exception there is Rare Earths; I think in Rare Earths there were a significant number of events which happened in the past year, let's say, or 18 months, which probably brings a bit of a change in the way we look at this business. But the guar destocking, or the end of the guar bubble, which was, by the way, a very obvious...it was obvious that it would happen, not the destocking, but the end of the guar bubble, or the fact that some of our customers in oil and gas or in smart devices are delaying, a bit, some investment, this, for me, I trust, the type of event we need to live with in specific quarters.

But overall, I'm still very confident in the ability of our growth engines to continue to generate growth. And then, in terms of cash allocation, we are not seeing any changes to what we had in mind when we made a strategic presentation to the market in April 2012, and if I continue on the development, I think on soda ash clearly one of the reason why we resist the various action plans that we are putting in place to reduce capacity in the areas where we think the market is over supplied, south of Europe. I hope that the... I'm convinced, I should say, that the cost improvement action plans that we are putting in place will improve significantly our European industrial footprint, so frankly speaking, all the reason to continue with the strategy we have outlined. And as far as capex are concerned, my only comment, I don't want to give a new objective today. I think we are in an environment where it would make sense to spend a bit less, but again, we have, today, we have a view on our free cash flow generation capability for the whole year, which is very much in line with what we expected.

Investor E

Hi. Thank you for taking my questions. Could you give, maybe...? My first question relates to the corporate and energy business unit; could you give a little bit more guidance on what to expect on the REBITDA line from Q3 onwards? And then a second question, could you repeat what you said previously before the Q&A session, when you talked about, if we didn't sell...or if we haven't...if we did not sell all our CER, then the impact was different from the EBITDA line today; could you repeat that part? And maybe just a confirmation of working capital as a percentage of

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sales, you said from...it will go down from Q3 onwards; will that be in line with what we've seen last year, or will it move in a different fashion? Thank you.

Jean-Pierre Clamadieu - SOLVAY - CEO

No, no. I will take the last two questions and leave Bernard with some comments on how we should look at the corporate line; working capital, yes. I mean, we expect to see the same type of behaviour as last year. There are some specific reasons this year, why working capital on sales is so high, not so much inventories at the end of Q2, we have reduced inventories after the...after we resume...we started up again our Chalampé facility; but we are left in a situation, right after such a long shutdown, where we have a bit less payables than usual.

Last day of the month was a Sunday, so this creates, also, a...last day of the quarter was a Sunday, which leaves us with a bit more receivable than we would like, and so some technical reasons, but overall, good confidence that we'll be able to bring working capital on sales down. Yes, to...the only comment I was making, which is rather obvious but is that part of the sequential improvement between Q1 and Q2 is linked to carbon credit, and I was saying that if we correct this effect, we have €10 million improvement REBITDA in Q2 versus Q1. So very small sequential improvement of the businesses, if we expect...accept, sorry, the carbon credit impact. Bernard, on corporate line?

Bernard de Laguiche - SOLVAY - CFO

On corporate, and... On the corporate line, so our corporate in this quarter and this year includes energy. IF you exclude the energy effects, I think that a reasonable estimate would be to assume that the corporate costs would be in line with the ones we had last year for corporate, and where we published separately corporate and energy. So assume that this number is constant. Of course, we are comparing two organisations that are not exactly the same, but the figures would be more or less the same, and they include, in this year, some expenses to implement our shared service organisation, that are quite significant in this year, and as you know, we are implementing SBS in 2013. So taking that into account, or corporate costs on a yearly basis would be in line with the ones we had last year. And the spreading quarter by quarter would be more or less equal on a quarter by quarter basis, slight increase during the year, due to this set-up of shared services. Next question, please.

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Investor F

Okay, two questions I have: one again on the Capex budget. Can you give us more flavour what kind of projects will come on-stream over the next years, and what kind of REBITDA impact do you expect from these projects? I think if I have it right in my mind there are several projects which will hit then production the next years and quarters. And then technically with the Q1 numbers you said you think that besides automotive you also have an inflection point at electronic customers reached. Now you have not referred to this industry. Is this the case, or...?

Jean-Pierre Clamadieu

I can't hear you very clearly on your second question.

Investor F

The second question, well, we speak up. So with the Q1 numbers you said that beside automotive industry you see also an inflection point at electronic customers reached, and how you have not referred to this industry. Is it still the case that you see an inflection point reach electronic customers, or was there a delay of this electronic cycle?

Jean-Pierre Clamadieu

On new Capex... on new Capex project just an example, I don't want to be completely... I'm not trying to be comprehensive, but we have announced a new Silica plant in Poland. We have announced a couple of new Novecare Alkoxylation oxidation plants, one in Singapore, one in Germany. We have announced recently a new vanilla plant in China. We have made a couple of decisions on our soda ash business which will have, in terms of investment, some impact on our profitability, not on the on... We don't want to build new capabilities, but improve profitability, so quite a number of projects, which indeed continue to demonstrate that we are clearly in a growth mode, but at the same time we are focusing our efforts on businesses where we could extract the

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most value out of this project, and Silica is probably the example of the business where we have a very sound and very well protected growth trajectory, with results which are extremely good.

On electronics, I think it is true that I have not made much comment. There is a tendency to mix a little bit electronic of, say, lightening and smart devices. Smart devices, we are discovering because it's a bit new for us that it's a business where we are very much linked to product cycle at customers, which could create some significant differences when we compare year-on-year results. Don't want to be more specific, because then I would make some comments which would be a little bit specific on some of our customers. On the lightening I made the comment that we don't see today any changes in a very challenging situation in North America, and on the bulk of the electronic business we are probably seeing a slight improvement in Asia obviously.

Investor F

Yes. Thanks very much. Dominic [Frainstantier] from Citigroup. I've got a couple. The first on cash flow. Could you specify the restructuring cash-outs in the first half, and what do you expect for the second half? And tying in with that, the cash slow guidance for the full year, what do you expect the company will be able to generate in terms of a free cash flow as a whole this year? And then the... could you... coming back to the one-offs, the super normal profits you realized last year, could you just tell us the total amount you had in the first half last year? I'm just a bit confused by the comments around carbon credit. If you could just tell us the total number in the first half out of the 190 million? Then you comment on the corporate costs, and just to make sure. Last year Rhodia had, excluding the 15 million one-off you had in corporate there 82 million in corporate costs, and Solvay 117. So is the combined numbers around 200 million that new run-rate on an annual basis going forward? Thank you.

Jean-Pierre Clamadiou

We just remind you that we have not given a fully year cash flow guidance, but then I will leave Bernard answering the other questions.

Bernard de Laguiche

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So your first question was relating to the restructuring cash-out. In the first half it was €30 million, and you can expect that to continue, or even a bit higher as we implement our restructuring plans. I remind you that we reserved for more or less €100 million non-cash in first half also, and this is linked with the restructuring plans we will implement in the coming years.

Then on the run-rate, 200 million would be including energy. If you exclude energy, it would be slightly more than that. I would say more in line between 220, 250 excluding for corporate costs.

Investor G

Thank you, and very good luck to Mr Laguiche for your future project, and a safe move to Brazil. I have a couple of questions. The first is on your guidance for 2013. I'm a bit confused, because on the one hand you have sold all your carbon credits in H1, but on the other hand you are very confident that you will see sequential growth for H2 versus H1. Could you give us a little bit more colour what brings you this confidence, because you're also sort of being a bit more cautious saying that you have seen early signs of recovery, but they're not in the order book yet. So some more colour on H2 guidance would be highly appreciated.

Second question is on the cost-cutting. If I look at your bridge which you have provided now for a couple of times, you don't sort of split out cost-cutting. So how should we think about cost-cutting in Solvay? Is it just an inflation hedge and we should actually think about the two specific projects that you're doing soda ash polyamide as the incremental cost-cutting? Because I'm finding it hard to reconcile where cost-cutting is.

And the third question is just related to the management change. If I can ask why did you go for an external candidate? What triggered you to go for the external candidate versus someone from internal candidate? Thank you.

Jean-Pierre Clamadieu

Let's take the question in reverse order. Management change, very simple. I think that at some point of time you need to bring new blood into the organization. In the first step of integration it's true that for a number of functions we had a little bit too many resources and we had to let some people go, and choose within internal candidates, I think we're probably at a point of time where it

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makes sense in some functions to bring people with a different experience. In our organization the CFO is not just the CFO: he's also a member of the Comex, and a member of the Comex collectively are collectively managing the transformation of the company, and this means that I was very, very cautious to bring on board someone who would be a very, very strong change agent, and I had the feeling that I would have to go outside to find someone who can bring these capabilities to the Comex. But again I did it in diversity, diversity in various forms. We are not that good in terms of gender diversity at Solvay, but I think diversity of the experience, diversity of background, diversity of nationality is good. And Karim clearly will bring specific capabilities in terms of transformation, in terms of ability to participate in the collective thinking on the (unclear) of the group, which will be very useful.

So for me it was a no-brainer, and when Bernard told me that he was willing to leave, which once again was a bit of a surprise to me but I had to accept his decision, it became very obvious very quickly that we would need to go outside, just because it's an opportunity to strengthen the management team.

On the guidance, I think here is the implicit message and I think it's rather clear, is that if you exclude the carbon credit we need to do a bit better in H2 than what we did in H1. So where do I gain confidence that we can do that? One, as I told you, we are seeing weak signs here and there. I mentioned a few markets, I mentioned the automotive industry. In oilfield chemical with Novecare, the guar destocking is behind us, and we have seen our customers going back to a normal order pattern. In Specialty Polymers we're seeing that there are a couple of upsides in terms of projects which have not materialised in H1 but which should materials in H2.

So when I'm taking all these elements I add onto that the fact that we are pushing very hard our teams to make the best out of this environment. The best means probably being a bit more active on some cost cutting but also seizing business opportunities when they appear. So my overall view today is that we should be able to do a bit more in H2 than H1. When you do the maths, and I will let you do them, we are not expecting a huge improvement in H2 versus H1 but, yes, we are expecting some improvement.

So in terms of cost, I agree that the situation is a bit complex to follow and we'll have to bring a bit more clarity because we both have the cost improvements which are linked to synergies but at the same time when we are growing we are obviously... we need a bit more cost when we build or when we start up a new plant. We have inflation and we have also the cost improvement action plans that we have announced for soda ash or polyamide. So, yes, we need to add up all of that and at the end of the day we have to realise that the timing is not exactly the same. Synergies,

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we are in year three. Soda ash we are in year zero, I mean, we are starting the plant. Polyamide we started a few months before. So there's probably the need for a bit more clarity and I think probably the capital market there will be an opportunity to help you understand how to model this fixed cost improvement.

But the simple message is that things are moving. We've got the green light from all the social committees in front of which we need to present these projects in countries like France or Belgium, and more broadly speaking, Europe. These projects are now on-going. The Povia situation is evolving as we expect in terms of calendar. I think the dynamic in terms of cost optimisation is clearly there.

I think we'll probably take the last two questions as we are getting to the end of this call.

Investor H

Hi there. Most of my questions have actually been answered but I'll just venture one, which I think might be a little bit too specific and you just touched on it in the last answer, but when we look at the smart devices comments that you've made are you able to say whether you actually lost out to a competitor over the past few months for this product cycle or is the product cycle just a bit delayed and you've got some confidence that it will be coming over the next few months and possibly this year?

Jean-Pierre Clamadieu – Solvay, CEO

No, we have not lost it. We are there on the coming products but we don't master the timing at which these new products are coming to the market and again it creates a little bit of... it could create, in fact, a visible difference between when we do year-on-year comparison. But, no, it's not a loss of... it's not an opportunity lost. On the contrary, I think we've been able in this smart devices market to secure our position but unfortunately we don't master the product cycle and the launch date of this product for reasons that you can easily imagine.

Investor I

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Good afternoon, gentlemen. Quick question on rare earth. Could you elaborate on the structural shift in the way you look at this BU. I thought it was a short or medium term issue but I understand now you consider it's more a structural one.

Jean-Pierre Clamadieu – *Solvay, CEO*

Well, yes and no. In fact when I look at rare earth performance today in terms of return on capital or EBITDA margin it's a good business. But it was a great business a year ago so that's a big change and the situation is moving very quickly. On two fronts, one is the market, on one market lighting, the automotive after treatment market is going well and I think we have built solid positions there and if there are questions on how the European automotive market performed. Being exposed to the global automotive market is a satisfactory position today. Lighting, the market has disappeared for some time until the US regulatory situation is clarified. So that's one element of the equation.

The second complex element is the pricing of raw material. We've seen a situation with extremely high prices, which prompted the launch of some projects to produce rare earth outside of China. Prices are going down now. It might have some impact on the viability of some of these projects outside of China. In the meantime I think we are trying to make the best out of this challenging situation but clearly the contribution of this business to our overall growth objective is much more limited than what we expected and probably taking the 2011 reference it will be a negative contribution. So it means that we have to rethink our strategy and it's probably the only business within our growth engines where I see these types of situation. Yes, we have specific issue on guar in Novecare but Novecare is very much in line with its medium-term strategic roadmap. Yes, volume growth is a little bit less than what we expected in speciality polymer but there too I think the speciality polymer business is very much in its growth roadmap.

So I could continue the enumeration but the only business... silica is doing is doing very well. Coatis is doing well. Aroma performance is doing well. so the only business where I see a significant deviation versus roadmap and as we speak no clear view on how we can bridge this difference is rare earth, and this is the comment that I was making.

So, with that, I think we will bring this call to an end. Again, two sides of the coin during this quarter. Clearly challenges around us. An environment which did not improve in Q2 versus Q1. With one specific issue, guar, which played a significant role in the comparison between Q2 2012 and Q2 2013. With one element which was not expected, which was this significant destocking in

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the oil and gas, guar derivatives market. And the second side of the coin is the fact that we are continuing to transform the company. There were very few questions on our JV with Ineos but clearly it's a project which is moving well and which is changing... which will change once it's closed. The overall strategic position of Solvay, we are continuing to work very much to transform the company, both in terms of efficiency, cost efficiency, manufacturing excellence but also in terms of portfolio.

We continue to strive for our medium-term objectives and we will have opportunities to update you on all these subjects on our Q3 earnings call on October 25th. And as you probably all know we have a capital market day, which is set for November 11th, Armistice Day. I don't know if it's a good or a bad sign but it's the date we have chosen in London to meet with you and have a detailed discussion on how we see the strategy moving forward. Thank you for your time and see you during these meetings in October and November.
