

Solvay Results Conference Call
Friday, 27th July 2012
14:00 Hrs UK time
Chaired by Bernard de Laguiche

Bernard de Laguiche

Good afternoon, ladies and gentlemen and welcome to the conference on Solvay's Q2 2012 earnings. I'm Bernard De Laguiche. As is customary every quarter, I'm joined today by my colleagues Jacques van Rijckevorsel, Group General Manager of the Plastics Sector, Vincent De Cuyper, Group General Manager of the Chemical Sector and Gilles Auffret, Group General Manager of Rhodia. I will start with commenting Solvay's 2nd quarter results, the financials and free cash flow, before concluding with our outlook for the year. After that I will open it up for Q&A.

So first the results... In an economic environment of persisting or increasing uncertainty, Solvay came out with a sound set of results. If we were to characterize the quarter, business dynamics showed two differentiated tempos. April and May, in the continuity of the first quarter's momentum, while June observed a noticeable inflection in confidence levels and customers' purchase patterns.

Net sales remained stable at €3.3 billion with prices up by 2% year on year, volumes down by 6% compared to the tough year's comparable and a positive currency impact of 4%, mostly US dollar and Chinese Yuan.

Recurring EBIDTA of €565 million was up by 8% sequentially and down by 6% versus last year's peak comparable. Our growth engines and our highly resilient businesses have driven the good performance of the quarter. Indeed, Speciality Polymers and Consumer Chemicals posted record results stemming primarily from strong pricing power. Essential Chemicals and Acetow & Eco Services delivered a sustained high level REBITDA performance. On the other hand, our Vinyls and Polyamide activity activities had to cope with persisting difficult competitive market conditions in a weak demand environment.

Pricing power has been positive across business segments except for our cycle-sensitive businesses and Energy that more than offset the former by circa minus €20 million. However, if we add the pricing power at our equity affiliates, the Group's overall pricing power balance would turn positive.

Net sales of the Plastic Sector stood stable while REBITDA sensibly decreased by 27% to €146 million. That said, this decline was exclusively linked to Vinyls which reported volumes down by 9% (comparable to the 2009 rock bottom levels), and posted a 58% lower REBITDA versus last year's strong second quarter. Speciality Polymers on the opposite benefited from healthy demand

in most of its markets, pricing power as well as the first impacts of the various operational excellence programs that contributed to the results growth and the strong REBITDA margin of 30%.

Chemical Sector performance was good with net sales up by 5% and REBITDA up by 8% to €139 million. Essential Chemicals benefited from sustained activity levels in soda ash, caustic soda and hydrogen peroxide. The epichlorohydrin activities were impacted by maintenance activities in Tavaux while the new Epicerol® plant in Thailand pursued its production ramp up, thus not contributing significantly yet to the cluster's results. Essential Chemicals realised an 8% higher REBITDA of €120 million.

In Special Chemicals, the fluorchemicals gradually recovered, supported by the recovery in fluorspar supply conditions.

The Rhodia Sector reported stable sales of €1.6 billion, despite the lower sales performance of Polyamide Materials and Energy Services. REBITDA wise, the Rhodia Sector delivered a record €318 million, driven by the exceptional performance of Consumer Chemicals and Acetow & Eco Services. Novecare continued its strong momentum driven by guar-based formulations for Oil & Gas and also by the performance in Home and Personal Care and the Industrial segments. On the back of strong pricing power and favourable mix, Acetow and Eco Services achieved a REBITDA of €73 million up 41% compared to the second quarter last year.

In Polyamide Materials, volumes dropped by 7% due to slowing of demand in Europe and Brazil. Continuous margin pressure and the temporary shutdown of our adipic acid plant in Paulina, Brazil, led to €43 million versus €62 million last year.

I would like to mention a few financial elements.

First, net financial charges in Profit and Loss amounted to (110) million, (26) million above 2nd quarter 2011's pro forma figures. The increase is mainly explained by the 75 basis points decrease in discounting rates for HSE provisions. Also, reduction in discount rates applicable to our pension liabilities resulted in an increase of our net deficit balance by over €(200) million to €2.7 billion, but no cash, nor P&L impact in this last case.

Second, on an adjusted basis, income taxes represented €99 million or 28% in the quarter in line with our effective tax rate guidance for the medium term of around 30%.

Thirdly, we continue to observe a strict financial discipline. We remained selective regarding Capex investments which amounted to €180 million in the quarter, while our industrial working capital represented 13.8% of the Group's sales. On balance, free cash flow of the quarter reached €138 million.

And last, but not least, we are enthused about the good progress in the integration front and our delivering of cost efficiency gains, which amounted to €55 million in the first half of the year. We are spot on planning regarding these cost savings with a number of important deployments and achievements that are illustrated in the road show presentation available on our website.

Let me conclude with our outlook statement for this year. Business dynamics should remain healthy for our growth engines and challenging for our cycle-sensitive businesses. Despite the slowing in demand observed in June in some business segments, the on-going major transformation of the Group combined with our ability to fully deliver on our cost saving targets lead Solvay to reiterate its expectation to achieve full year REBITDA similar to the strong 2011 pro forma level.

And with this, we are ready for the Q&A session.
Operator, can we have the first question, please?

Operator

Thank you, sir. As a reminder, if you wish to ask a question, please press *1 on your telephone and wait for your name to be taken by the operator. Your first question comes from Investor A. Please go ahead.

Investor A

Hello, thanks for taking my questions. Firstly, impressive result in Consumer Chemicals, but it does look like a lot of the progress from Q1 came from the JV in guar. With guar prices now coming down, what should we expect for this business going forward? And then secondly, in Speciality Polymers, once again another good result, I wondered if you had any benefit from the PA12 outage that we saw. Did it benefit any of your products either in terms of pricing or volumes? And then lastly in terms of the explosion in Paulinia, could you talk about whether this affects your CER volumes at all or is this also covered by insurance, thank you?

Gilles Auffret

I will start by the guar question. To start with, guar is used in the home care business, in cosmetics, in agro, and in oil and in gas. As you know, we have a JV, 50-50, called Hichem to get our supply of guar. Now, as far as the price of guar is concerned, it has skyrocketed during the first half of the year to over \$20 a kilo. Now it's down under \$10 a kilo. Today it's going up again a little bit, so it is a very volatile price. How does impact our results? First of all, you have to understand that the customers have recognised Novecare's differentiating value proposal concerning guar procurement, derivative guar procurement. And therefore we have been able to improve our contracted terms with them and to increase our profitability in the long term.

Now, as far as Hichem is concerned, it's clear that during the first semester we have benefited from exceptional results due to this high price in native guar compared to the cost. Therefore we have benefited in Q1 and Q2, but very exceptionally in Q2, of a significant increase of this result. And of course it will progressively decrease during the second part of the year. And if you want to have the magnitude of that, you have to go to the line "Earnings from associates and joint ventures" where you can compare between Q1 and Q2. There is a significant increase by €30 million. A significant part of it comes from Hichem. On Paulinia and the effect of on CER, the plant has restarted in mid-July, after two months of closure. So we will have an impact on the CER at the end of the year. The magnitude of that is around €10 million.

Bernard de Laguiche

Jacques on PA12?

Jacques van Rijckevorsel

Yes, for the PA12, there is no effect in the Speciality Polymers.

Investor A

Thank you, just to follow up on the guar question, you said there was the €30 million difference Q1 versus Q2. I think Q1 included PipeLife from memory, so what was the actual underlying increase, or perhaps you could give the contribution of PipeLife in Q1?

Bernard de Laguiche

The answer is no. There was no longer a contribution of PipeLife in Q1.

Investor A

Okay, fine. Thank you.

Bernard de Laguiche

Thanks Investor A, next question, please.

Investor B

Sorry, evidently some confusion there, apologies and thank you very much, gentlemen. A few questions if I can as well, please. I wonder if you could talk a little bit about the performance in fluoropolymers. We obviously had Dow earlier this week suggesting that the competitive environment and the underlying demand in fluoropolymers had weakened, yet obviously that's not been a theme that you've talked about here. So I wonder if you could just comment on your views there please.

Secondly, obviously the Acetow business had a spectacular performance in the second quarter. You mentioned seasonality being an issue, but if I go back... the greatest seasonal effect, Q1 to

Q2, that I've found is back in 2005 when you had a sort of €11 million sequential improvement. You're talking about €19 million this year. Could you try and sort of split the seasonal effect and perhaps the mix effects and talk a little bit about what those mix effects are. Traditionally in both Acetow and Eco Services, the great advantage of that business is that it is extraordinarily stable. Obviously it's very good if profitability is improving, but I wonder if you could talk about why that should be.

And then finally and maybe I've missed something extraordinarily obvious for which I do apologise, but the Energy business, I do struggle to understand the quarter on quarter volatility. Your commentary about volumes in both Q1 and Q2 was exactly consistent. You're talking about 14 million tons of production. We know that 80% of it's hedged at 11½. We know that the spot price was, if anything, marginally lower in Q2 than Q1, so can you just try and explain why we saw the quarter on quarter decline? What am I misunderstanding in Energy, please? Thank you.

Bernard de Laguiche

So thanks, Investor B. The first question is for Jacques on fluoropolymers and the two next ones, Acetow & Eco Services and Energy Services are for Gilles.

Jacques?

Jacques van Rijckevorsel

Yes, about the fluoropolymers, no we do not see a slowdown in the field of fluoropolymers and we believe that currently we are outperforming the market because our strategy of very high end products of higher performance in Specialty Polymers is bearing its fruits and we do not see a slowdown.

Gilles Auffret

On the Acetow and Eco Services business, first of all as far as seasonality is concerned, I should say that Acetow is quite flat all around the world all over the year. It's not the case for Eco Services. You have the peak season which is the gasoline season in the US in Q2 and the lowest quarters are Q4 and Q1 where we do maintenance in the plants. So therefore the seasonality is 100% steering from the eco service business.

Investor B

As I say, historically, the average sort of seasonal improvement Q1 to Q2 in that combined area and presumably it's largely coming from Eco Services has probably been €7 to €9 million. The largest I've seen is €11 million, so what has been the seasonal effect in Eco Services this time and what's the mix... can you give us an idea of the mix effects and what those mix effects are in both businesses and whether they're sustainable please?

Gilles Auffret

First the improvement comes from both. The first is Acetow clearly, with better volumes and the fact that the margin between the price that was got at the beginning of the year and the recent prices has been very good. And second for Eco Services, as I said, the peak season has been extremely good and on top of that we have had two effects. The first one is some well-priced marginal and exceptional sales and also the effect due to conversion.

If I may, on Energy Services, for the question was on the volatility between Q1 and Q2. First of all, as far as CER are concerned, there might be some volatility from one quarter to the other, because we have a yearly assumption, but then it depends on sales quarter on quarter. As you probably know the most important quarter is the last one. Now, on top of that, between Q1 and Q2, there are additional sales at Energy Services which are done especially during the winter on the other energy activities like sales of energies spread between gas and electricity and so on and so forth. So it explains why you have a slight decrease between Q1 and Q2.

Investor B

Thank you so much!

Bernard de Laguiche

Next question, please.

Investor C

Good afternoon. I'd like to ask on the Specialty Polymers, again there are a couple of questions there. First of all, on the operational excellence, you said that you're starting to see some improvements there.

Clearly there are some elements coming through from a cost perspective, but also opportunities for freed up capacity, also some information on that would be interesting. And also from a growth point of view, clearly, this has slowed down quite a bit in the last couple of quarters, just from your view where you would start to see this picking up and what sort of end sectors are really impacting some of this growth? And then just on the Vinyls, you're indicating that Brazil's become a lot more competitive and I imagine a lot of that's to do with imports, but also again, some sort of colour on that and how you see that progressing, thank you.

Bernard de Laguiche

These are three questions for you Jacques.

Jacques van Rijckevorsel

So thank you for these questions. Indeed we have mentioned operational excellence in the Speciality Polymers and we see really the results of that initiative and as you mentioned, thanks to

that, we have freed capacities, really important capacities in fluorinated polymers and we are starting to see that also in the aromatic polymers. But it is the first thing that we see and capacities, but also yields, then the yields are on the feedstock and so energy consumption has improved. That gives an advantage on the cost and also an advantage on the capacity. Now the growth, you have seen that for the Q2, Q1 and Q2, it is minus 1% in volumes, but at the same times, as I said, we have a very strict policy on pushing our solutions to the high end of the market and that helped us to keep improving the results also with a better mix. For the future, okay up to now we do not see a slowdown. We are running at a good rate and we do not anticipate any slowdown for the time being.

The third question is about the Vinyls in Brazil. Indeed, the situation there in Brazil is becoming more competitive. There are many factors for that. The first one is the Brazilian situation itself. You have an expensive Real versus the dollar and you have also locally expensive energy and utilities and so that is one reason. Second, you have there also the competition that started new capacity and of course they are trying to fill that capacity in the shortest possible time and that gives additional pressure on the competition. And third, it is decreasing a little bit, but third, in a way, we have also seen American producers very active on the Brazilian market due to the difficult situation on their own market.

Bernard de Laguiche

Thank you, Jacques, next question please.

Investor D

Good afternoon and thank you for taking my questions. Firstly, are you able to comment about order book visibility across the different businesses? If I recall historically, it's close to two to three months across the group. I imagine in the current environment, that's heading a little bit south. What sort of comfort do you have on the order books? Secondly on cost savings, I imagine with the integration of Rhodia, a lot of them are coming from the Rhodia business, but you could maybe comment on cost savings that are coming out of the exist Solvay business as well and how we should think about allocating them there. And finally a longer term question, vinyls and returns in vinyls business appears pretty tough, especially given construction markets and other factors that you've detailed today. Are there any other strategic options or is it a wait for the market to recover? Are there any other strategic alternatives available for you there? Thank you.

Bernard de Laguiche

Thank you for these questions. I will take the question on the savings. I will then past the word to Jacques on Vinyl and ask Gilles to give you a snapshot on order books in some of our segments for the Rhodia Sector.

On savings, so we are not reporting separately the savings that come from the Rhodia Sector or the savings that come from the Solvay legacy, so what you are seeing in the figures we report are

the combined savings linked to the Solvay Horizon savings program that was announced pre-acquisition, and the integration of Solvay and Rhodia. Obviously the savings we are reporting in 2012 come more from the Horizon program and I'm talking here of internal cost savings. Of course the purchasing savings, we are realising right now and they are due to the combined purchase power of Solvay and Rhodia. So two takeaways, we are reporting the total savings from the combined group realised through integration and through Horizon and we are reporting internal cost savings and expect more or less €55 million for this year and the purchasing savings of more or less €75 million for this year, so total savings in 2012 for the year of €130 million. Now, Jacques if you want to answer the question on Vinyls.

Jacques van Rijckevorsel

Yes, indeed, the environment in the Vinyls is very tough. We even mentioned that in Europe the market is at the historical rock bottom level that we also had in the Q2 2009, just during the crisis. So a very tough situation and for that we work on two fronts. The first one is operational excellence, very strict Capex, working capital management, fixed cost, and manufacturing excellence, all what we can do and what we can optimise. An example is also the capacity management, which is very reactive and we also have some data on the industry and we can see that we are much more reactive, even aggressive on the situation of capacity management than the rest of the industry. That is for the operational excellence. Now, we also have mentioned during our capital markets day that we were looking at how we could improve and regain our strategic flexibility. There indeed, we had different situations in the different regions and of course we are working on that.

Investor D

Have you seen any changes in the industry since the recent ownership change surrounding one of your major competitors in European PVC?

Jacques van Rijckevorsel

If you mention the French operation, no, we have not seen any change for the time being.

Gilles Auffret

On the Rhodia Sector order books, I would like just to make a simple comment. The first one is that I see the order book being absolutely normal, first of all. The second point is that nevertheless there is a slight slowdown in two segments in our businesses. One is silica and the other one is engineering plastics mainly in Europe. Nevertheless when we discuss with the customers, they have postponed some of the orders, but at the same time, they ask us to be ready to restart or to resume the supply in September as rapidly as possibly if they need it, which for me means that the supply chain is short and inventories are low. So people are cautious, but nothing which is significantly low today.

Bernard de Laguiche

Thank you, Gilles. Maybe comments Vincent?

Vincent De Cuyper

Yes, maybe I can bring some comments from the chemical markets part. First of all, you have seen that our first half results have demonstrated our strong resilience. If you look at the order books, I really confirm what Gilles just said. We see some customers being cautious because of the holiday period, but no real change in the pattern from the customer side. On the markets, indeed, they remain globally healthy in all our activities, with few slowdowns and if I mentioned the soda ash business container glass remains very good, detergents as well, but it's true we see some slowdown in flat glass which is a concern. We mentioned it already in the first quarter and this is a concern. This is mostly the automotive industry. If you look at the peroxide business, we see some slowdown in pulp and paper industry, but it is largely compensated by the very healthy situation in environmental and the mining industry and as far as the epichlorohydrin business is concerned, there we are confirm that the epoxy raising business is still weak and this is worldwide. It was the case in the first quarter. It's still the case for the time being.

Bernard de Laguiche

Thank you, Vincent, next question, please.

Investor E

Good afternoon, a couple of questions on the chemicals operations. Could you maybe firstly indicate the decline in REBITDA from the first quarter to the second quarter of 2012, also the decline from €142 to 120 million? I assume that that partly relates to the whole maintenance shutdown. Could you quantify the impact there? And then maybe is the other second element, the decline in caustic soda prices, if there are other elements, I am glad to hear it.

And then a second question is basically on the recently started up capacities in epichlorohydrin and hydrogen peroxide, the Thai plant that was started up last year, how should we model-in capacity ramp up for these two plants and how should we model-in profitability evolutions for those two businesses? If you could shed some light on that, thanks.

Bernard de Laguiche

Vincent, two questions for you.

Vincent De Cuyper

On the REBITDA decline, I'd just say what I said before, that the net is at really high REBITDA level and we demonstrate a resilience quarter on quarter and it's not the first time, so the level is not significant between Q1 and Q2. This being said, there is a small impact, I think as you mentioned from caustic soda. This is true. There has been some decline of caustic soda price appearing during the second quarter. Information on Q3, we were expecting some further

slowdown, a further reduction of caustic soda price. I think there will be some further reduction during Q3, but we observe that the market is quite well balanced and that the price reduction will be limited during the Q3. Even we see some price increases in Italy and Spain where the price decline was the most important during Q2. As far as the new plants are concerned, H₂O₂, the HPPO plant in Thailand is running at a high level since the start-up and we confirm that. This being said, you know that it is in our books through the equity results method so you don't see the full impact of that business in our results, taking into account the high depreciation for the time being. As far as the Epicerol[®] plant is concerned, the plant is running today at an operating rate of around 60% and this is why we say that today there is no impact on our results for the Q2. It's a new technology so we are progressively ramping up. I think there should be no significant impact during the Q3 from this start-up. What is good news is that we are clearly sold out and this product has been extremely well received by our customers. Just a word on soda ash, for the Q3, the excellent news is that you know that an important part of our contracts, is six months based and we have been able to get a rollover globally of our prices in Europe for the soda ash business, which is again indicating the underlying good market conditions also in soda ash business.

Investor E

Okay, very helpful, thank you.

Investor F

Good afternoon and thank you for taking my three questions. Two for Jacques on Vinyls. The first one is really on the inventory situation right now in Europe. To what extent do you think the 9% drop has been driven by destocking and by the fact that ethylene went down through the quarter and to what extent do you think there's really an underlying demand issue? And I guess that's related to that, the question really is when you think about your guidance for the full year and I know that you will not give us a guidance for this unit, but do you think that we might have a seasonality pattern different from the usual Q2 above Q1, Q3 below Q2 and Q4 below Q3? The second question on Vinyls is for Rusvinyl, could you tell us when you think this project is going to start up and should we assume that it's going to be meaningful in terms of contribution for its first year, which is 2013 for the unit? And the third question for Bernard is on the Forex sensitivity. I know it's still early days, but could you try to provide us with a guidance on sensitivity against the main currencies? Thank you.

Jacques van Rijckevorsel

So thank you. I understand that the question was mainly focused on Europe. The situation in Europe as you have seen is difficult. The market has declined for the first six months and during the quarter and that is indeed the combination of the two factors that you were mentioning. The one is destocking. It is clear that with the recent ethylene price decreases the selling price of PVC has also decreased and that was one reason for our customers to stop buying as soon as they could and then do inventory management and so on. What we experienced these last months is at

the last weeks of the month, we saw customers cancelling their orders in order to manage their inventories. Then we were in a situation of stop and go, continuously. Now, that is one part of the situation, stop and go. and then the destocking. We believe that today that the inventories of our customers are very low. That is what we feel also for instance during July, there is an expectation of ethylene price increase in August and there we see that customers are starting to pre-buy exactly the situation of stop and go.

That is one part. The second part is the underlying demand, yes, that is obvious. The construction market is not in a very good shape in Europe and obviously we hate that situation also. Now, if you ask me, what is the part, the ratio, between de-stocking and low underlying demand, I do not know this. What I see, is that we are currently at the rock bottom level of Q2 2009. Just to tell you how low the demand currently is. To believe that the situation will further deteriorate, it is, I think too early to say that, but anyway, we are managing the situation, being very proactive about capacity management and so on as I mentioned. That leads me to the question about what is the guidance Q2, Q3, Q4 and so on? Okay, that is very difficult. You understand that I have no crystal ball. What we can say is that Q4 last year was very difficult and if the situation is going on like this without the same kind of discontinuity last year, we should not have the same negative figures of Q4 last year. About Rusvinyl, we believe that the plant is progressing. We are building it and we believe that the mechanical completion will be at the end of 2013. That means that we do not see in 2013 any REBITDA effect from that plant. We should more see that in 2014.

Bernard de Laguiche

Thank you, Jacques, so on currency exposure, Investor F, as you know we have a systematic hedging of our transactional risk, so we hedge three quarters in advance in order to even out the currency impacts on our results. Some key figures I can give to you, the two main exposures we have in terms of Forex are euro-dollar where we are long in dollar and the net exposure, transactional risk exposure, as we see it today is more or less \$800 million and this can change, of course, depending on business and on the estimates of flows, but that's the order of magnitude today. To give you the order of magnitude of the Real-dollar exposure where we are also long, it will be in the range of \$400 million, same net transactional flows. Does that answer your question?

Investor F

Partly, but I will take it offline, thank you.

Bernard de Laguiche

Thank you. Next question, please.

Investor G

Hi, three questions also from my part. First of all on soda ash, you mentioned weak demand. We know that the situation in the glass industry is difficult. I think for now supply and demand has been

protected in Europe because of some shutdowns I believe in Turkey, but I also believe that you moved from an annual contract to a half year contract. Could you shed any light on the pricing environment for the second half on soda ash? Is the weak demand impacting prices? Should we look for a decline or the situation remains stable here? Second question is still on the chemicals division too, on fluorchemicals. Some improvement this quarter, I understand a part of it related to better sourcing as you've started up your mine in Bulgaria. Have we seen the full benefit of that mine or should we see the cost situation further improving as we go to the third quarter? And the last question, really to get a little more help for our modelling, on the joint ventures and Hichem. I suppose you're not ready to give the figures of what's the contribution of Hichem in the first half and in last year. If you would, it would be great, but if you're not ready, can you just paint a broader picture of what are the joint ventures for the Solvay Group? We know Hichem. There's HPPO. What else is there and how should we look at it? Thank you very much.

Bernard de Laguiche

I will take your question, Investor G, on the joint ventures. We have Hichem in India, as you rightly pointed out. We also have some joint ventures in hydrogen peroxide. We have two JVs in HPPO, one in Europe and one in Asia, in Thailand. We also have a joint venture in Brazil. That's not for HPPO, it's for hydrogen peroxide, classical product. This joint venture in H₂O₂ is contributing significantly to profit in Latin America. We have a joint venture also in Latin America in PVC compounds called Dacartp Benvic and I think this is about it. So you see, after we sold Inergy Automotive Systems and PipeLife, if we exclude the Hichem, the contribution of joint ventures, or the impact of joint ventures into our REBITDA is relatively minor.

Investor G

The venture from Rhodia is Hichem and the contribution last year was €11 million in H1. You make the difference between pro forma and reported 2011 joint venture. There's €11 million coming from Rhodia, so from what you say I conclude that Hichem had €11 million contribution in H1 last year.

Bernard de Laguiche

Could be, we would have to come back to you on that.

Investor G

Sure, thanks.

Bernard de Laguiche

Yes, the next question was about soda ash.

Vincent?

Vincent De Cuyper

Yes, so price environment on soda ash for second half, you said that I mentioned a weak environment. That's not exactly what I said. I said that the flat glass industry has confirmed some weakness for the time being, but other segments are doing reasonably well and this is why in Europe we have been able to maintain our prices for all six months negotiated contracts. It is true that we have been partly helped on export market by the strike in Turkey. But this being said, the market remains good and we clearly have a policy in our soda business in Europe to favour net backs over volumes and we really are striving for net backs and pricing power towards our customers in Europe. In the US, the domestic market remains reasonably good and the prices are stable and you have even seen that the main US operators have announced price increases for early next year, some of them having confirmed even contract price increases for the second half of the year. Again, this is confirming that the market is reasonably good. On broad export market, this is true that there is some weakening of prices for the second half compared to the first half. It's partly due to the fact that the market in China is a little bit weak. What do we do? We take advantage of our regional organisation to try to get the best net backs we can from all the customers we have in our regions.

You had a question on fluorchemicals as well. We mentioned during the Q1 some increase of costs due to some difficulties we had in our production facilities in Namibia and hence difficult supply for our activities in Europe which had forced us to buy fluorspar externally and increase the cost. The situation has eased, clearly, during the second quarter. There is no impact in the second quarter. There is no impact at this stage from the Bulgarian mine. We are progressively starting the activity. The level of production in that mine at this stage is too low to have an impact, but what is clear is that we do not have this one-shot negative impact from external purchases of fluorspar that we had during the first quarter.

Bernard de Laguiche

Next question, please.

Investor H

Thank you for taking my questions. First, a general question, you state that demand slowed in June. Could you share with us how July compares to June? And then also tagging along about that subject, the slowing of demand, does it affect any of your operational or financial decisions? Have you yourself also been more cautious on the procurement side and are you holding on to your Capex budget, because if I look at Capex spend in H1 it is running a little below your target, so any comment there would be nice? Thank you.

Bernard de Laguiche - Solvay

So July first of all, we do not have our full figures for July, so it's difficult to give you a precise comment. What I could say generally is that in July as we speak, we see no major difference with

the pattern described for Q2 and this is why we are reiterating at this stage our guidance. That's the comment I would make.

On the financial discipline, yes, we are committed to financial discipline. If you look at our Capex, we are below our yearly target, that's correct. But if you compare the Capex spend rate at this time of the year this year compared to the two previous years, we would be above the normal pattern, so we have spent 40% of our target this year. Last year at the same time of the year, we were more around less than 30%. But it is part, the Capex, and mainly working capital are the levels we act on in order to maintain our cash discipline.

Investor H

Could I just ask a follow-up question, because you said that July did not look materially different than Q2, if I'm not mistaken, but you also mentioned that June was weaker than the first two months within the quarter, so does that mean that demand has improved somewhat from the weak June.

Bernard de Laguiche

It's difficult to say and I would not like to make statements at this stage without having the proper information or reporting. Thank you. Next question.

Investor I

Good afternoon, I've got two questions. First could you tell us how much of sales and REBITDA in Consumer Chemicals is related to guar gum to get a feeling for the sensitivity of the business unit? And secondly on Acetow & Eco Services, you mentioned that the currency obviously was helpful with plus 9%. It looks now like in the third quarter, it might be more supportive than that. So that suggests that REBITDA for Acetow and Eco Services in the third quarter is similar to the second quarter results, thank you.

Bernard de Laguiche

First a comment before giving the word to Gilles... On specific divisions or products, we do not give figures. Gilles will comment qualitatively.

Gilles Auffret

Qualitatively, the only thing I can say is that it is significant.

Investor I

So more than 50%?

Gilles Auffret

No, not more than 50%. Now for Acetow & Eco Services, once more Q2 is the peak season, so Q3 should be good, of course, but probably slightly lower.

Investor I

Okay, but not falling back on to the first quarter levels? First quarter was about €54 million.

Gilles Auffret

No, not back to the first quarter, because that is the low of the season.

Investor I

Okay, perfect, thanks.

Investor J

Good afternoon and thanks for taking my questions. Just on cost savings if you could confirm the degree of cost savings that you've achieved for the first half, then secondly on the slowing demand in June, I think you said earlier that that had specifically been the silica and engineering plastics, but if you could just confirm that. Then on the environment, if it's possible you could talk about how you're seeing things regionally and then also by end markets? I saw some headlines talking about autos in Europe that you were seeing weakness there, but if you could talk regionally and also by end market how things are looking there. And then just coming back on the Consumer Chemicals part, if you could just run through that again with regards to... you know, you talked this €30 million improvement Q1 to Q2, are you saying that we should expect a normalised rate to be €30 million down for the quarter in Q3, but if you could just talk through that and just make that a bit more clear for me, that would be great. Okay, thank you very much.

Bernard de Laguiche

Sorry, Investor J, I did not get your second question. On cost savings, I can tell you it's simple. It's €55 million, the figure we are confirming for half one, but your second question, I did not get it 100%.

Investor J

So this was just on the slowing demand in June in your outlook statement, if you could just confirm the businesses that have been impacted. I think you said silica and engineering plastics, but if you could just confirm which particular areas you had seen that in, because in the outlook statement it just said in some businesses you were seeing slowing demand in June, in some business segments.

Bernard de Laguiche

Yes, indeed, so we did see a slowing demand in silica and engineering plastics in June, but it is also taking that to the extent to give you that on the regional basis, I think it is difficult, unless, Gilles, you want to make a comment.

Gilles Auffret

Just let me say, if I had to comment on regional developments, generally speaking Asia is good. It is only slowing down compared to previous years. Europe is not good. We have a difficult situation generally speaking. In the US, it's mixed with ups and downs and in South America, mainly Brazil, we are recovering from a depression which was much lower at the end of last quarter, so generally speaking, except Europe, things are going quite well.

Bernard de Laguiche

And we have factored this already in when we confirmed our guidance, so that is included.

Now, on Consumer Chemicals there was a question.

Gilles?

Gilles Auffret

I think we are back to the question of the Hichem effect. As I said and I'll just repeat what I said, the demand we got in Q2 is an exceptional one. It should not disappear all at once, but we will have a progressive decrease during the second part of the year.

Bernard de Laguiche

Next question please and last question

Investor K

Hello? Can you hear me? Hello? I have a couple of questions. The first one is basically on your seasonality, or H2 versus H1, which given the fact that, you know, this is sort of the first years we have Rhodia Solvay together, how should we think about Q3? Just in terms of seasonality, should we think that Q3 now for you is similar to Q1 or would it be... let's put it this way, lower than Q1 just in terms of the dynamics of the seasonality?

The second question is on your net debt. Could you say where would normally you would expect net debt to end up given the fact your CEO probably was commenting that the cash flow generation in H1 was average and he expects cash flow generation to probably pick up in H2?

And then lastly on Vinyls, if you sort of assume that the situation doesn't really pick up, do you feel that there will be material capacity closures especially in Europe? Thank you.

Bernard de Laguiche

So first of all on net debt, you saw that with our cash flow in half one, net debt remains a constant.

We do expect not only our CEO, but the whole company is aligned to do that, to realise a cash flow generation higher in half two than in half one. So you can expect, everything remaining equal and that includes of course also the Forex impact on balance sheet, you could expect debt to go down slightly, everything remaining equal, going down.

Then on your question on seasonality, the first comment I would like to make is that in our guidance and in our forecasts, we have expected half two to be REBITDA to be less than half one, so we have factored in a second half of the year that would be more difficult than the first half of the year and that is included in our guidance. Now, it is difficult to talk of quarter on quarter and I don't want to go into that detail. Of course you know that in Q3, there is a certain seasonality, seasonality mainly in Europe because of the holiday period.

Investor K

I'm just asking because Q3 last year you had €533 million and Q1 this year you had €523 million, so this one is confusing a bit, but it's there I was basically coming from.

Bernard de Laguiche

Your point is okay, but what I could add on the second half of the year is that we will fully benefit of the synergy and there I have guided you quite precisely telling you that we were expecting €130 million for the whole year and that we had already achieved in the first half €55 million. So this leads us to reiterate our guidance.

Investor K

But maybe just finally on Vinyls quickly if you can...

Jacques van Rijckevorsel

The last question was on Vinyls. Thank you for the question. I understand that you were asking if demand is not picking up what will happen with the industry. It is true, if we compare the market volumes today to Q2 2009 with 2007, we have 1.7 million tons of demand that disappeared, so it is clear that if the situation is not improving, I would say in the foreseeable future, obviously, sooner or later, there will be restructuring.

Bernard de Laguiche - Solvay

Thank you. Is there a last question?

Investor L

There's just one question remaining and you partly alluded to it already in the question before. When you look at your full year guidance, which is the same guidance that you gave after the first quarter, your level of comfort with that guidance, has that changed over the last three quarters? How much do you think is your confidence due to the visibility you already have of the synergies and how important is the fact... or how high is your level of comfort with the fact that Q4 this year will be significantly better than Q4 last year?

Bernard de Laguiche

The economic environment has become more volatile, that's clear, but our confidence is there and this allows to fully reiterate our guidance, so we see no reason to change our guidance at this stage.

Investor L

Okay, thank you.

Bernard de Laguiche

So if there are no questions anymore it allows me to conclude by thanking you for your interest and reiterating that as you may have understood from the call our visibility is more limited in the current macroeconomic environment, but the dynamics that our growth engines, businesses is expected to remain healthy. Moreover, we remain committed to deliver on our efficiency gain targets, to pursue a strict financial discipline and we'll continue to give priority to our growth engines to drive value created growth. Thank you very much, ladies and gentlemen.