

**Solvay Results Conference Call**  
**Thursday, 25<sup>th</sup> October 2012**  
**14:00 Hrs UK time**  
Chaired by Bernard de Laguiche

**Bernard de Laguiche**

Good afternoon, ladies and gentlemen, and welcome to this conference on Solvay's Q3 results. I'm Bernard de Laguiche, the CFO. As usual for Solvay's quarterly earnings conference calls I'm joined here by my colleagues, Jacques van Rijckevorsel, Group General Manager of the Plastics Sector; Vincent De Cuyper, Group General Manager of the Chemicals Sector; and Gilles Auffret, Group General Manager of the Rhodia Sector.

I will start with a comment on the third-quarter results, provide some additional insights in the financials and conclude with our outlook for the year. After that, I will open for Q&A.

Let's start with the earnings highlights. Net sales rose by 1% to €3.3 billion, with stable prices and positive foreign exchange and scope of 5%, whereas volumes were down by 4% year on year, reflecting a more challenging macroeconomic and business environment. The third quarter confirmed the trends of the first semester. Our growth engines and our highly resilient businesses showed renewed earning strengths, with Speciality Polymers posting a 9% volume growth and Novicare exhibiting solid performance, coupled with continued exceptional earnings contribution from its native Guar JV. Essential Chemicals pursued its resilient growth, while on the other side, difficult market conditions remained at Vinyls and even further eroded in Polyamides.

All in all, the breadth and quality of our offering allowed the group to post another set of good results with a recurring EBITDA of €554 million, 4% up year on year.

At group level, Solvay benefited from pricing power, recording a slightly positive €4 million net impact at REBITDA level. This is to say that in an inflationary context and against a challenging business environment for our cycle-sensitive segments our selling prices increased more than to compensate the rise in raw materials and energy costs, and that, excluding the exceptional contribution from native Guar.

The adjusted net income, group share, rose by 3% to €148 million. And we announced a gross interim dividend of €1.20 per share, payable next January.

Now going into the business dynamics by sector, net sales of Plastics were up 8% to €994 million, reflecting higher sales in both Vinyls and Specialty Polymers. In Specialty Polymers, as mentioned,

volume raised by an impressive 9% and in Vinyls, PVC and caustic soda volumes rose at the expense of other low-margin co-products.

REBITDA of the Plastic sector also increased by 8% to €168 million, fully due to the strong profitability growth of Specialty Polymers, driven by volume, favourable mix, operating excellence and pricing power. Vinyl spreads remain at a low level.

The Chemicals sector performed very well with net sales rising by 7% to €758 million thanks to volume growth, higher selling prices and positive foreign exchange impacts. Essential Chemicals benefited from sustained good demand and additional capacity from its Epicerol® plant in Thailand. Special Chemicals experienced less favourable pricing in the refrigerants markets. REBITDA of the Chemical sector rose by 21% to €145 million, entirely due to Essential Chemicals' dynamics and good operational performance.

The Rhodia sector reported 6% lower net sales of €1,540 billion, while REBITDA improved by 4% to €290 million. Profit expansion remained driven by Consumer Chemicals and by Acetow & Eco Services. In Consumer Chemicals, Novecare's strong performance translated its differentiated, integrated position in Guar, which allowed it to enhance its commercial offering in a sustainable manner. Further, in the context of high demand for native Guar ahead of the new crop-harvesting season, this business still benefited from favourable pricing opportunities at its Indian JV that accounted for approximately €40 million one-time exceptional-earnings contribution. The REBITDA performance of Acetow & Eco Services continued benefiting from strong pricing power and mix improvements.

On the negative side, the performance of Advanced Materials was, however, impacted by intense destocking in Rare Earths at the lighting industry and demand slowdown for silica in Europe and to a lesser extent in Asia. In Polyamide Materials, the lacklustre demand and the excess of capacity in the industry resulted in poor pricing power and depressed results.

Let me also highlight the following financial elements.

First, non-recurring items compromised €36 million charges for restructuring and associated costs in the framework of the ongoing integration and cost-saving programmes. The integration progresses well and we've booked €74 million year-to-date associated costs in the course of the year. The redesigned Group organisation is almost completed and should become effective in January 2013. Second, net financial charges in the P&L included €14 million additional cost for discounting HSE provisions linked to lower interest rates.

Third, on an adjusted basis, income taxes amounted to €66 million, representing an effective tax rate of 29%, close to our medium guidance of around 30%.

The last point, we continue to respect a strict financial discipline. The effective management of our working capital needs, combined with the earnings quality, fuelled a strong €346 million free cash flow. Our industrial working capital reduced to 13.1% on net sales, versus 13.8% last quarter. Capex remains selective and amounted to €176 million.

I would like to conclude my comments with our outlook statements. "The fragile macroeconomic environment reduces visibility across markets and industries. The fourth quarter will reflect seasonal inventory management from customers and the slowdown of some market segments. The good momentum of the integration and the redesign of our group's organisation strengthen our confidence in the delivery of synergies and savings, as planned. In this framework, Solvay confirms its expectation to achieve a full-year REBITDA similar to the strong 2011 pro-forma level."

And now let's start with question time.

**Operator**

Thank you. As a reminder, if you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press the hash key. The first question comes from Investor A. Please go ahead.

**Investor A**

Hi. Yes, good afternoon. Just on the operational excellence results, I mean, can you highlight where we're seeing most of the early impacts potentially of that already?

And then also on the Chemicals, particularly on the Essential Chemicals' side, are we already seeing some impacts there of some of the improved energy sourcing activity that you're doing?

Thank you.

**Bernard de Laguiche**

Sorry, I did not get your question on operational excellence.

**Investor A**

Yes, on operational excellence, where do you see this already starting to contribute strongly to profitability, which areas in the business?

**Bernard de Laguiche**

So on operational excellence we do see a significant contribution, and I would not like to quantify it at this stage, but I can tell you it is significant for some of our businesses that are well advanced in implementing our operational excellence programmes. And this is on our main sites. Just as an illustration, and I think we already mentioned this figure, it's in the tune and more than €15 million in Specialty Polymers that you already see in this year's REBITDA.

Now on Essential Chemicals, Vincent, and energy purchasing...

**Vincent De Cuyper**

I think at this stage that you don't see a significant impact on the results. Basically what we are doing is launching a certain number of pilots in our sites in order to assess energy savings possibilities and other energy excellence programmes. So, no significant impact at this stage. I think that it takes a certain time to implement this in the years to come because in energy matters it sometimes requires investment. So it's obviously not immediate actions of which you can see the results. What we see from the first pilot is that we are expecting, certainly, levels of savings of our energy bill above 5%. And this is confirmed from the first pilot we have implemented.

**Investor A**

Thanks very much.

**Investor B**

Yes, good afternoon. First question on HICHEM, your joint venture on guar gum, if I understand correctly, what you indicate to us is that the super profit thanks to high prices this quarter was €40 million. €40 million is not the underlying net income, share of net income that you book. That's the extra profit in the quarter. I just want to make sure that I understand that right. And more importantly, given that now guar gum prices went back to the, let's call it "pre-bubble levels", can you give us an indication of what you expect the net income, you know, your share of net income that you will book in Q4, please. So that's the first question.

Second question is Specialty Polymers, actually there are two sides. We heard DuPont saying that there was weakness in fluoropolymers. I'm just curious to know what you have seen in fluoropolymers. I know you're in different grades of fluoropolymers, but do you share DuPont's view that there has been a weakness or you have experienced a different trend? And you talked about favourable mix. Can you put some colour there? What is today the sales contribution from PEEK? Is that material? Is that one of the elements that is supporting your improved REBITDA margin?

And then the last question is on capex. Capex were a bit lower than my forecast in the third quarter. Are you still... do you still believe that you're going to have 860 million capex this year or you're running a bit late on your projects? Thank you very much.

**Bernard de Laguiche - Solvay - Chief Financial Officer**

I will take your first and your last question and pass the word to Jacques on Specialty Polymers. On HICHEM, the €40 million we mentioned is included in what we book in equity earnings in our P&L, so it is part of it. What I can tell you is that in the fourth quarter we will not find these €40 million in totality again, but I cannot give you and we do not guide on this number specifically on a quarter-to-quarter basis.

Now on capex, our guidance is still €860 million. And of course, we are, as always, very selective prioritising our projects and giving the priority to the most profitable one. And at this stage our guidance is still €860 million for the year.

**Investor B**

Thank you.

**Bernard de Laguiche**

And, Jacques, on Specialty Polymers and PEEK?

**Jacques van Rijckevorsel**

Yes, Specialty Polymers and PEEK and fluoropolymers, thank you for the question. Then first, of course I will not comment on what the competition is saying, but what we see for our own fluoropolymers is that we have more applications, and some of those applications are still doing very well. Other applications, like, for instance, photovoltaics, are a little bit weaker. But all in all, we feel that the market is balanced and we do not see a special downturn.

Now, when we look at the comment about the favourable mix, the mix is a question of type of polymers, and we make many different polymers, as you know. We have the broadest range in the industry. It is also a matter of applications, and finally, it is a matter of markets, geographic markets. And we see that in some applications - I am going back to my preceding comment, in some applications, things are rather strong for the time being. And, indeed, PEEK is one of the products that is currently very healthy, but others are also doing well.

**Investor B**

Thank you. And what's the PEEK contribution to your revenue? Would you share this figure?

**Jacques van Rijckevorsel**

No, I think that I will not go into that. You understand that. We have some competition.

**Investor B**

Sure. Thanks for your answers.

**Bernard de Laguiche**

Next question, please.

**Investor C**

Okay, good afternoon and thanks for taking my questions. Yes, just on FX, on the top line it looked like you had a 5% tailwind from FX. I wondered, at an EBITDA level, are you able to give any sense as to what that FX contribution was?

Then on exceptionals for the fourth quarter, I mean, what should we expect in terms of non-recurring for the fourth quarter? Are there likely to be any write-downs as we saw last year? I'm interested in the Vinyls business in the fourth quarter. You know, it seemed it had a bit of an uptick at the third quarter relative to the second quarter despite the negative commentary. You know, what are your expectations going into the fourth quarter for Vinyls? Has anything specifically changed there?

And then just finally on destocking, you know, should we expect any significant destocking effects into yearend or do you believe that inventory levels are at sufficiently low levels that that destocking shouldn't take place to the same degree as we saw this time last year? Thanks.

**Bernard de Laguiche**

Okay, thank you. I will take your two first questions and pass the word then to Jacques on Vinyls. For the write-offs in the fourth quarter, you know the fourth quarter is the quarter in which we do our impairment tests as required by IFRS, and so this is the time where we review the value of our assets. And so if such impairments were to come, and I cannot guide you on that today, whether they would come in the fourth quarter.

On forex, I would say... and we do not give a precise number on this, but I would say that you can assume that the forex effect is, percentage wise, in the same tune on REBITDA as it is on sales, so in the order of five, six percent.

Jacques, Vinyls?

**Jacques van Rijckevorsel**

Yes, I understand for the Vinyls question about the Q4 after the Q3. First, let's comment the Q3. Indeed, we have seen that there was a sequential improvement compared with Q2, and that is due to different effects. The first one is the seasonality of the market. At the end of Q3, normally we are close to the top of the cycle for the year. That has been combined also with some volatility of the demand due to huge ethylene price swings.. And then you have had a lot of volatility coming from the customers pre-buying, pre-selling and so on. And the Q3 has been influenced by that.

For the Q4, currently the market is not as good as we would like. Then, indeed, the market is rather slow. The point is that we do not anticipate with this market that the spreads will increase materially.

**Bernard de Laguiche**

I think you had also a question on destocking at the general level. We are seeing some destocking, but it is not as massive and as sudden as what we observed in some previous years, like 2008. So slight destocking along the chains, and we see that in our various segments, but no massive movements.

**Investor C**

Okay, great. Thank you very much.

**Bernard de Laguiche**

Next question.

**Operator**

The next question comes from Investor D. Please go ahead.

**Investor D**

Yes, good afternoon. Three questions, first on the trading environment. Can you talk a little bit about how the trading environment evolved throughout the quarter and how October looks so far? Should we assume these have deteriorated further given your cautious statements on destocking and market amount? And then secondly, specific...

**Bernard de Laguiche**

Sorry, we did not get... I did not get your first question.

**Investor D**

Okay, the question was on trading environment, if you can talk about how this has evolved throughout the quarter. And also, can you talk a little bit about October, how that compares to Q3?

My second question is on guar. We've seen several chemical companies, but also certain customers in the oil and gas industry, that they have developed alternatives to guar. Are you seeing any negative impact from this increased competition?

And then finally, my question is on the outlook. The flat REBITDA for the full year implies a REBITDA of some €430 million in the last quarter, while also you should benefit from increased synergies and savings of roughly €40 million or so. So you're actually saying that you expect a REBITDA of roughly €160 million lower quarter on quarter. Is that not too cautious, don't you think? Or, I mean, how should we read into your outlook?

**Bernard de Laguiche**

I will answer your last question, which is also strongly linked to the first one on the trading environment, and then pass the word to Gilles Auffret. You are right; we have assumed in our guidance, since the beginning of the year actually, the last quarter would be somewhat weaker. And you will have noticed that we did not change our guidance during the whole year, and we always had assumed that this fourth quarter would be, indeed, a little bit weaker. But don't assume, and I think you do that when you mentioned the synergy amount, don't assume that all synergies hit in the last

quarter. They did hit in already progressively in Q2 and Q3. So you cannot make the deduction you are doing by deducting the full synergy amount in Q4.

Now, how are trading conditions? Well, they are as we characterised them in our outlook, so volatility, slowdown in some market segments, a weaker quarter Q4 than Q3. That's correct. But overall, that was consistent with what we saw already beginning of the year. I cannot give you precise indications on October. We are still in the last days of October, but we have not observed any strong difference versus the pattern that we had mentioned already in our guidance here.

And now on guar, Gilles?

**Gilles Auffret**

Just to be simple on the possibility to switch from guar to another product, you have to know that we are in a field which is the guar derivative, where the applications are applications which are very technical. The equipments are totally designed for that type of product. And we don't see, for the moment, any sign of conversion to other possibilities.

**Investor D**

And when you say for the moment, does that mean that you do expect a certain impact in the coming quarters?

**Gilles Auffret**

No, really not.

**Investor D**

Okay, very clear. Thank you very much.

**Bernard de Laguiche**

Next question, please.

**Operator**

The next question comes from the line of Investor E. Please go ahead.

**Investor E**

Yes, good afternoon. Three questions if I may, first of all on the soda ash business. You mentioned the flat glass environment. Could you maybe talk also a little bit about the container glass environment and what you expect to see in flat glass in Europe versus US going forward?

Secondly, and that's related also with the third question I wanted to ask, is on Polyamides. You mentioned in the press release you see the market conditions deteriorating. I would like to have a

broader comment from your side because in the press release you also mentioned that some end markets are showing some slowdown in the fourth quarter. Could you maybe give us an overview on which end markets... I can imagine already a few, but it may be interesting to have your views on the electronics market, on the oil and gas market in the fourth quarter and going into 2013, how you see those evolving? Thanks.

**Bernard de Laguiche**

Okay, I will pass your first question to Vincent, then on Polyamides, to Gilles, and then ask Jacques to make a comment because some of the market segments you mention are also linked to Speciality Polymers.

**Investor E**

Sure. Thanks.

**Vincent De Cuyper**

So on soda ash, I would say that for the time being we see a quite resisting market. And the weakness is still mostly in the flat glass industry, so automotive and construction, and particularly in Europe, a slightly weakness in flat glass in US also, although we should be hopeful because when you see the construction is restarting in US it should not have serious consequences. The container glass is still doing well. Container glass, even in Europe, thanks to the development of container glass in adjacent countries like Turkey and so on, a very good resistance, as well as other soda ash activities, like detergents and so on.

But now this being said, it's true that there is some weaknesses in soda ash in general in, I would say, the last two months. And we see that mostly in terms of pricing and mostly in Asia. It's really linked to the weakness of the economy in China today, with some impact in Southeast Asia and Asia on the pricing of soda ash. But we don't see that price pressure neither in Europe, US or in Latin America.

**Gilles Auffret**

On Polyamide, I will give you some more details on the market, and let's comment on three different markets. The first one is textile. In Europe, the conditions are very difficult, and in Brazil, where we have a strong activity with Fibras, there is a slight rebound. We are far from where we were some years ago, but there is a slight rebound.

Now, the second segment, for instance air bags, air bags directly linked to the production of cars, we see clearly that in Europe the volumes are low. To a lesser extent, the decrease is significant also in Asia, and we are not exposed in North America.

Now, the last one is Engineering Plastics. I will comment on two segments. Good resistance on automotive because it's long-term contracts with special parts. Contrary to this, in E&E, Electronic and Electrical, which is directly linked to construction, it is still low.

So that's the overall view of the final markets.

**Bernard de Laguiche**

Thank you, Gilles. Jacques, on Specialty Polymers?

**Jacques van Rijckevorsel**

Yes. For Specialty Polymers, as I said, we have different segments also. And we see that segments like smart devices, consumer applications, oil & gas, during Q3 were doing well. We maybe see some softening in Q4 for oil & gas, but for the others we don't see that. We have advanced transportation, healthcare and water that are highly resilient, and it will not be a surprise I believe, construction and automotive are weaker.

**Investor E**

Okay, thank you.

**Bernard de Laguiche**

Next question, please.

**Operator**

The next question comes from Investor F. Please go ahead.

**Investor F**

Yes, thanks for taking my question. Could you please first remind us what the contribution of HICHEM was in Q2? And is there any seasonality in this business? I'd like to try and understand if guar was the main driver of the increase and associated income from Q2 to Q3.

And then lastly, perhaps you could comment on net debt into the yearend. Should we expect further progress from Q3? Thank you.

**Bernard de Laguiche**

So the net debt evolution will depend obviously on our cash flow performance. And we are managing the organisation in order to achieve a good, robust cash flow performance. So, everything remaining equal, net debt should go down in Q4 versus Q3.

Now, on guar or on HICHEM, I did not get your question. If your question was "what is the impact of HICHEM in your Q3 results", it is in the tune of €40 million.

**Investor F**

And is it possible to get an indication for Q2, what the contribution was then?

**Bernard de Laguiche**

And it is in line with Q2.

**Investor F**

So then is there any seasonality in the business?

**Bernard de Laguiche**

Gilles?

**Gilles Auffret**

Yes, of course, as far as HICHEM is concerned, it's directly linked to the crop of guar and therefore there is seasonality on the production of the seeds and splits. But what is more important is price, and price in this business is very volatile. And, as we mentioned, the price has been very high during the first part of the year due to a very poor crop last year and a very strong demand coming from oil and gas mainly. It is now probably different from the months to come because the crop seems to be similar to a normal crop and therefore we might see significant movement on prices we've seen since June because now the price of guar is coming back to a level of \$5 per kilo, which is the normal price. But it's a very volatile market, so nobody knows exactly what will be the evolution of price six months from now.

**Investor F**

Thank you very much.

**Bernard de Laguiche** - *Solvay - Chief Financial Officer*

Next question, please.

**Operator**

The next question comes from Investor G.

**Investor G**

Good afternoon. Just one more to follow up with, please. Could you give us some indication of any products or product lines which are currently capacity constrained from your perspective, from your production performance? And within the context of that, could you map out for us a little bit what new production facilities, and in any, sort of, magnitude, when those come on stream over the next 18 months, please?

**Bernard de Laguiche**

I will pass the word to Jacques and to Gilles because these are the areas, Specialty Polymers and Consumer Chemicals, where we see some capacity constraints. And Jacques will also talk to you about our capacity expansion plans. And some of them have been announced, for Asia for example. But, Jacques, please take the question and answer it from the point of view of Specialty Polymers.

**Jacques van Rijckevorsel**

Okay, thank you, Bernard. Look, you have seen the growth in volume. And I got often the question in the past from you, well from the financial world, "how do you cope with growth?". And the answer has been on one side that we invest, which we are doing, and I will come back on that. But on the other side, we work on the operational and industrial excellence. And with that, we have freed new capacities progressively and we could cope with the market growth. That means that today we feel that we are rather balanced even if here and there we still need new capacities. And that is the case in PVDF and in PEEK. And we made recently an announcement about that, the PEEK in India and PVDF in Taveau, but that is to follow the demand growth.

**Bernard de Laguiche**

Gilles?

**Gilles Auffret**

Let me give you some examples on the Rhodia sector. The first one, where we are at full capacity, is Acetow. So we go on debottlenecking and improving our OEEs (Overall Equipment Efficiencies). The second example is of course in Novecare, guar derivatives. We have spoken of that. And we are debottlenecking and making significant investment in the US in our plant at Vernon. I will give you a third example in Rare Earth, for instance in the catalyst sector, where we also develop our new capacities there. And the last example is on surfactants. After the acquisition of Feixiang we invested in a new plant in Zuhai in the southern part of China. And there we are now with a new capacity and we are ramping up progressively. The same in India with our Roha site.

**Investor G**

Thank you.

**Bernard de Laguiche**

Vincent, you had also an example in bicarbonate.

**Vincent De Cuyper**

Yes and in the Chemicals also. First of all, you take advantage progressively of the ramp-up of the new EpiceroI® plant in Thailand, the HPPO plant which has started this year and which is running nearly at full capacity. And then we also develop manufacturing excellence programmes and increase of OEE (Overall Equipment Efficiency) , and particularly in the bicarbonate, where we were saturated.

And we are unlocking new capacities as well in this business. So a lot of positive news from that point of view.

**Investor G**

That's very helpful. Thank you.

**Bernard de Laguiche**

Next question, please.

**Operator**

The next question comes from Investor H.

**Investor H**

Yes, good afternoon. Two questions from my side. First, on Essential Chemicals, could you maybe shed some light on the 2013 pricing in both US and Europe?

And then the second question on Advanced Materials. There are a number of moving parameters. You mentioned destocking going on, for example, in the third quarter. There's recycling capacity being started up. And then you have the volatility of the Rare Earth prices. Given these elements combined and the role they will all play, how would you, kind of, help us to model performance of Advanced Materials in the coming quarters? Thanks.

**Bernard de Laguiche**

First question is for Vincent on pricing and Essential Chemicals, and then Gilles on Advanced Materials.

**Vincent De Cuyper**

My first general comment is that I think we have demonstrated our resilience in the last two years. And when you see this year, Q on Q, every quarter we are demonstrating the pricing power compared to last year. And we progress thanks to pricing and also to volumes. Now, coming back to 2013, it depends a little bit on the kind of product line. Basically, it's easier if I take it product by product. In H<sub>2</sub>O<sub>2</sub> it depends on the contracts. Some of them are annual, some of them are multiannual. What is sure is that every time, and again recently we made some announcements in US, we are increasing prices in hydrogen peroxide every time we can for the time being, taking into account that all our operation units are running at full capacity.

On caustic soda, because of the weakness in the chlorine chain we see there's still strong price in caustic soda. And prices in the Q4 will be probably slightly higher than in Q3, on the average. Now, this being said, you know, it is as usual the equilibrium between chlorine demand and caustic demand which will define the caustic soda price next year. And this is reviewed on a quarterly basis.

For epichlorohydrin the pricing is weak. We have said it since several quarters. And this is really due to the bad situation in the epoxy business around the world. We don't see yet a change in the business environment for epichlorohydrin. I hope it will come during the year 2013, but it's too early to say that situation is improving on epichlorohydrin price.

And finally, on soda ash, the first comment I would say is that we have to reflect to our pricing power the cost of energy. And we don't see today energy prices going down from our European and US activities. So clearly, we have the intention to keep our pricing power and we try to reflect it in the price for 2013. And there has been some announcements in the US and there will be probably some announcements in Europe also, where clearly the producers want to increase soda ash price for 2013. This being said, you know also that we have moved to not a yearly based contract, but probably we will continue on short-term basis contracts, six-month basis, for 2013. That's what we can say at this stage.

**Bernard de Laguiche**

Thank you, Vincent. Gilles, on Advanced Materials?

**Gilles Auffret**

Advanced Material, as you know, it made of silica on one side and Silica on one side and Rare Earth on the other side. On Silica, very strong resilience of the level of REBITDA due to strong pricing power. Nevertheless, the volumes are going down, mainly due to replacement of tyre and green tyre. So it's not... the major effect is not on the OEMs but on the replacement market.

On Rare Earth, also it's not a matter of pricing power. Strong position in catalyst, with good volumes. The issue is volumes on electronic and due to a factor, which is now well known, which is the postponement of the replacement of incandescent lamps in the US. The postponement has been announced and it will be for two years. So our customers have made during last year and beginning of this year, significant inventories to follow the market. And now of course in Q3 and in Q4 they are destocking and the demand is very low. So it's focused on volumes on lighting segment.

**Investor H**

Okay, clear. Thank you.

**Bernard de Laguiche - Solvay - Chief Financial Officer**

Next question, please.

**Operator**

The next question comes from Investor I.

## **Investor I**

Thank you. Yes, just a follow-up firstly on that last answer regarding the replacement..., the destocking in incandescent lamps, in bulbs. Can you give us an idea of where you think inventories sit right now? And have you faced or are you likely to face any inventory write-down issues in your Rare Earth's business?

Secondly, in the context of your commentary about destocking, Bernard, you put it in the context of 2008. I wonder if you could put some of your comments in the context of 2011, and particularly focusing on Vinyls and Polyamides. It looks as if Polyamides going to be weaker, even weaker than Q4 last year. How do you..., would you agree? And how do you think Vinyls might compare with the fourth quarter last year?

And then two just quick financial questions. Firstly, is there any Paulinia (Brazil) effect in the corporate cost line in the Rhodia business in Q3? And if so, how much?

And finally, on the reduction on pension discount rates, you had a, sort of, one-off item of €22 million I think in Q2 and now you're talking about another one-off of €13 or €14 million in Q3. You know, does that cover now your anticipated reduction in discount rates? And can you tell us where those discount rates actually sit, please, on your pensions?

## **Bernard de Laguiche**

So I will take the question on rates. I will take your question on the Paulinia effect. I will pass then the word to Gilles on Polyamides in Q4 and to Jacques on Vinyls in Q4. So as you know, and according to IFRS again, we do have to adapt our discount rate, according to the market rates. You mentioned Q2; that was the effect of pensions. In Q3, this is the effect of HSC, and we do not use exactly the same discount rates for HSC and for pensions.

Of course, if you tell me how the rates will evolve in the coming quarters, I can't give you a very precise answer, but obviously, no one can do that. So I can only tell you, we will have to adapt, and we will adapt our rates to the market rates going forward. Paulinia, and that's a good catch, is in the Rhodia sector corporate costs, and it is an amount of more or less €5 million.

Gilles, maybe on polyamides in Q4?

## **Gilles Auffret**

Polyamide Q4, and the inventory write-off on the Rare Earth, so there is no inventory write off on the (unclear) due to the drop in the lighting sector, because the inventories are in our customers' books, not in ours. As far as Polyamide is concerned, I think that there is no common situation between 2008 Q4 and 2011 Q4.

In 2008, it has been brutal, and very quick, and an impressive drop in the orders. And at the same time, the butadiene price in our inventories was very high. Therefore, we posted, by memory, but we can check that, an EBITDA, a negative EBITDA of €96 million at that time. It's nothing comparable in Q4 2011 today. We are at a level where inventories are low. The final demand is low, but there is absolutely nothing comparable. I don't feel that the same way.

**Investor I**

Just to follow up on that. If I remember rightly, in Q4 last year, numbers were weak in both Polyamide and Vinyls, because you at Solvay decided to liquidate a lot of inventories. You're now saying that inventories are very low, but, you know the numbers, if they weaken on the Q3 level, as you would expect, seasonally, will be down, versus Q4 of last year. So am I right in sort of assuming that activity is actually considerably weaker at present, and for Q4 this year, than it was for the same period last year in Polyamide?

**Gilles Auffret**

I would say, similar.

**Investor I**

Right. Okay, thank you.

**Gilles Auffret**

There is nothing more to be said today. Really, I don't feel differences. .

**Investor I**

Okay, thank you.

**Jacques van Rijckevorsel**

Yes, concerning the Vinyls, well, the situation, as I said, is softer. The market is soft. We feel, however, that the inventory situation with our customers is also rather low. That means that they are buying what they need. We do not anticipate further de-stocking from our customers. Now, if market is soft, and at the same time, with the visibility that we try to have on the ethylene price because as you know, the ethylene price is a big unknown in our economics, as we anticipate the things today, we will be better than last Q4, on Q4 2011, but we should be lower than the Q3, 2012, between the both.

**Investor I**

Thank you.

**Bernard de Laguiche**

Okay, next question, please?

**Operator**

Your next question comes from the line of Investor J. Please go ahead.

**Investor J**

Yes, good afternoon. I have one question for, actually, Gilles. It's on Novacare. We've been talking a lot about guar this afternoon. I'm just wondering about the business, excluding guar. On my numbers it looks like your REBITDA was at about 50 to 55% year on year, for that business, excluding HICHEM. Sales were up on volumes, sales were up on pricing. Can you tell us what's going on there? Is there any specific industry which is doing well? I mean, really, what's going on in this business, and can we assume that there was nothing funny in that quarter, so that the growth that you've been talking about now for a while is going to continue, again, excluding native guar, purely on the downstream business?

**Gilles Auffret**

Okay, so I will try to give you a comprehensive answer. You're right to say that apart from the guar effect in HICHEM, the performance of Consumer Chemicals is rather impressive, and goes far beyond Guar. The tight offer situation of guar, observed over more than a year ago, has allowed Solvay to get customers full recognition of differentiation value proposal of our guar derivative offering.

And it has offered us the possibility to sign long term contracts, value pricing, and indexation contract terms. So this situation will be maintained. Not all actors in the market have been able to take advantage of the market opportunities offered by the guar tightness, and our ability, I think, is symptomatic of the strength of the positioning of Solvay.

Now, when backing the exceptional contribution from our Indian native guar JV, Consumer Chemicals has grown by nearly 30% year on year, in the course of these nine first months. And thanks to first portfolio strategy repositioning, guar of course, but also for instance, food safety for Vanilin or solvents for coating, then value pricing, strong value pricing. And on top of that, of course, in those markets, sustained demand.

So margin improvements is also outstanding, and you have noticed 24% in Q3 2012, and even removing exceptional HICHEM contribution margin, we have quoted before, the margin would have increased from 14% in this segment to 18%. So, 400 basis points. So you're right to mention that apart from HICHEM, there is a stronger development of these activities in this cluster.

**Bernard de Laguiche**

Next question, please.

**Operator**

Your next question comes from Investor K.

**Investor K**

Good afternoon; two questions, if I may. The first one, Specialty Polymers, you may have seen in the third quarter, complete different volume development than in the first half. Is what we see in the volume component in the third quarter, is that mainly the mix effect you were stressing, or are some markets going much faster than in the first half?

And in Essential Chemicals, two things; is the earnings increase mainly driven by the large new plant you have now available Epicerol®, hydrogen peroxide and new capacities in bicarbonate, or is it more broadly spread that the earnings increase comes from? And related to this, you have said that the epichlorohydrin market is rather weak. How you launched the additional volume you have on your big plant in Thailand in the market then? Thanks.

**Bernard de Laguiche**

Okay, thank you for your question. So for the first part, Specialty Polymers, and the volume development in Q3 versus first semester, I pass the word to Jacques, and then on volumes in Essential Chemicals, including epichlorohydrin, to Vincent.

**Jacques van Rijckevorsel**

First, the volume that you see is a result of more market dynamics, and according to the segments, but what we have seen in the Q3 is that on one side, we have had some projects that started, and that were successful, and on the other side, thanks to the operational excellence, and the different measures we had to increase some capacities, we had also some catch up of backlog.

**Bernard de Laguiche**

Vincent, on Essential Chemicals?

**Vincent De Cuyper**

The resilience is coming today from a mix of volumes and pricing; more or less equally shared, I would say. And when we speak about the volumes, certainly, the new activities, the debottlenecking of the sites are clearly bringing these volumes. HPPO is not directly concerned by that, because it's a non-consolidated joint venture, so it's just impacting the REBITDA, but of course, the HPPO plant from Thailand is bringing some additional REBITDA.

For the Epicerol® plant, it's too early. We said we have a progressive ramp up of the production but no significant impact foreseen for this year, from the Epicerol® activity on REBITDA, but we will clearly see an impact on REBITDA next year.

As far as the market is concerned, it's true that the market is weak, but we have a mix of some contracts which has been fixed for this Epicerol® plant in Thailand, and for the rest we are developing our marketing in Asia. But clearly, there is a strong interest from our customers, and from the

customers of our customer, for having a green product in their final product. And this is helping us, clearly, in the present environment.

**Bernard de Laguiche**

Thank you, Vincent. Two questions, please? The last two.

**Operator**

Your next question comes from the line of Investor L.

**Investor L**

Yes, thanks very much. Coming back to Vinyls, I think the biggest surprise today was the strong performance of plastics as a whole, but then looking at the Vinyls performance in particular, I think it was surpassing to see the increase in REBTDA on a quarter on quarter basis, than the improvement in margin; can you just go back and elaborate what happened really, because judging by the text, when you read through it, it reads quite negative on Vinyls, and yet you see a sequential improvement.

So was there a significant stocking event, and is there now risk that we might see a destocking in the fourth quarter, because the underlying demand surely hasn't improved, but yet, you showed a significant improvement there, on a quarter on quarter basis. And then secondly, on cost savings, I was wondering if you could provide us some insight, where we stand today. I think on Horizon, you wanted to achieve €120 million, and on top of that, if I'm not mistaking, the €130 million from the actual efficiency gains that were communicated, also, during the capital markets day. Thank you.

**Bernard de Laguiche**

Okay. Jacques on Vinyls, and I will take the question on synergies and savings.

**Jacques van Rijckevorsel**

Thank you Bernard. For the Vinyls, the improvement came, as I said, from two effects, and first is the seasonality. Normally, during the summer, the underlying demand is a little bit higher. You ask us, yes, but is it there a phenomena of stocking or destocking. What we see today, in October, is that our customers are ordering, I would say, truck by truck. That gives the signal that they have no inventory left. And that, on the same side for the industry, inventory level of the industry is also very low. So that is one fact, seasonality.

The second fact, as I said, it is also that volatility of the demand, due to the huge ethylene price swings, that has affected also some pre-buy or pre-sell from our customers. And I want to stress a third phenomenon; that we also have implemented is a very, very dynamic pricing policy, and we have increased there our dynamism and our willingness to have as much value as possible, from the market.

**Bernard de Laguiche**

Now, on synergies, as you know, we have a very comprehensive programme running, and we are tracking these synergies systematically. We have tens of working groups, working teams, focussed on implement these synergies, so post Horizon, and post integration. We are tracking €130 million synergies in this year, and there, you have twice the same separation. €55 million in first semester, €75 million in the second semester.

And it is the same; €55 million related to Horizon, €75 million related to logistics savings, and purchasing. So €130 million already heading in this year, progressively, so it's not everything in one quarter, or in the fourth quarter, it is progressive during the year. €75 million in the second half; €55 million in the first half. Very systematically implemented, very systematically monitored, and it is a great activity in our group, actually.

**Investor L**

Sorry, just for me to get this right, so it's €130 million from synergies, and then another €130 million from Horizon, or is it just €55 million for Horizon and €75 million synergies?

**Bernard de Laguiche**

No, it is the latter; so €55 million from Horizon, €75 million from synergies in purchasing and logistics.

**Investor L**

And you're well on track to achieve the €130 million this year, then?

**Bernard de Laguiche**

And we are well on track to achieve the €130 million this year.

**Investor L**

Perfect, thank you very much.

**Bernard de Laguiche**

Next question, and last question, please?

**Operator**

The last question comes from Investor M.

**Investor M**

Yes, two questions please. First one on, can you remind us how the split of your contracts for electricity on spotprice is, and in addition, can you shed some light on for how long you have signed electricity contracts, if I remember correctly, there were new electricity contracts signed? And then

secondly, BASF mentioned low volumes at care chemicals due to cautious customers, and have you seen this cautiousness, ie, destocking, as well?

**Bernard de Laguiche**

So, yes, indeed, we have seen some destocking and cautiousness, and this is what we qualified earlier in the call, saying there is some cautiousness, but it's not a massive effect. So we would be in line with what you say; yes, cautiousness at our customers.

Now, on electricity, I did not get your exact question because the quality of the sound was not so good, but I think it was quite precise, and we do not give these elements in a precise way. But maybe, overall, on the pricing of electricity as an input factor for Essential Chemicals, Vincent, maybe you want to comment?

**Vincent De Cuyper**

I can give a brief comment. Most of our electrical contracts are long terms contracts, obviously, and the part of spot purchase is really limited. I don't know the exact figure. If we come now, on the average, for the time being, we are mostly exposed to electricity in Europe, and on the average for the time being, what we observe is that the electricity price in 2012 is 10% higher than in 2011. So we are still in an environment, due to the gas price, which remains high in Europe, where energy price remains high.

**Investor M**

And as a follow-up, what are your assumptions going forward, as gas prices are expected to come down?

**Vincent De Cuyper**

It is difficult to comment on the evolution of the energy price, but when we say that we have to use our pricing power next year, it is because we believe that the energy price in Europe will remain high next year.

**Investor M**

Okay, very clear. Thanks.

**Bernard de Laguiche**

So, as there are no questions anymore, thank you very much for your time and your interest. Just to wrap up, you will have understood that under the current macroeconomic environment, our visibility is more limited, but we are extremely committed to deliver on our integration cost saving targets, our strict financial discipline, and we will continue to pursue operating excellence initiatives and growth, in our growth engines, driving value creation.

Thank you very much, and good afternoon.

**Operator**

That does conclude our conference for today. Thank you for participating. You may all disconnect.