

Solvay First Half 2011 Results Conference Call

Thursday, 28th July 2011

14:00 Hrs UK time

Chaired by Bernard de Laguiche

Bernard de Laguiche

Good afternoon Ladies and Gentlemen, and welcome to this conference call on Solvay's 2Q11 results. I am Bernard de Laguiche, CFO. I am joined here by my colleagues Jacques van Rijckevorsel, Group General Manager of the Plastics Sector and Vincent De Cuyper, Group General Manager of the Chemicals Sector.

I will briefly comment our excellent 2Q11 results and provide you with some more details on the financials. After that, we will take your questions.

But I would like to start with reminding you about our three main priorities. There is first of all the friendly offer for Rhodia. Secondly, we roll out the Horizon project that will improve alignment of organization and efficiency and facilitate the integration of Rhodia. This quarter's reporting for the first time fully reflects this new organization structure. And thirdly, we keep on improving our current business. The investments to build new factories in Asia, especially for specialty polymers in China and epichlorohydrin and hydrogen peroxide in Thailand or to increase the production capacity of existing specialty polymer plants will contribute to the growth of our Group, firmly committed to sustainable development. The announcement of a third HPPO plant, this time in Saudi Arabia earlier today confirms our continued growth in this market.

We continue to trade in line with our expectations. The 2nd quarter 2011 has been excellent with volumes 4% ahead of 2nd quarter 2010 while we achieved 11% higher sales prices than the same period last year. Taken together this helped to increase our sales and our REBITDA by 12% to respectively EUR 1,718 million and EUR 304 million. REBITDA margin increased from 17% in 1Q11 to 18% in 2Q11.

In the Plastics sector sales rose by 13% to EUR 989 million and we achieved a 22% higher REBITDA of EUR 197 million.

Specialty Polymers continued to benefit from very strong demand throughout the 2nd quarter. The +7% sales improvement came from further volume increases, continued better product mix, thanks to the development of new, high value added applications and to the gradual rise in sales prices. This also explains the REBITDA growth of 21% to EUR 98 million. Importantly, we are much focused on our R&D efforts in Specialty Polymers. The probability weighted value of the R&D pipeline of the more than 1,300 active projects represents 30% additional sales in the next three years.

In Vinyls, sales improved across all regions and REBITDA grew by 52% to EUR 99 million. High operating rates and an improved margin versus the 2nd quarter 2010 fueled this growth.

In the Chemicals Sector sales rose by 10% to EUR 730 million and we achieved a 6% higher REBITDA of EUR 127 million.

Sales growth was almost evenly spread between Special Chemicals and Essential Chemicals.

The sales and profitability patterns of Special Chemicals further improved, mainly on the back of the excellent performance of the fluorinated products which benefit from demand growth in all its end markets.

In Essential Chemicals sales improved by 10% due to continued good growth in all main product lines. REBITDA continued to grow (+6%) despite higher energy costs which were expected.

In the segment New Business Development we report REBITDA of minus 7 million EUR. As you know this represents mainly research costs using leading edge technologies which go beyond those used in our existing businesses.

In the segment Corporate and Business Support we report REBITDA of minus 12 million EUR compared to minus 3 in the 2Q10. This is mainly linked to positive effects in 2Q10 which were not repeated.

On the financials I want to mention the following five points:

- First: as a consequence of our strict operations management, industrial working capital increased by only 10% while sales rose by 17% in the first half of 2011.
- Second: non-recurring items amounted to minus EUR 1 million after reversal of provisions for EUR 24 million following a decision of the European Court on alleged non competitive behavior in the peroxide market. The case is still in appeal.
- Third: charges on net indebtedness amounted to 40 million EUR. Interest income on cash deposits yielded some 0.7%.
- Fourth: our effective tax rate at the end of June stands at 21%. We stick to our medium term tax guidance with a tax rate below 30%.
- Fifth: let me also mention the post-closure adjustment on the sale of our pharmaceutical activities of minus EUR 47 million, which is related to the working capital.

Let's conclude with our outlook statement for 2011:

“The Solvay Group is attentive to the macro-economic developments and the evolution of energy and ethylene costs.

In the context of the current business climate and based on its strategy of sustainable and profitable growth, Solvay expects to improve its annual operating result, both in Chemicals and Plastics activities in 2011.”

I want to open it up for questions. Operator, can we have the first question?

Questions and Answers

Investor 1.

Firstly, a point of clarification. I think you said 30% additional sales growth in Specialty Polymers from the ongoing projects. I just wanted to clarify that. And on the same topic, whether you could give similar guidance or figures for the potential... the sales growth or volume growth potential from the ongoing projects in the other Chemicals, and indeed, Plastics, in the Vinyls business as well; the other ongoing projects, please.

Bernard de Laguiche

I can comment on the 30%, and I confirm it is 30% additional sales expected from the R&D pipeline in Specialty Polymers, where we have 1,300 development projects. These are additional sales to be generated by R&D pipeline projects. Maybe, Jacques, you want to comment on that?

Jacques van Rijckevorsel

Yes. Thank you, Bernard. Indeed, then we have 1,300 new projects, new applications going on with customers and with other parties, and even if we apply some kind of probability of success, we come to a 30% of new sales in the frame of three years. You have seen that we have EUR1.1 billion turnover. That means about EUR350 million new sales in the coming three years. That comes on top of this underlying demand with existing projects and products. The growth that we expect for the Specialty Polymers is in the range of 8% a year.

It is not a coincidence. You must know that we are investing about 6% of our turnover in R&D, and we are experiencing also new business models with customers and open innovation and so on.

For the Vinyls, there I would say the innovation drive is less on the products, even if there is some new products there, but that is mostly on the technology. And what we do, we invest also less money, but we invest in order to be even more competitive with new technologies in pushing further the yields and the productivity of our plants. And at the same time, we are also converting all technologies into new ones, like for instance in Lilo, you have surely seen that we are converting the current electrolysis based on mercury technology towards membrane technology. That will give a nice improvement in the power consumption and in the quality of the products.

Bernard de Laguiche

Thank you, Jacques. Vincent, do you want to comment for the projects in the Chemicals sector?

Vincent De Cuyper

Yes, a quick comment. You know that in our growth strategy, we have two important projects which will come on stream very soon. One is the second HPPO site in Thailand. The construction is finished. We started the commissioning operations, and are in line with the schedule. We do expect to start operations in the second half of this year, probably around September. Just to remind you that this is a non-consolidated joint venture.

And the second main project which will lead to additional business is the epichlorohydrin project in Thailand. This one is also on track with the schedule. We hope to start early 2012. This is a business which is consolidated under the Vinythai umbrella, which is doing the expansion. These are the two main projects of growth in the Chemicals.

And then of course we made a nice announcement earlier today about the third plant HPPO, but obviously, this is something that will come at a later stage in 2015.

Bernard de Laguiche

You will have noted that all of our growth projects in Chemicals are in Asia and the Middle East.

Investor 2.

Thank you for taking my question. Just a question on Caustic Soda. Is there a difference between the margins you're posting having moved part of it to Plastics and what's left in Chemicals, first of all? How do you treat the business there as such?

And second, given the price rise year on year and what we see in Essential Chemicals as price increase, could you remind us again how your pricing works there a little bit?

Bernard de Laguiche

I will answer the Caustic question, and then pass the word on the Vincent.

Just to be clear, the transfer we made from one segment to another is only related to sales, so there was no margin shift between Plastics and Chemicals, and so the Caustic margins you used to see in

the Chemicals sector are still in the Chemicals sector. And the Caustic margins that are linked to PVC production, or chlorine production for PVC, you used to see them in the Plastics sector, and you still see them in the Plastics sector. There was only a shift in sales of approximately EUR230 million.

Second question, Vincent.

Vincent De Cuyper

Yes, just a global reminder on the pricing in Chemicals. I think we have to take it business by business. First of all, the easiest one is on the Caustic Soda. It's like the PVC. It's mostly quarterly based price review.

If you look at the Hydrogen Peroxide activity, we have typically two kinds of contracts; annual contracts, or multi-years contracts. And in the Soda Ash activity, as I already explained in previous conferences, most of the contracts are still annual contracts.

And so it means that the pricing forward that we are mentioning, in fact, we are still taking advantage of the price increases that we have passed on in early 2011. In some cases, we take still advantage of some spot activities to increase the prices wherever we can, but it has a quite low effect on the global results.

Bernard de Laguiche

Thank you, Vincent. Next question, please.

Investor 3.

A couple of questions, if I may. First of all, on the energy expense in percentage of sales, in your presentation, you clearly indicate the evolution. What is your expectation going forwards for this percentage, first of all?

And then secondly, in your reporting, you mention that you plan a maintenance shutdown in Argentina on the Vinyls side. Could you maybe indicate whether that has an impact, or will have an impact in the third quarter on your earnings?

And then maybe finally on your outlook, you highlight the macroeconomic environment. It seems compared to the first quarter outlook statement that you have become a little bit more neutral in the first quarter; and you still mentioned that business conditions were globally favourable. This time it seems there is no connotation whatsoever. Maybe your view on where the world is going to would be much appreciated.

Bernard de Laguiche

I will start by answering the third question about where the world is going, and then pass the question on energy to Vincent, and the other question to Jacques.

You know it is very difficult from our point of view to have a view of the world, and you know of course that there are all sorts of scenarios linked to macroeconomic policies in the United States, in Europe, etc. What we see in our plants, and that is what we can see, is that the production volumes are still there, and they are firm, and we are producing at full capacity.

So indeed we have to be very attentive to all weak signals that could influence demand, but these weak signals translate into a very firm demand, and to a very strong production capacity. This is what I can say.

So the results are good. Of course, there is always a question mark concerning the rest of the year, but for the time being, we don't see any reason to change our statement and not to repeat that our production capacities are fully loaded.

Now on energy, Vincent?

Vincent De Cuyper

Yes. Maybe I can give you some indication on the prices on the market. I think globally speaking, the Q2 has shown a positive movement with the strong price increase of energy that we have seen in the Q1 stabilising seriously during the second quarter.

So if we take the gas price, the price in Europe is still today, year to date compared to the average of last year, significantly up by around 35%, but we have seen this price remaining stable during the second quarter, and we think it should remain like that for the time being.

If we take the price of gas in US, in fact, year to date it is on the average minus 7% compared to last year. And again there, we do not see a significant trend to a price increase of gas.

As far as the electricity is concerned, year to date the average price on the market in Europe is 15% higher than last year. The price has been down slightly in the Q2 compared with the Q1. The average price on the market is for Q2 around EUR57 per megawatt hour. We do think that this tendency will remain during Q3, and then could go up again during Q4 in the winter time; and there will also be some reduction of capacities for maintenance reasons in Germany and France. So we do expect some price increase of electricity in the Q4.

The less positive news is on coal. The coal price has increased on average by 35% compared to last year; and there, even in the Q2, we saw some further slight increases of prices compared with Q1. This is the impact of the Fukushima consequences with the announcements from the electricity companies in Europe to shut down in the future some nuclear power plants, it has brought some pressure, increasing pressure on the coal price, which is affecting us. So that's globally the tendency for the various products.

Bernard de Laguiche

Thank you, Vincent. Jacques, on Argentina?

Jacques van Rijckevorsel

Yes. Thank you, Bernard. As you know, PVC plant has a turnaround every three years about, and now in July, it is the turn of Argentina. And that will be limited to July. It is three to four weeks' work. And the influence that we see on our results, on the margins, will be a couple of million euros.

But I want to stress that it happens in the middle of a very healthy market which is doing very well, and Solvay Indupa, Argentina, is also exporting the excess of capacity they have, their production capacities are higher than what the Argentinean market can consume, and that excess of capacity is sold to Brazil through Solvay Indupa, Brazil. Then I think that that is fundamentally a very good situation.

There is one question which is maybe typical to Argentina. You surely know that there is currently a very high inflation, and the peso versus dollar tends to be volatile. I would say that is the only macro element that we are watching.

Bernard de Laguiche

Thank you, Jacques. Next question, please.

Investor 4.

I've got a couple of questions, if I can, and apologies if you've already addressed these, but I did join a little bit late to the conference call.

Firstly on PVC spreads, I wonder if you could talk about how they progressed during the second quarter, and how you might see them... what the exit rate was or looked like, and how you see things progressing in Q3. If I look at spot spreads at the moment, it would suggest that margins in Vinyls will be a little bit better if it stays at current levels in Q3 than in Q2.

And then secondly, just picking up a... I may have misread a headline on the newswires this morning, but there was some comment about Solvay being less attached to a single A rating that it had previously been. I just wondered if there was... we should interpret something from that, or whether I'm over-interpreting it.

Bernard de Laguiche

I will answer the question on single A rating, and then pass on the mic to Jacques to answer the question on PVC spreads.

Well, yes, on single A rating, it is true that it was very important to us when we were in pharma, and the profile of the Group when we were in pharma was totally different from now, as we see ourselves as being a chemical company, Solvay plus Rhodia. And there you have seen what has been already been released by Standard & Poor's, where they expect to rate us in the BBB plus soon, which is just one notch below the single A zone where we were before. I think this is a zone where the rating agencies would obviously see us today. That is in line with our profile and with our strategic flexibility.

Investor 4.

So just so I understand, what you're suggesting is that it is not a particular focus of yours to rebuild the balance sheet to get back to that single A rating, but we could see other uses of cash flow?

Bernard de Laguiche

I am saying that a single A rating is no more the same focus as when we were still in pharma, but we are well in the investment grade in BBB plus. This shows our commitment that has not changed, to a conservative financial policy.

Jacques, on the PVC spreads in the second quarter?

Jacques van Rijckevorsel

Yes, again, it depends on the different regions in the world. But when we look at the spread being defined as PVC price minus ethylene price and plus what we make as money from Caustic Soda. If we look at that, I would say that the European spread that we have during the Q2 is average. There is nothing special for Europe.

If we go to Asia, it is more on the high side. That is very clear that there, progressively the spreads went up month after month, and of course, it was good for our business. And in South America, it depends on Argentina and Brazil, but I would not say that there are special anomalies in the spread in Brazil, for instance, if we compare with the last years. It went up, it is true now for one year about, but in average, it is still at a normal level.

Investor 5.

I've got one comment and two questions, please. The comment is actually a thank you for improving the disclosure and giving us more details on the sub-units pricing, volume and margins. I think it's really useful.

On the two questions; the first question is on Specialty Polymers, Jacques. You disclosed a margin which is on an EBITDA basis significantly above what you gave us at the time when you did the R&D day on Specialty Polymers back late last year, but 500 basis points above where you were pre-crisis, or early 2010; 500 basis points, which is quite high. Do you think that's due to a better utilisation rate? Is that better mix? Or do you think that on a product by product basis, you've changed something in the way you produce or you market those products?

And the second question is for Vincent on Soda Ash. Reading the CMA report on Soda Ash, it looks like China is about to bring on stream about 2 million tonnes in the second half of 2011, and about 1 million tonne in early 2012. I guess part of that is related to you with Tianjin, but I was just wondering what's your view on this from a global basis, what could happen to pricing with that kind of capacity being brought on stream? And do you think it's actually realistic to assume this capacity will be... well, effectively running?

Bernard de Laguiche

Before passing the word to my colleague, Jacques, on Specialty Polymers, and Vincent Soda Ash, I would like to thank you for noting that we changed the our results report, and indeed, we believe it is significantly more information than we used to give or to publish, and that reflects the new Solvay and our concern of being transparent and show really the profitability of our different businesses.

But now, Jacques, on Specialty Polymers.

Jacques van Rijckevorsel

Yes. Thank you for having noticed that we made some improvement. Indeed, the REBITDA margin has increased a lot. At the beginning of 2010, it was about 25%, and now you have seen that we are in the range of 30% plus.

Then it is the effect of the sum of different initiatives taken that of course are going into the same direction.

First, we have worked a lot on the product mix. We were more capacity constrained, and we have optimised constantly, and we are still optimising the product mix that we are producing.

Second, we have worked also a lot with our engineers and production managers on the capacity utilisation, on the yields, and on the performance, the industrial performance of our plants, and that has given more tonnes per plant. And you have seen that by the way, in the asset rotation ratio that we have published, which has improved.

Then we also have... that was, I would say as a consequence of the crisis, we have launched an across the board operation for streamlining our industrial costs, and we have indeed also cut in some cost of our industrial operations. And what we have achieved during the crisis, of course, we have kept it.

And last but not least, we have worked on the pricing power that we have, and where we could, we have increased on a selective way, in a fair way for our customers, but anyway we have done it, we have increased our prices.

Bernard de Laguiche

Thank you, Jacques. Vincent, Soda Ash in China.

Vincent De Cuyper

Yes. Personally, I don't feel very anxious about the capacity increase you are mentioning. The 2 million tonnes in 2011, 1 million tonnes 2012, is far lower than the capacity increase we have seen in the previous years in China.

The market is still growing in China. Even if China is slowing down due to the measures taken by the Government, the statistics show that the consumption is up by 5% to 6% year to date compared to last year. And you get immediately a 1.5 million tonnes to 2 million tonnes coming on top of the consumption in China.

So frankly speaking, I think we should not be concerned too much by that. On top of that, you know that there are two processes; the Solvay processes and the Hou processes in China, and they are used to run depending on the seasons for the fertiliser. The Hou processes plant are running at higher capacity during a period of the year and then slowing down, so it's far more complex than in Europe, so the global operating rate is far from the total capacity in China.

Another point where you can see that we should not be too concerned is when you look at exports from China today, the exports year to date are around 700,000 tonnes against 650,000 tonnes last year, and these are very reasonable levels; far lower again than in 2008/2009. And secondly, they are... when you see the destination of these exports, they are really limited to the Asia Pacific area. So not much concern from my side on that point.

Investor 6.

I'd like to understand a little bit more the PVC trends. I've heard that construction started strong in Europe but was a little bit weaker in the second quarter. There was gossip about destocking in China leading to lower PVC demand, and obviously, US players are very favourable now with low gains and therefore low ethylene prices, and having a weak US dollar; probably exporting also to Latin America.

Could you put your business in perspective looking to the second half how you are affected by this, or whether you don't see this?

And then looking forward on Soda Ash, you outlined that you have many annual prices, but here and there there are also half-year prices. At least, I thought that there might be also price increases for the second half. Is there anything you can talk about, and what do you assume what the pricing for Soda Ash is... you will be looking for? The price increase at the beginning of this year was barely enough to offset energy price increases, so it was not enough to restore margin that has been before the crisis. Is there something we can assume to become better as of next year?

And last but not least, also on the disclosure, I also like it very much. I guess that you will not change this after one quarter so that the lines you are reporting on now in the new disclosure we will see also after Rhodia will be consolidated. Could you confirm that this is the case?

Bernard de Laguiche

Yes, I can confirm that we will show a reporting that will be in line with what we published this quarter, and that our intention is not to change basically the philosophy. What you will see in Solvay's results in the months coming will be a third sector of activity, and that will be Rhodia. And that sector will be disclosed like the other sectors in the Solvay press releases.

That is on the presentation. Then maybe generally, and before passing the word to my colleagues, Jacques and Vincent, on margins, you will have seen in the presentation that our margins in Plastics are above the pre-crisis level; and that in Chemicals, they are very close to the pre-crisis level. I am talking here globally the Chemicals and Plastics.

But, Jacques, on PVC, if you could answer the question, and then Vincent.

Jacques van Rijckevorsel

Thank you, Bernard. I understood the question about what is the PVC trend taking into account construction trends and de-stocking in China, and the influence of the US players.

Yes, first, I think that if we look at the picture globally, for the planet, I would say, there was the last weeks a general trend for oil price decrease, and consequently ethylene decrease, and consequently again also a PVC price decrease. And all that was experienced first in Asia, and then region by region, and the planet experienced the same trend.

But again, in Asia, it started with oil price increase; ethylene price increased and PVC price increased. And that is now what we are experiencing. And we see that, for instance, our Vinythai operation is running at full speed. Okay, we expect that the prices may stay stable for July and August, but at the end of September, they will go up.

In USA, we see that the last quotations for the American export market are going up; American producers are getting more money for their product. And that is also what we see in Europe after the ethylene price decrease that we had in May and in June... no, sorry, in June and in July. In August, the ethylene price will go up, and PVC price, that is the current situation, the announcement that we see right now for August, the PVC prices are up.

Then all that is of course rather volatile, because again, it is related to the oil and ethylene price. That is I would say for the economics. Now for the volumes.

In Asia, we don't see slowdown in the demand. For us, again, we are running at full speed. Chinese producers have some problems. Energy is expensive; energy is even restricted, allocated. That means that acetylene producers have difficult times. They consume more energy than others.

If we go to South America, we cannot follow the demand, and we even see that the imports are increasing, because even if we run at full speed, we cannot follow the demand.

And for Europe, we see a patchwork. In the North it is going well. In some countries of Eastern Europe it is doing very well. But it is true that in Southern Europe, like Spain, Italy, and so on, the situation is more difficult. And that is the advantage of Solvay of having a European network that can optimise constantly its production and sales according where the demand really is, and we are not especially worried about the fundamental situation there.

Vincent De Cuyper

Yes. First a global comment on the pricing power. You know that we have announced 10% higher sales price compensating for the rising energy costs globally for Essential Chemicals. I would like to confirm that this has been true, particularly during the Q1, but it is still true during the Q2, even if the effect is lower because of the progressively increasing energy prices, but still we have a positive pricing power effect in the Q2.

Now the good news is that when we see the evolution of the energy price in the Q2 which is stabilising, and the tendency for Q3 which probably will remain with a stable pattern, so this is good news for the months to come.

Now if we come specifically to the Soda Ash, first of all, globally, our Soda Ash business is demonstrating better results than last year, so we confirm that the combination of better sales volume and better pricing are more than compensating the increase of costs in our Soda Ash business.

As far as the evolution is concerned, yes, the prices are mostly annual in our business. There are a few revisions starting from July, but this is really minor compared to the annual contracts.

Spot prices, it has also a minor effect, but the tendency for spot prices when there are opportunities, is always slightly positive.

Now the main question is what about next year, and you have seen that the Soda Ash industry in US have announced that they would like to increase the price from US next year, and this is of course a preamble for negotiation that will only start in September, so it's too early to say. But I think the sign that FMC, the leader on US the market, has restarted a mothballed unit on 1st July, with 500,000 tonnes of capacity at the Granger site, is good and demonstrating the health of the Soda Ash business for the time being.

So the strength of this business is really... and it's true for Europe and the US, the strength of the demand coming from emerging regions; Latin America and Asia.

Investor 7.

Firstly, thank you very much again for the improved disclosure; very helpful. Just two very quick questions. Firstly, if you could clarify how you've classified the Caustic sales you've moved from Chemicals to Plastics, exactly how that split works.

And secondly, you mentioned earlier on that your capacity utilisation was very high. Can you just confirm that's across the board, and if there are any businesses which aren't seeing high operating rates. Perhaps you could just flag them.

Bernard de Laguiche

First of all on the sales classification; as said, there were some sales that were shifted from Chemicals to Plastics. These are some sales corresponding to the chlorine production for PVC. The annual sales figure for this shift is more or less EUR 230 million. The impact in margins, or better said in profits, is close to zero.

Does that clarify the issue?

Investor 7.

So if I've got it right, is the caustic soda which is produced from chlorine production which is going into PVC sales?

Bernard de Laguiche

Yes.

Investor 7.

So Caustic soda production which is not linked to PVC is still reported under Chemicals?

Bernard de Laguiche

That's exactly correct.

And from a profit point of view, you will see no change. It is the same profit that is reported in Chemicals and in Plastics than the one we had before. The only change is on sales, and it is as you described and as I described. Okay?

Jacques, there was a question on Plastics.

Jacques van Rijckevorsel

The question I understood at least, the question as... okay, are you really fully loaded and capacity utilisation very high? Yes, I can confirm that indeed both for Specialty Polymers and for Vinyls,

we are running at full capacity. And again in Specialty Polymers, we could increase our capacity step-wise thanks to optimisation measures, but we are still running at full capacity.

Bernard de Laguiche

Vincent, how is it in your sector?

Vincent De Cuyper

So for the Peroxide, it has been a long time that we are running close to full capacity, between 90% and 100% everywhere around the world, and we confirm it's still the case.

For Soda Ash, in US it has been a long time that we run... we produce as much as we can. It is still the case. And in Europe, we have seen some improvement. And as explaining why we have some improvement of volumes in Soda Ash for the time being, our operations in Europe have increased by several percent. We are closer to 85%/90%, where in the past, we were in between 80% and 85%.

Bernard de Laguiche

Thank you. And you see these operating rates, a leading indicator for the way our businesses are behaving, and so this is why we are very happy of the results we can show today and of these operating rates.

Investor 8.

Two questions, if I may. Regarding Q3 order intake, and you mentioned about the August price negotiation, how confident are you the pricing is going to stick? Are you seeing any resistance from the customers? And if there's any way you can quantify how much deferred orders you were seeing, I guess probably towards the end of Q2, or July in anticipation of less pricing.

And my second question is if you have any projection for average cost of debt post Rhodia, and if you have any thoughts on how you're going to manage cost of debt after taking rather expensive Rhodia debt, please.

Bernard de Laguiche

Yes. I will comment on the second question first, and then pass the word to Jacques and to Vincent on pricing power in the coming quarter.

On the cost of debt, it is too early to answer your question. Obviously, it is something we are looking at together with our banks, and what I can tell you is that we are of course going to optimise this cost of debt. Bear also in mind that the high yield bonds we will buy from Rhodia... well, they were high yield when they were issued, but we will buy them at market price as an investor could do it today, and the yield at market prices, of course, is an investment grade yield, and that is a good proxy for the new Group.

Of course, when I say we will optimise the cost of debt, I mean we will optimise together the cost of debt, the debt position, and the cash position. We don't have the intention to have a very large negative carry, meaning big cash position on the balance sheet, as well as a big debt position, so we will optimise that too.

But I'm sorry, I cannot disclose or go more into the detail on that, because obviously, it is too early. The control of Rhodia has not changed and we cannot comment specifically on that for the time being.

Bernard de Laguiche

Now on pricing power, Jacques.

Jacques van Rijckevorsel

Thank you, Bernard, for pricing power. Let's start with the Specialty Polymers. As I said, we are now fully loaded and we have a backlog on which we are catching up progressively. But anyway, there, we don't feel that there is a resistance for price increases, of course, when you explain that in a fair way. And this July, for instance, we are implementing new price increases for some product lines in Specialty Polymers, and there I have no special concern.

In the Vinyls the volatility is much higher, because the prices are, I would say, traditionally related to the ethylene price, and as I said, the ethylene price went down in June and July and now is coming up in August, and the customers are playing with that. And we saw for instance that when the ethylene price was announced in decrease for July, we had some orders that were pushed from June to July as customers were speculating on a price decrease.

But that effect now is behind us. That means that they have played with their inventories and so on. That means that their situation is different, and as I said, we already have announced a price increase for August, and we know that some price increases have already been accepted. But as you know, in business, it is always a struggle when you talk about price increases.

Vincent De Cuyper

Just maybe one quick comment on Soda Ash, because there again, it is annual pricing, so impact is very limited. But still an indication on the spot market is that the price remains flat for the time being, Q3 compared with Q2.

One business where there is clearly quarterly influence is Caustic Soda. As we know, the Q1 price has been probably the peak of the Caustic Soda price for the time being, and we announced that already a long time ago, in fact what is the good news is that the Q2 price in Europe has barely decreased from the peak of the Q1, and the Q3 pricing is still a rollover from the Q2 prices in Caustic Soda in Europe, which again is good news. Prices remain in Europe above the EUR400 per tonne level.

The only place where I see some price pressure on Caustic Soda business, it is in the spot price in China where there has been a decline very recently of \$30 to \$40 per tonne.

Bernard de Laguiche

Thank you, Vincent. Next question, please.

Investor 9.

I have a question on the Horizon project. Could you maybe indicate where you stand today, and maybe kind of indicate to what extent savings from the Horizon project have supported your margins in the second quarter and first half 2011.

Bernard de Laguiche

Okay, on Horizon, so today, we do not yet see the benefits on our cost basis, because Horizon has started at the beginning of this year in April. We expect the full saving to come around the end of 2012, and to increase progressively between now and the end of 2012; and the levels we had disclosed we see... we are well in line. So I would say we are confident and confirming our targets which will materialise in the second half of 2012.

Investor 10.

I just have one quick question. On the Q1 call last... earlier this year, you mentioned potential for further capacity additions in the Specialty Polymers peak in India. I wondered if you had an update on that.

Bernard de Laguiche

Jacques, that's for you; peak in India.

Jacques van Rijckevorsel

Yes, I indeed mentioned that we were working on a new capacity, capacity increases in India, Panoli, and I can confirm you that what was anticipated is going on according to the schedule. And we expect that by the end of the year, we will have new capacity on stream.

Investor 10.

But there have been no details in terms of CapEx or the size of capacity coming on stream.

Jacques van Rijckevorsel

No, you understand that it is a market with a very limited number of players, and we prefer to be very discreet on the capacity that we put on the market. But anyway, it will be a significant market capacity increase.

Investor 11.

Just one question. Could you maybe give us a guidance for CapEx total investments, so including joint ventures and acquisitions for the rest of this year and 2012, please?

Bernard de Laguiche

For the rest of this year I can give, because it is a disclosed figure, and we confirm our budget. The budget we did disclose for CapEx was EUR 625 million, and we believe we will be in line with this budget.

Closing Comments

Well, thank you, ladies and gentlemen, to have participated in our conference call. Thank you very much for your questions. Have a nice afternoon or day.