

**Solvay**  
**Thursday, 28<sup>th</sup> October 2010**  
**2:00 p.m. UK time**  
Chaired by Bernard de Languiche

**Bernard de Languiche**

Good afternoon Ladies and Gentlemen, and welcome to this conference call on Solvay's 9M10 results. I am Bernard de Languiche, CFO. I am joined 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 9M10 results.

After that, I will open it up for a Q&A session.

At constant scope sales are up by 22% in the first nine months of this year and by 21% in 3Q10. At constant scope REBIT from continuing operations increased by 98% in the first nine months and by 60% in 3Q10. This strong organic growth reflects a more sustained global activity level and a good cost control.

Net income of 1.8 billion Euro is positively impacted by the capital gain on the sale of our pharmaceutical activities (1,703 million EUR after taxes) and of Inergy Automotive Systems (130 million EUR after taxes). It is on the other hand negatively impacted by net impairment charges of 197 million Euro. These impairments involve almost exclusively the soda ash activity in Europe which is confronted with the ongoing weakness in some of its markets, especially flat glass used in construction. Industrial measures have been taken: capital expenditures have been drastically reduced and will remain at a low level as long as end markets remain sluggish. Our commercial policy will be revisited and if insufficient, new industrial measure will be considered.

I shall now focus on the development of continuing operations:

Chemicals Sector sales improved by 8% in the first 9 months of the year. The significant increase in volumes, (+14%) compensated for the lower sales prices (-10%). In the third quarter, sales improved by 19%. Thanks to the volume growth, cost reduction, and energy expenses which remained well under control, REBIT of the Chemicals Sector rose by 18% to EUR 230 million compared to end of September 2009 and by 33% to Euro 83 million in 3Q10. The REBIT increase involves all chemical activities except soda ash which sale price remains low.

At constant scope, Plastics Sector sales are up by 36% on a cumulative basis and by 23% on a quarterly basis. This is mainly explained by the sharp increase in sales volumes in Specialty Polymers (+42%), thanks to the recovery of the car and electronics sectors and to the strong growth of new applications. This leads to a clear REBIT improvement compared to last year. In Vinyls, in Europe, improvement in sales was confirmed in the third quarter. SolVin was able to benefit from a temporarily more limited supply context. Prices and profit margins are up. In Mercosur we struggled with supply problems of ethylene and gas due to difficult climatic conditions in the region. In Asia, the situation remained positive both for volumes and for profit margin, which illustrates the competitiveness of our industrial position in that growth area.

REBIT of the Plastics activities rose to EUR 261 million at the end of September 2010 compared to EUR 56 million last year. Finally, let's remind the closing of the sale of our 50% stake in Inergy Automotive Systems on September 8, 2010. Only the results from the first 6 months of 2010 for Inergy were included in the consolidated accounts.

In the segment New Business Development we report REBIT of minus 19 million Euro at end of September 2009, constituted for the most part of research costs.

In the segment Corporate and Business Support we report REBIT of minus 15 million Euro in 3Q10 versus minus 3 million in 3Q09. This cost jump results mainly from reinsurance of risks.

From a financial perspective, I only want to make two points:

First and importantly: free cash flow from continuing operations amounts to 453 million Euro in 3Q10, including EUR 268 million following the sale of Inergy Automotive Systems. The free cash flow generation reflects a prudent CAPEX approach combined with rigorous management of working capital. Indeed, industrial working capital of continuing operations rose by less than 7% versus a sales growth of 21%.

Second: excluding the impact of the capital gains on the sale of the pharmaceuticals activities and of Inergy Automotive Systems and the impact of the deferred tax asset on impairments, the effective tax rate of continuing operations for the first nine months of the year stands at 24%. Our medium term tax guidance - less than 30% - remains unchanged.

We work on optimizing the effectiveness of our organization and prepare for our future growth with the project "Horizon." The new organization will lead to cost savings estimated to reach up to 120 million Euro by the end of 2012. The social costs, estimated to reach at least one time the yearly savings, are not taken into account at this stage as the social procedures are still underway.

Let me conclude with our outlook statement for 2010:

"The Group's operating result benefits from the improvements in competitiveness and in sales volumes. Solvay expects a higher REBIT in Chemicals compared to last year. Taking into account the significantly stronger demand for specialty polymers experienced in the first nine months, Solvay will realize a sharply improved REBIT in Plastics compared to the low level of last year.

This year, the priority continues to go to the optimal reinvestment after the disposal of the pharmaceuticals activities."

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

## **Questions and Answers**

### ***Investor 1***

*Thanks for taking my questions. I've got two: first on plastics you refer to some one off, we saw that you had a maintenance showdown in speciality polymers and also some production issues in Latin America. Are these issues now over and will it be possible to get some guidance on the earnings impact that you suffered in Q3? And then second question on caustic; you highlighted price increases in Q4, I've read some reports that suggest prices has moved up by some €100 per ton, is this in line with the sort of increases you have foreseen.*

### **Bernard de Laguiche**

Thank you for these two good questions. I would pass the first one on plastics one off to Jacques and the second one on caustic to Vincent. Jacques please.

### **Jacques van Rijckevorsel**

Yes, thank you very much for the question about the one-off. We indeed had the one-off during the Q3 and if we sum up the different effects I will talk about, we reach about €10 million. Then it comes from turnarounds in specialty polymers in the United States and as you did rightly mention, we in vinyls had problems with ethylene supply and with the utilities, gas and so on.

The situation for the specialty polymers, I think that it is normalising progressively but we have one more turnaround now in October in Spinetta in Italy and that will be included in the Q4 figures. For Mercosur ethylene supply, the situation is normalising progressively.

### **Vincent De Cuyper**

Going on the caustic indeed there is a price increase of around €100 per tonne on the European market for the Q4. Why do we have that surge in the caustics seller price? You know that we mentioned already for several months that the caustics seller price is progressively recovering, there is a continuous trend. We had a surge for the Q4 basically because in September there have been a significant number of operational difficulties in some European producers of caustic soda which have explained that the inventory level dramatically dropped end of September and there was an opportunity to raise the price of caustic soda for the Q4 which has been done. Typically this price increase when they are not for Q4, they are only progressively implemented during the quarter and the effect comes really from November on. I confirm that level. Globally speaking why we see the caustic soda price continuously improving, is I think due to the fact that demand of caustic is slightly better than the demands on the PVC chlorine side, so there is more tightness on the caustic soda side which is explaining why the prices are continuously increasing.

### **Investor 2**

*Good afternoon, thank you for taking my question. I have three questions, the first one on PVC on the supply situation. Can you make some comment about the situation that you have seen in October in France; does it affect it or does it not affect your plant in Tavaux and what do you think about the price and margin for Q4? And going forward in Europe given your prudent comments on construction, do you consider that if current margins are sustainable next year if the construction market does not rebound in Europe? And second question on soda ash given your comment about the impairment and the difficult market situation in that business in Europe in particular. Do you consider to remove some capacity from the market; could we expect some restructuring in that business going next year; and the last question on the CAPEX, you mentioned in your introductory comment that it has been maintained at a lower level, it's well below your budget for this year, or should we think about Q4, do you expect an increase in CAPEX or would you end up with a much lower spending than what you expected at the beginning of the year?*

### **Bernard de Laguiche**

Okay, Matthias thank you for your questions, you know our company well. I will answer the third one on CAPEX. Then leave the word to Jacques on PVC supply in France and Vincent will tell you more about our philosophy behind our impairment. On CAPEX you are right, we are below budget, and we expect to be below budget for the whole year. Indeed we are very selective on CAPEX, we are at a sustainable but lower level in Europe, the lowest we think possible. That does not prevent us from being selective and looking at some capacity expansions into our growth areas according to our strategic intents, for example, Asia or other fast growing economies. On a whole CAPEX for the Group will be lower than budget. Jacques, if you want to comment on PVC?

### **Jacques van Rijckevorsel**

Yes, I understand that you ask about the French situation due to the strike. Obviously we are affected by the strike in Tavaux and by the strike not in Tavaux, but in Feysin with ethylene supply, and we have to reduce the production of Tavaux very clearly. We could supply the market from the other plants that we have in Europe and also play with our inventories, but anyway we have been affected. The result of that is on the market there has been a short supply and prices will go up again in October. After that we see November/December, it will depend of

course if France stopped with strike then the supply situation will be back, and at the same time we need to see what will be the evolution of the market taking also into account the season on affect that we have at the end of the year.

Now if we go for your question about the structural situation of the construction market, if we go to 2011, it is clear that if the construction market does not bottom out, our business recover stronger than it is doing right now, then the situation will have to integrate also other components like for instance the ethylene price differential between Europe and for instance the NAFTA area I mean in USA on one side, and also the exchange rate. All that is highly volatile for the time being and our answer is very clear we do what we can in order to increase the competitiveness and to consolidate the performance of our plant. You have seen that we have made some operations the last month and where we will go on with further competitiveness improvement across the board.

### **Vincent De Cuyper**

One comment on the soda ash impairment in Europe, first of all it is just a normal internal procedure reviewing with our internal auditors the future cash flow that could be generated by our soda ash activity in Europe and it has been done specifically on the soda ash activities in Europe. It is justified by the fact that although we believed still a few months ago that the construction market could recover end of 2010 we do not see anything for the time being. This is true in Europe and also true in US. That is why we took that decision. This being said, what are the kind of actions that are foreseen in the short term? First of all, the limitation of the CAPEX, it has been mentioned already and it means that the measures that have been taken in 2009 during the crisis to limit the CAPEX are extended and have been extended in 2010 in the soda ash, where we limited the CAPEX at least under the level of depreciation, first point. Second point, we intend to have a strong action on the pricing of soda ash by next year. It is sure without the energy price increasing and the present situation of profitability of the biggest players in Europe that prices have to be increased whatever the level of supply and demand in Europe, and we want to make it very clear with our customers. And the third point concerning the industrial structure, we don't have any intention at this stage to remove capacities from the market. First of all, we will take action in order to reduce the fixed costs and we will see if the situation is improving, it could go up to a temporary closure of one unit, but at this stage no decision is taken, and obviously this kind of decision will be taken only if there is a need and normally a weaker player in the marker should disappear before us. We should not leave the floor by closing temporarily one unit in order to favour a weaker competitor on the market, so this will depend on the competitiveness of the various players in Europe.

### **Investor 2**

*Okay, thank you very much. Can I very quickly follow up just on the last point. Is there any new capacities due on-stream next year in Europe, in your knowledge from competitors in Europe?*

### **Vincent De Cuyper**

No, at this stage, I won't see anybody doing that. You know that there is new player which appeared this year in Turkey, which of course took market share by coming with a significantly low price. Obviously, I suppose that their strategy for 2011 will probably change and they will probably start to increase prices as well. It would be natural after taking a market share in 2010, but they are already, I think running close to maximum capacity today, so there should be no change from their side in 2011 and from the other players, there is no expectation of new capacities in Europe.

**Bernard de Laguiche**

Thank you very much and Vincent, there were two shutdowns in the Western Europe or in the Western and Central Europe, one in Romania and one in Holland.

**Vincent De Cuyper**

Correct.

**Investor 2**

*The new capacity was offset by the shutdown?*

**Vincent De Cuyper**

Exactly, we are concerned that today the main issue on the European market is that non-recovery of the demand due to the construction sluggish situation.

**Investor 3**

*I just have one question on PVC and if you could please comment on the original development, because Shin-Etsu said they had very strong PVC sales, strongly supported by the export, so if you could help me with guidance on different original development and also in competitive of European PVC versus American in terms of the energy costs, energy cost etc, and the future development. Thanks a lot.*

**Bernard de Laguiche**

That's a question for you Jacques.

**Jacques van Rijckevorsel**

Yes, thank you. The original situation for the PVC, let's start with Europe. The first, I understand your point that the exports from America are boosted by the exchange rate and that is very clear, but until now we have not seen American PVC in Europe, only very marginally. They are more going in other parts of the world like Asia, Turkey or Russia. That is for Europe, but of course we watch closely the situation. If we go now to Asia, there the situation is favourable, Vinythai is doing very well and that is favourable by the fact that in China the acetylene producers are currently not competitive anymore, appear the weakest of them, because as you know the Chinese will recommend taking some measures to limit the energy intensive industry what is the case of acetylene based PVC. And then Asian demand is running at full speed and no problem. If we go to South America, there the market is good, double digits we will see in Brazil, quite a good growth in Argentina. The point there is more about competitiveness, not only of our operations, but I would say the Brazilian industry as a whole, when it is exposed to, for instance, American imports. The Brazilian Real increased a lot versus the Dollar and the Argentinean Peso is not evolving in the same way as the inflation. You know that in Argentina the inflation rate is currently at 25% and the Peso is not devaluating at that pace, which also gives them a competitive handicap compared to American operations. Above all that, we've had to deal with a problem with ethylene and gas, but also we had one-off as I said at the beginning.

**Bernard de Laguiche**

Jacques, I would add one point concerning our South America operations; we had reported in the previous Quarter some technical difficulties and we are progressively coping with these technical difficulties, correcting the problems, so that we can see a plus for these operations.

**Jacques van Rijckevorsel**

Absolutely and the plant in Brazil now is running very well and in Argentina also by the way.

**Investor 4**

*Apologies, I switched lines, so maybe I'm asking a question which is already asked. Three questions from my side; first on PVC, with the US Dollar at 1.39-ish what is the risk of again imports from the US in PVC? Secondly, on your share buyback programme in the press release if you talk about the possibility to buy a maximum of 5.1 million shares, but to date you've only bought less than 900,000. Can you explain to me why that is, especially when you consider that the yield on your cash is so low? Finally, in the press release you state that the priority still is on the optimal reinvestment of the Pharma proceeds. Does this mean that we can expect an acquisition in the coming months - I know you don't want to talk about it - but just can you clarify what you mean with this year? Thank you.*

**Bernard de Laguiche**

Yes so thank you for your three questions, I will answer the two little ones. First of all on the comments, as I said, we are not in a position to make any comment at this stage, so this is that statement we gave. On the share buyback, it's a good point, but you know as these are shares that we do not intend to cancel, we have set limits that we don't want, price limits and our share price was for the later period above these limits, but indeed the yield on our cash is low. There is an interest to buy some treasury shares, it depends on how it will be according to the limits we have. Jacques, do you want to answer on PVC, but I think you already had done it partly.

**Jacques van Rijckevorsel**

Yes, thank you for the question. Imports from American, I would more say exports from America, because currently the situation in American is affecting the whole global market of the PVC, and as I said China growth is still there, as a market and at the same time, acetylene producers are withdrawing. So currently China is absorbing a lot of American imports and also imports from other countries. So the point about the exchange rate that you are now raising, I think it is a more than only a exchange rate between Euro and Dollar, it is an exchange rate between Euro/Dollar maybe but also between Renminbi and Dollar and Yuan and Dollar, Brazilian Real again and Dollar, Japanese Yen and Dollar. That volatility that exists currently on the currency market is affecting whole parts of export from America.

**Investor 5**

*I have three questions, first could you quantify the expected energy cost increases for the fourth quarter and maybe shed some light on 2011. Secondly if there any impact from maintenance shut downs to be expected in the chemical division in the fourth quarter as this tends to be sometimes the case? And thirdly on the commercial policy adjustments you mentioned in soda ash, does that also mean that there will be again a change in duration of contract - I know that earlier you went to much shorter short contracts will that change again as well or not? Thank you.*

**Bernard de Laguiche**

Thank you Wim for your questions. I will answer the ones on the outlook what we can see for the 2011 and please understand that this time of the year it will be a very general and broad review I will also comment on our energy expenses and then leave the word to my colleagues.

I will start with the outlook for '11. So in '11 we will have to watch our markets and we are watching our end markets closely, there are trends. There are, you know of course very well, the emerging markets and the growth of economy development and there we want to increase our presence, and we are doing it commercially short term and we are doing it also by investing there medium term. We are less dependant on automotive since we sold our Inergy activity, but it

remains an important activity with a different regional development with less growth certainly in Europe, so in Western Europe generally for our markets automotive but also construction we are in a very conservative mood. We are looking at CAPEX in a very critical way as already said that is for Western Europe for all of our markets; construction, automotive even paper and pulp. In Asia, South America, Jacques already commented on the relative competitive positions in South America and in Asia so we are doing everything we can there. Regarding the electronics industry Jacques, maybe you can comment when you talk about speciality polymers also for the developments in 2011. We are seeing growth, but growth is increasing maybe less then it was in the first part of this year, but still there is growth. So that is a little bit what I can see at this stage for 2011, very much focused on monitoring end markets, good growth trends in some areas, but the growth of growth that is somewhat stabilising or let's say it is disappearing. Energy policy, you know we don't give guidance for the fourth quarter and we don't give guidance for energy specifically. What I can see is that our net energy expenses for the first 9 months of this year was 12% of our sales and this is compared to 13% for the 12 months of 2009. So a relatively stable energy intensity, with a certain increase we can see mainly in the chemical sector so that was for energy and growth in 2011 and I think now Jacques, the best is that you comment on the fourth quarter shut downs and maybe also a little bit the outlook you see mainly in specialty polymers, and Vincent also on the fourth quarter.

### **Jacques van Rijckevorsel**

Thank you Bernard, and let us start with the short term and shut down costs. As I mentioned in the beginning of this conference call we have a shut down in Italy in speciality polymers. In PVC - okay that is not a shut down that we wanted, I said Tavaux for the time being is also working on significantly reduced capacity. So that is for the last quarter and now the speciality polymers in 2011 as Bernard said we feel that there is still an increase, maybe that increase is not the same in all the segments and all the regions that we are covering - I remember that specialty polymers is a low risk in the sense that they are present in many applications and globally in the whole world, and we have markets like automotive and electricity, electronics, health, water and so on, and that portfolio allows us to have the opportunities where they are and to compensate maybe where there is a downturn in another one. But we see that the growth is still there even if at a lower pace then that of the beginning of the year. Another point that I want to stress is that 30% of our speciality polymers sales are currently realised in Asia and we are taking full profit of the new plans that we launched last year in PVDC in PVDF in China, and you have heard probably that we have now launched a new investment of compounding of speciality polymers also in China. I know the point that is helping the growth is innovation and our new sales ratio, I mean the sales that are due to product and applications, and technologies that we have developed in the last five years, the new sales ratio of the speciality polymers is beating the 30% target also and contribute also to the growth.

### **Bernard de Laguiche**

Thank you Jacques.

Vincent, your comments?

### **Vincent De Cuyper**

Three comments, first on energy cost for the chemicals and then said in 2009 the average was 13% of the net sales and 12% for 2010 if you look on quarterly basis and is why we would say the prices are progressively rising. In 2009 quarter on quarter it was progressively decreasing. In 2010 it has been progressively increasing, and since Q3 we have energy cost which start to be at the level of 2009. That is why we mentioned this long term progressive increasing of energy cost in the chemicals. Second, a comment on maintenance shut down in Q4, yes we confirm that as usual there is a traditional slowdown of activity end of the year and that we always take that

opportunity to do some specific maintenance shut down activities. Finally, commercial policy the third point. You mentioned the variation of the duration of the contract, we mentioned that last year. We have not been so successfully last year in implementing that strategy so for this year it is too early to say what will be the final discussion with our customers, but I can just ensure you that we will use any kind of way in order to get on the average an increased price compared to this year.

**Bernard de Laguiche**

Thank you Vincent. I would also like to make a final comment on 2011, let us not neglect the impact of exchange rates. We have the Dollar rate and Jacques and Vincent already made comments on the impact of the Dollar rate on our business; we also heard about the strong Real and how that plays a role on our business in our competitive positions, so of course one uncertainty and one point to take care off or to monitor closely in '11 will be the different exchange rates. Thank you, next question please?

**Investor 6**

*Just a few questions if I may, first of all on the soda ash business. Can you indicate what your current capacity utilisation is in Europe for the soda ash business and do you expect to see some opportunities for imports into Europe out of your US plant - I wouldn't think so, but maybe that is an interesting issue because you are not longer part of Ansac, the American selling syndicate, so you might have more flexibility to move your material to Europe. that is the second question. And thirdly on the impairment could you give some indication what amount of the asset value has been impaired with the current exercise, or in other word, how much is the European soda ash business still in your balance sheet.*

**Bernard de Laguiche**

Thank you. I leave the floor to Vincent on the first two questions, but you know, as an introductory comment utilisation rates and soda ash in Europe does not mean there is a one to one indicator of sales in Europe, because thanks to our still good competitive position in Europe in soda ash we are exporting material out of Europe but Vincent, maybe you can comment on the utilisation rate on our position from the United States and I will finally give the information on the impairment.

**Vincent De Cuyper**

On the capacity utilisation as you know and as mentioned in the previous conference call utilisation rates progressively increased in the Q2. We increased to the level of 80%. For the Q3 we are on average very close to that same level of 80%. Second point is the exports strategy from US, as you mentioned we are getting out of the Ansac at end of this year and this is why we significantly exported from Europe during the last quarters in order to prepare our positions in various exports market around the world by using European materials, and next year the focus will be on exporting from US to these new markets, rather than exporting US material to Europe.

**Bernard de Laguiche**

Thank you Vincent. Now on the impairment, as we disclosed we have a global impairment amount before tax of €256 million and after tax of 197 million Euro. Of the gross amount before tax of 256 million Euro, soda ash represent more or less 245 million Euro.

**Investor 6**

*And how much does it represent from the asset value of the BDP chemicals business or the soda ash business prior to the impairment? Has 100% of the asset value being impaired or half of it?*

**Bernard de Laguiche**

You know we don't disclose the assets values by sector, if you calculate more or less 20% - 25% you are not so far off.

**Investor 6**

*Of the total chemical asset value?*

**Bernard de Laguiche**

No, of the soda ash.

**Investor 7**

*Hi yes it is Peter Mackey from Morgan Stanley in London, most questions I think are cleared but a couple of final ones please. Firstly the comments about specialty polymers and talking about growth, I sort of read or understood to be looking into 2011, but my understanding was that specialty polymers was essentially running at full capacity from about the second quarter of this year. I wonder if you could just remind us of any sort of capacity additions your have coming on stream through 2011 please. And the second question is an extremely dull one I'm afraid, but the Corporate and Business Support charge as you mentioned in introductory comments spiked up in the third quarter. I'm afraid I didn't entirely understand what you indicating for the full year number or the Q4 number or perhaps how we should forecast that beyond 2010, I wonder if you could just give us a little more detail there please? Thank you.*

**Bernard de Laguiche**

Yes I will start with the answer on our Corporate and Business Support and then leave the floor to Jacques on specialty polymers. What I said concerning Corporate and Business Support is that if you compare quarter to quarter the comparison by the fact that we had in the Q3 '09 a positive impact that was taken in '09 in the third quarter and it will be evened out in '10, meaning it will be taken probably in the fourth quarter of '10.

**Investor 7**

*Okay, but the charging in Q1 and Q2 of this year were sort of more akin to that of Q3 and Q4 last year then the third quarter number that you just reported so I just wondered if there was particularly large negative in Q3 rather than the absence of a positive if that makes sense?*

**Bernard de Laguiche**

No they were some positives last year that we did not have anymore in this year. That is true if you compared year-to-date September; 10 with year-to-date September '09.

**Jacques van Rijckevorsel**

Yes thank you for the question. We are an industrial company and as you know we are have very good engineers that are working on capacity extensions and they are finding new capacities working on the heels of the existing plans, that is a first fact. Second fact is the ramp up of the new capacities that we have launched, it was last month, and I remember the PVDC the PVDF I should also mention the PEEK plan that we have in India and there the growth discontinues and we also have launched the new capacity in the fluorinated fluids lately, also there you have a progressive ramp up of those new capacities, and that is it for the time being. For 2011 you probably have read that we had announced new capacities as such in Technoflon for instance, in fluorinated polymers in Italy and we also have announced a new compounding activity for speciality polymers in China but that will be more on stream by 2012.

**Investor 8**

*Yes hi good afternoon, most of my questions being asked just two last one please. First of all I am just curious to have your view about the level of inventories at your customers levels, we know that since the recession most customers industries have been pretty prudent and have not being in the big restocking cycle, but obviously quarter after quarter we see volumes improvement. Do you think now the level of inventory to sales are back to the normal levels that your customers or above that; any comments by customer industries would be very useful. The second question is on PVC obviously I understand that demand remains relatively weak because of construction sector, but what helps supply/demand is the fact that there has been a very high amount of temporary shut downs technical problems with some of competitors. So I think if demand did not recover in construction, one could conclude that there is a down side risk to PVC pricing going forward. I would just be curious to have your view on that and any view on the timing on when some of those plans out of production right now should raise in production? Thank you.*

**Bernard de Laguiche**

I will give the floor to Jacques on both questions, but start making an introductory remark concerning inventories. If we look at ourselves, our inventory in percentage of sales or in days of production are down and this shows to you that the industry including us was able during the crisis and after the crisis to reduce inventory levels significantly compared to the levels they were at prior to the crisis. This is thanks to general improvement in the supply chain and the focus on cash flow and free cash flow. So that is for us, it is the same we see at our customers that I will ask Jacques to go more into the detail and maybe for in the inventory levels focusing on specialty polymers and then PVC, answering your question on the supply situation in Europe.

**Jacques van Rijckevorsel**

Thank you. The first question about the inventories in specialty polymers that has been last year a very, very aggressive inventory cut across the whole supply chain that was very clear and we have seen that customers and even by our customers of customers, and that was a very, very aggressive inventory cut. Now as I said at the beginning of this conference call or during this conference call that we still are seeing growth and we are still in backlog with most of our customers but that goal is less and thanks to the drivers that I mention, Asia and innovation, we believe that the goal at least for us will stay even up to lower level then at the beginning of the year. Then for us the problem for the inventories is not an issue as such based on short notice. In the PVC the inventories are very low, we know that, we trace that, and it is very low, we do not anticipate huge moves on that part. Now, the point the balance between supply and demand of PVC related to the construction. Here we need to have a look after the global situation of the PVC, the PVC is again growing in South America, it is growing in big and important regions like Asia, it is growing in Russia. The problem of the construction as such is mostly in North America and in Europe. It is true that the temporary shutdowns that we have experienced in Europe and if those capacities are coming back, it is true that this will change the balance between supply and demand, and the point here is exactly what I said also earlier, the competitiveness of our operations in Europe and we are working on that, but of course there are factors that are outside of control, like exchange rates, not only with Dollars, but also again Renminbi and other currencies. First and second, the differential in ethylene price between North America and Europe.

All this remains rather volatile. We are coping with that and again, we are doing our homework day after day to increase our competitiveness.

**Bernard de Laguiche**

Thank you Jacques, Vincent, do you want to say something concerning inventories?

**Vincent De Cuyper**

Maybe, one comment on inventories in chemical customers: I think there are two industries in which we saw some destocking and restocking effects. First of all, that is the electronics sector. In the first half of the year, the growth was really partly due to restocking and in the pulp and paper industry, also there has been certainly a part of restocking during the first half of the year. This being said, we continue to see a sustainable healthy growth in the industry.

**Investor 9**

*Good afternoon gentlemen, it's Jan Hein from Amsterdam ING calling. Two questions, one with regards to vinyl's in general, the problems you had in South America, you encountered in South America, in Brazil and Argentina, could you somewhat quantify what sort of impact this had on your REBIT level and conversely if the strength is September due to plant shutdowns in Europe which benefited you, if this was able to offset it, so were these of the same order of magnitude? My second question would be more on your asset write-downs in soda ash. How do you account exactly for this, I've never really seen a material, tangible asset base being impaired, if it's not being shut down or shuttered as a whole, and in your press release, you're actually talking about a slight increase of volume since the start of the year, so it seems kind of strange from where I stand, that at this juncture in time you decided to impair it anyway and what does that imply for outlook, also for sales of PVC going forward? Thank you.*

**Bernard de Laguiche**

On the impairment, first of all, we do not allocate the impairment to a specific plant, because as Vincent underlined, we did not decide whether we would temporarily shut down a plant, or not or shut down a plant, but we know that the cash generating units, soda ash Europe and that excludes again bicarbonate, does not generate the cash flows to justify the full value in the books of its assets, but that's the way we accounted for the impairment on a global basis, at a consolidated level, not allocated to a specific plant.

Of course when we take the value of the cash flows, we project the cash flows in the future and then these are not so much the volumes at the beginning of the year that are relevant, but these are the volumes and the prices for the future that become relevant and there the assumptions we took came to the result that led to the impairment, now of course we will do everything we can in order to improve these assumptions and these parameters, and then we'll see, but for the time being everything remaining equal, this is what we had to do. On the other question, vinyls in South America, Jacques, you can give the information.

**Jacques van Rijckevorsel**

Thank you Bernard. The first question, what was the influence, at least the understanding of that question is what is the influence of the difficulties that we had in South America, Brazil and Argentina on our result? What I can tell you is that it's a public company, it is easy to check, but the REBIT of our South American operations has been minus 7 million Euro for the Q3, against a plus 2 in the Q2, then you see a deterioration of 9 million Euro, quarter to quarter, due again to lack of ethylene, lack of gas and all those difficulties that we had on the infrastructure side, and on top of that the reinforcing of the Real versus the Dollar. That is one point, indeed the quarter was in loss. The second part of the question, is could the situation in Europe offset that deterioration in South America. It is true that in Europe the situation improved in Q3 versus the

Q2 very clearly, but the improvement was not sufficient to completely offset the 9 million Euro deterioration which we experienced in South America.

**Investor 9**

*Just to follow that on Pipelife while we're at it. You've indicated close production plants across Southern Europe; are these being mothballed or really closed down and sold? Could you give also an indication of how large a part Pipelife these are?*

**Jacques van Rijckevorsel**

Indeed, we have closed or are in the phase of closing full plants, one in Portugal, one in Spain, one in Croatia, one in Romania. Those are small plants and they represent a marginal part of Pipelife.

**Investor 10**

*Yes, some follow up questions on soda ash I'm afraid. First of all on the pricing of soda ash, you mentioned there is some lower pricing. Could you give some indications on where we are in the US pricing and potentially what your ideas are for Europe? You mentioned earlier you will go for higher prices; is it possible to give some indications on where you want to see pricing going, also in relation with energy expenses? Secondly, to come back again on the impairment, and my apologies for that is on the timing of the exercise, what has happened over Summer that you engaged into this impairment exercise right now and for instance not at the end of the year? Has it to do with what happened in Russia, just before Summer or are there any specific items that changed that drove you to this exercise? Thank you.*

**Bernard de Laguiche**

The timing over this exercise, there's nothing special, no link at all with Russia. It is the fact that we redefined our cash generating units, that's an exercise we did at this time of the year and the time we take the impairment would be at the normal routine time we evaluate our cash generating units, so there is nothing special. The new fact is the definition of our cash generating units.

**Investor 10**

*Now that it's involved with Europe, what was that previously?*

**Bernard de Laguiche**

Previously, we had a much broader definition of cash generating units and now we specify it by region in the case of soda ash. Thank you.

**Vincent De Cuyper**

Just to confirm what Bernard was saying, two years ago in 2008, we reverted the soda ash impairment in the US, exactly in the Q3, so it's exactly the time where we assess what's the situation and the future and we did really, because from what we said in the past, as I said before, we were expecting a better construction environment in 2011 and clearly now we know that 2011 will not be showing the improving we expected in the construction business. It's justified on the business side, this impairment. Some comments on the US. On pricing globally speaking for 2011 of course, I can't comment. The only thing I can give is the official information which is circulating through Harriman. In Harriman, people are mentioning the US, sometimes this price increases in the range 10-€20 per ton and in Europe, in the range of 10-€25 per ton, so I think this is just indicating that the industry did not mind to increase prices, but at which level this of course would be the result of negotiation with the customers. The present pricing is quite stable in the US, it's only on the export price that you'll see some decreasing prices on soda ash due to increased competition between the US producers, due to the weakness of the US domestic market, the US producer are exporting, and also due to the weakness of the European

construction market, the European producer are exporting, and consequently there is still some pressure on the export market.

***Investor 10***

*At least I can make a small follow-up. Is there any balance coming from a change in the discount rate in the impairment exercise compared to the previous exercises?*

**Bernard de Laguiche**

Discount rates have moves according to the cost of capital, they should not be seen as the significant factor, no.

No more questions, operator?

**Closing Comments**

Thank you very much ladies and gentlemen for the attention and thank you very much also for your questions and wish you a pleasant afternoon or day. Thank you.