

Solvay Results Conference Call
Thursday, 14th February 2013
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Chaired by Jean-Pierre Clamadieu

Jean-Pierre Clamadieu

Hello everyone. In fact, this is not what it looks like. It is mostly a conference call, with about 100 people but we are here in Brussels and I'm very glad to welcome you. We have an audience also here in Brussels but a lot of people on the conference calls. So I'm very glad to be for the first time, in fact, presenting the Solvay results 2012 and maybe we should start with our new signature. I hope all of you are aware of it now but we are very proud of this new logo, which is much more than just a new communication feature. It is, clearly, for us a very promising role that Solvay is transforming itself very, very successfully. We have a very high level of ambition, asking more from chemistry. It probably means asking more from Solvay also and we are very convinced that we will be delivering on this challenging signature and deadline.

So, I am here with Bernard de Laguiche, our CFO, and we'll try to cover, very briefly, the key elements of our results and, obviously, shall review some views on how we see us moving forward and we'll try to be quick enough to leave enough time for questions because I know it is always a very interactive and interesting part of this presentation.

So, the new Solvay today. We are really going and I think we have achieved a very significant first step in a far reaching transformation. We have clarified last spring our strategy and we have today a very well defined strategic vision. We have set an ambition around value creation, which we have summarised in one number - €3 billion of EBITDA in 2016, at the current scope - but, more than that, it is really improving profitability, return on capital thanks to an aggressive growth strategy. We have successfully integrated the two legacy organisations. We have now an organisation in place supporting our ambition, an organisation in which decentralisation and empowerment is very key, an organisation which is very agile, which means that we are giving to our global business unit leaders the ability to make the decisions they need to react quickly to serious market opportunities or to respond to market challenges, and we know that we have a lot of both these days. Very close to the customer because we are serving a very large number of markets and very entrepreneurial because, if we want to be successful in achieving our growth objectives, creating an entrepreneurial spirit is something that is very important. So much more than just a new organisational chart, it is really a new culture that we are injecting into Solvay.

So who are we today? This is a bit of our ID card. €12.4 billion of net sales, €2.1 billion of REBITDA for the full year, an impressive €787 million free cash flow generated during last year, 29,000 employees, 111 industrial sites, 12 R&D centres, but probably as or more important than that, 90% of our sales in businesses in which we are among the top three global players. 38% of sales in fast growing markets and we'll have to make a comment to explain why it's a little bit lower, a very balanced portfolio of activities, serving a very large number of markets, which probably allow us, in this time of uncertain economic environment, to make the best out of this portfolio of businesses and a culture in which sustainability is key but also innovation and operational excellence and, for me, there is an important word, it is really operational excellence. It is really the relentless ability to do every day better than we

did the day before and it is really a very strong momentum and dynamic that we have created within Solvay to make sure that we will continue transforming the company in the next few years.

In terms of geography, just one word, and in fact I'm stealing a comment that Bernard will make regarding the fact that we have decided at the end of last year to put our PVC Latin American business, Indupa, in the 'Asset held for sale' category, which means that it is not anymore consolidated in the numbers that you see. This explains why Latin America is going down to 10% of our net sales, Asia Pacific 28, Europe 42, North-America 20. Among these regions, clearly, Europe is the one where we see challenges today. It is also the one which share is diminishing in our portfolio. North-America, Asia-Pacific are slightly increasing, Latin-America, taking into account the accounting element I was mentioning, is stable. By the way, this means that when we have strategic challenges, even in fast growing regions, we are ready to take the right decision to make sure that we work in the direction of improving the quality of our portfolio.

Maybe one last word before letting Bernard go into the details of the results. On slide nine, you see the various markets that we serve and I think we have a very, very well balanced portfolio of activities, with a significant share of our sales going into consumer goods, which clearly is something which is very positive – balanced exposure to construction and automotive and an exposure into a lot of other segments – and I think this explains the quality of our results and our ability to go through challenging environments with limited impact in our results.

With that, I will turn to Bernard to go into the details of our results for 2012. Thank you, Bernard.

Bernard de Laguiche

Thank you, Jean-Pierre. Well, I think we had a good performance in this quarter and it is all the more noticeable if you factor in the fact that 2012 was a difficult macroeconomic environment. Let me also make a preliminary remark concerning the figures I will show. The profitability indicators are deemed to be on an adjusted basis, meaning excluding the effects of purchase price accounting.

So, first, in Q4; group sales came out at €3 billion and they are up 22% year on year. If we look at it on a sequential basis, although not disclosed, there was a slowdown that impacted mostly our cyclical activities. On the other hand, we had a very strong performance from Consumer Chemicals and from Specialty Polymers. REBITDA is €430 million and EBIT 349, compared to €196 million last year. Also worth mentioning is free cash flow establishing itself at €251 million and, indeed, you will see our free cash flow performance in the year and also in the quarter was very good. As Jean-Pierre already pointed out, Solvay Indupa is accounted for as a discontinued operation.

Adjusted net income amounts to €203 million and there I would like to mention two impacts of non-recurring items. One is restructuring. Restructuring charges related to the Rhodia integration amounted to €36 million and the effect of accounting for Indupa as a discontinued operation was -€106 million in Q4.

Now let me go to the yearly results. On the sales side, net-sales established themselves at €2.4 billion, up year on year by 2%. Sales volumes went down by 4% and were offset by price increases of 2% and favourable forex developments of plus 3%. The volume decline is mainly to be ascribed to our rare earths that had a very high comparison basis in the previous year. Adjusted REBITDA is €2.1 billion plus 2% year on year and our growth engines reported indeed very good results. There was a strong growth, strong and resilient growth in Essential Chemicals, in Acetow and Eco Services while Advanced Materials and Rare Earths slowed down significantly and there were very difficult market conditions for polyamides and PVC.

Now, showing the REBITDA-bridge, first you will notice that it is the first time Solvay publishes such a bridge and we will continue doing that. On this bridge, you can see clearly that Solvay was able to exercise pricing power with a pricing power effect of €5 million. I mentioned already the volume effects and the forex effects.

In 2012 we delivered on expectations, also on integration and new organisation. Integration and new organisation designs were completed within the year and the group successfully delivered €70 million savings in 2012, versus or compared to the 2010 cost base. If you remember, we had initially expected €30 million. So €70 million versus €30 million, the entire cost saving potential, as Jean-Pierre mentioned, of €400 million is now anticipated by one year, by end of 2014, instead of 2015 and, also, our cash focus is reflected in the very strong free cash flow number of €787 million which has, as a consequence, the net debt reduction to €1.1 billion, versus €1.8 billion last year.

Going into the results of the sectors, you see that Plastics is slightly improved due to Specialty Polymers that compensated for the result downturn in Vinyls. Chemicals had a very good improvement, driven by the resilience of Essential Chemicals. The Rhodia segment presented contrasted dynamics with Consumer Chemicals doing very well, offset by challenges in Polyamides and also the highly demanding peak comparisons for Rare Earths.

Going to a bit more detail in Plastics, Specialty Polymers had a very good performance. They delivered a record REBITDA level, up by 10% compared to the previous year, benefiting from favourable volume dynamics and good pricing power and product mix. Some markets did very well, Smart Devices, Oil and Gas, Healthcare, Automotive. Advanced Transportation and Consumer Applications were resilient and Construction, Photovoltaic and Semicon suffered somewhat but, overall, very positive performance, record REBITDA results for Specialty Polymers. In Vinyls, REBITDA decreased by 13% and there we had different regional dynamics with a decline of the market in Europe and a positive contribution of Asia for our Vinythai operations.

In Chemicals, Essential Chemicals were up 24% versus last year to €20 million REBITDA, with strong selling prices, higher volumes and a good operating performance. This is driven by the fact that the demand for soda ash was stable overall in 2012 and the strong performance in container glass in the US offset a somewhat weaker performance in flat glass for the construction industry. Hydrogen peroxide went well. The REBITDA margin reached 22% for Essential Chemicals, versus 19% last year. In Special Chemicals we are restructuring, as you know, the healthcare activities and fluor was suffering from adverse market conditions.

Now in the Rhodia sector, Consumer Chemicals delivered on their double digit growth commitment and that is over the very good pricing performance that we could see in 2012. That is mainly Novecare with its very differentiated and integrated position. REBITDA of Consumer Chemicals amounted to €31 million, up by 51% versus last year. Advanced Materials performance suffered in 2012. The comparison to 2011 is tough and the rare earths prices went down last year and there was also a poor business performance in the lighting segment.

Polyamide REBITDA stood at €9 million, compared to €96 million last year. Profitability erosion results from lacklustre demand and a deteriorated operating leverage. For Acetow and Eco Services REBITDA is €246 million, up by 22% compared to last year, strong pricing power, more positive product mix, good performance overall and a REBITDA-margin of 26% versus 23% last year. Finally, last but not least for Rhodia sector, Energy Services which reported €31 million REBITDA versus €63 million in 2011. The decline is because of the lower level of CER volumes which reached 14 million tonnes in 2012.

On the next slide you can see the full income statement. Let me make some remarks on the items below REBITDA. Non-recurring items, as you see, amounted to €48 million and there you have some factors playing a role, which I will detail now. One is the fact that we partially reversed the impairment on soda ash due to a better perspective on that business, also following the announcements we made on restructuring and rationalising our production capacities in the south of Europe. So the value of the soda ash business was enhanced and we could reverse the impairment we had taken on that business in 2010 for €49 million. We also had, in the course of the year, capital gains on the sale of our pipelines activity and corporate buildings for €8 million. So these are two positives. On the negative side, so as an expense, we have a €102 million charge, linked to the restructuring actions in the frame of the ongoing integration and cost savings programmes. We also had €40 million in this non-recurring heading for additional environment and litigation provisions. So, all that taken into account, you come on balance to an amount of €48 million for the year.

Net financial expenses were €356 million. The cost of borrowing amounted to €71 million, which is a decrease compared to previous years due to the reduction in net debt thanks to the good cash flow. We also had, in 2012, non-cash financial income of €17 million, related to the decision to exercise in 2014 the first call option of the €500 million Rhodia high yield senior bond maturing in 2018. So €17 million positive impact linked to that. In that heading of financial charges, you also have the costs of discounting provisions, which was €191 million, versus pro forma €132 million the previous year. It included exceptional charges of €50 million, caused by a reduction in discount rate for environment provisions.

Now income taxes; the effective tax rate was 30%. It is 34% if you take the tax rate on recurring earnings. Hence our guidance of 30% to 35% tax rate for the coming year. Adjusted net income amounts to €727 million, compared to €784 million last year. Discontinued operations had a negative impact of €40 million. We have the negative impact of Indupa, €145 million, and the positive impact of post closing adjustments on the pharma sale, reflecting positive outcomes in some litigations or reserves that amounted to €105 million. So net income group share reached €710 million or €8.63 basic earnings per share. So this was for the income statement.

Now on the cash flow items, you see here industrial working capital. At the end of 2012 it was 11.7% of sales. This is not a level that we, under present circumstances, think is

sustainable. More sustainable would be a level between 11.7% and the average of 2012, which was 12.9%. But you should also see the progression between 2011 and 2012. There is an improvement from an average 13.6% industrial working capital as a percentage of sales to 12.9%. For the future, we think that midterm a level between 11% and 12% could be sustainable.

We are investing selectively in our growth areas and, as you see, the capex we had in 2012 was €785 million. This is capex without investments or acquisitions of shares or participations. For next year we would guide to a number of between €900 and €950 million in our growth areas, Novecare, Specialty Polymers and also Epicero[®] and raw earths.

To come to the cash flow bridge, first of all, I would like to point out again the net debt reduction from €1.8 billion to €1.1 billion, mainly due – and that is reflected in the free cash flow square – mainly due to our operating cash flow performance of €1.4 billion. Also note the good working capital reduction of €83 million. We have capex already mentioned of €785 million. On the right side of the slide you see the contribution to cash flow of divestments and proceeds and others, and there you see reflected the sale of PipeLife to Wienerberger and the fact that we deconsolidated the debt of Indupa and for it account it as discontinued operation. We have a very strong financial structure, with a net debt of €1.1 billion, that is with cash on one hand, and of €2.5 billion and our liabilities, bonds of €2.3 billion, plus the ex-Rhodia bonds of €0.8 billion, so total €3.1 billion, and bilaterals of €0.5 billion. Our net debt to equity ratio is 17% and, more significant, our leverage ratio is 0.5 times. On the maturity side, the part that you see on the bottom right of the slide, we expect to anticipate, as I already mentioned, the call of the Rhodia high yield bond of 2018 that we will pay back in 2014.

Our pension liabilities are well managed. Our yearly cash contribution to pensions is more or less €200 million and we don't expect that to change significantly. Net pension liabilities are €2.8 billion. A big impact in 2012 came from the fact that discount rates used to quantify pension litigations went down significantly over the year. We have an increase of pension liabilities due to that effect which went through equity, not in P&L, of more than €400 million.

Finally, the dividend; we propose to increase the dividend to €3.20 per share, which is an increase of 4.3%, compared to 2011, and results in a dividend yield of 2.7%. So these are the details of the financial figures. Thank you very much.

Jean-Pierre Clamadieu

Thank you, Bernard. So let's go now to a few comments regarding how we see us moving forward. First a comment on the synergies and, more broadly speaking, on the efficiencies we promised when we launched the Solvay-Rhodia integration. We were expecting in 2012 to generate €120 million if my memory is correct. We generated €170 million, so we are very much ahead of schedule. You will see that a large part of this is coming from the purchasing part of the organisation. Our teams have been very, very active. In fact, I remind you that this was the first action plan which we launched in a few weeks after the combination of Solvay and Rhodia and, clearly, we have seen a lot of very good projects being transformed into REBITDA and cash on our results. We expect now to have fully delivered the €400 million of efficiencies at the end of 2014. So we are one year ahead of the schedule and, by

the way, some of this activity will continue past 2014. So I am not saying that 2014 is the end of the game as far as saving is concerned but, clearly, a very strong dynamic there and a very strong focus of the various teams to make sure we make the best out of this. By the way, in 2013 we expect to generate an additional €110 million, which will lead us to €280 million with a reference that we have chosen on this slide.

The second very important element, portfolio reshaping; we are fully aware that we have some businesses in our portfolio which are being challenged and we are working quite actively today to address these situations, although we tend to communicate once projects are achieved and there are a lot of things for which we still can't see the impact. So, just to mention a few of the levers that we are using and, as you see on this slide, we are really using a lot of different levers to achieve that. M&A, so a first indication is the accounting treatment of Indupa. We have decided that, in the current situation, we had to look at a breakthrough strategy for our PVC assets in Latin America. I mentioned a couple of times that their strategic position is not good. So you see today one step in the direction of solving this problem. We've done also a lot of very small transactions in the Special Chemical areas with one simple objective, to exit from the Life Sciences activities and to make sure that, from now on, Special Chemicals will be focused on the fluor chain, where it really has value creation potential.

Polyamide, we recognise that we have significant challenges there. We are currently launching a plan which would increase our REBITDA by the end of 2014 by €100 million, mostly cost reduction, both fixed costs and variable costs. This is linked to manufacturing and supply chain excellence but also commercial excellence. We are revisiting our Engineering Plastics business model to make sure that we focus our R&D efforts in the areas where it makes sense and that it can allow us to differentiate from our competitors. Another example is the soda ash business. We have made a communication in December stating that we wanted to revisit our industrial footprint in the southern part of Europe, mostly because we are facing some increasing competition coming from a trona producer in Turkey. So we have said that we will come up with a detailed plan by the end of this semester, by June 2013, and this is what will take place. So a whole lot of activities, although what's visible is probably just the tip of the iceberg today, but a whole lot of activities to make sure that we address the challenges we are facing in some of our businesses.

For the rest of the business, clearly, the challenge is growth and we are growing through using various levers. Investments, Bernard just shared a few minutes ago the fact that our current view regarding capex in 2013 is to move up capex to the €900 million to €950 million range. This is a strong sign of confidence. We are working to prepare ourselves to deliver our 2016 objectives. You see here a number of projects that we have announced in recent months. Just two of them; yesterday, after board approval, we've announced a new highly dispersible silica plant in Poland, complementing our footprint. This is a hugely successful product. We've seen a new plant starting up in China two years ago. We've made the bottlenecking in North America, in Europe this year, a new plant in Poland, and we are already starting to think on the next step which probably will be in Asia.

Guar, we have announced, I think it was last week, new production capabilities in guar derivatives, which is an area in which we have been hugely successful. I'm sure in the Q&A part, we will have some questions on guar but guar derivatives, for us, is really a very, very strong business and we took advantage of the quote unquote "guar crisis" of last year to strengthen our positions and, with the new capabilities that we have now, with production

capabilities in China and in North America, we are very well positioned to take advantage of the very significant growth potential of this product.

R&D, without going into too much detail, is an area where synergies for us don't mean cost synergies. The objective is not to reduce the combined amount that we are spending in R&D. By the way, last year it was around €300 million. The objective is to make sure that, by combining our two organisations, we are better, stronger, that we have more resources on a given project to increase the likelihood of success. The company is investing significantly in R&D. We are, obviously, harvesting results from that. Last year we had filed 300 patents and we will continue to focus on areas where we think innovation can contribute to our growth objectives. One significant change between what happened at Solvay a couple of years ago and what we are doing now is that most of the R&D resources are managed by the business units and what we focus is innovation in line with our current position, although we have a couple of projects which are developed at corporate level because we think that we have a potential for some breakthrough which would allow us to develop new activities.

Outlook, and I will end up with that. The macroeconomic environment today very much in line with what we have seen during the fourth quarter. I won't surprise you there. Good signs coming from Asia and especially China, not just by reading the newspaper, but we see in our order book a trend which is very positive and which gives us the feeling that the year should be very good in Asia, generally speaking, and especially in China. Brazil is still undecided. When I say undecided, it is in comparison with the potential of its country, which should probably allow it to deliver 5% to 6% growth. We won't be at this level this year and I think the situation there is probably still not as clear as we would like it to be. North-America is very good. We've seen in our markets, probably for the last 18 months, a sustained trend of improvement and this will continue. Then question marks in Europe. Still a lot of uncertainties, which clearly make our customers very prudent and this is, clearly, the point of attention. In this context, medium term, very focused on delivering the €3 billion target and you have seen, throughout the presentation, the best example being probably the capex budget that we expect for 2013 but even the dividend that we decided to increase yesterday at the board, very strong focus on delivering our €3 billion ambitions in 2016. Short term, we focus on continuing reshaping the business portfolio, making sure that we make improvements where it is needed, and develop across the board all of our operating excellence initiatives.

Too early to give you a guidance for 2013. At Solvay we tend to do that when we present our first quarter results and I would probably say that it is especially this year wise to be a little bit on the prudent side and wait until we have a little bit more data points before sharing with you the guidance. So thanks a lot for your attention and we are ready, with Bernard, to take questions, both from the audience here and from people on the call.

Investor A

Good morning, I have a couple of questions. First on Solvay-Indupa, and €106 million net results from discontinued. That was realised in the fourth quarter. Is that really an underlying net result or is there some one-offs included?

Bernard de Laguiche

It's €106 million for Q4, €145 million for the full year. That includes underlying results but mainly one-offs. What are the one-offs? Depreciation of deferred tax assets and marking the value of Indupa to market which means to the share price on the stock exchange per end of 2012.

Investor A

Okay. Then, on the soda ash business, you mentioned briefly that there is some increased competition from a trona based producer in Turkey, which has by the way announced quite recently very aggressive capex projects. Is the preparation you are doing for adjusting your footprint in Europe, is that already adapting for that increased competition and how are you looking at the European soda ash market, both short and longer term?

Jean-Pierre Clamadieu

No, for us, what was announced a couple of months ago is no news. I mean we knew that Etisoda had some growth plans and they've just announced that they have chosen a Chinese engineering company to develop that. So, basically, no news and the plans we have been working on since mid-2012 are already taking this into account. But, yes, we see increased pressure around the Mediterranean basin and we think we have to react. We are a strong global leader in soda ash with positions both in Europe and in North-America. We are very committed to defend our leadership positions. In some cases, defending leadership position means recreating a better balance between supply and demand in some regions. We are facing such a situation around the Mediterranean sea and we are working very hard today and will come up by June 2013 with very clear action plans allowing us to achieve this.

Jean-Pierre Clamadieu

A question on the call maybe?

Investor B

Hi. Thanks for taking my questions. I have two. First, on your outlook, you talked about uncertainties in Latin America. Could you be more specific, please? Which markets are okay and which are most concerning to you? Secondly, I have a question on your new EBITDA bridge. Could you please clarify where the cost savings are in this bridge? Given that a lot of the savings were procurement related, would it be mostly in the cost of good sales item? Thank you.

Jean-Pierre Clamadieu

So, we'll turn to Bernard on the second question. No, I don't want to overstate my comments on Latin America and it really is mostly to Brazil because it's where we have most of our operation. If I had just a small comment on Argentina, you will know that the political and economical situation in Argentina is quite complex and probably not absolutely ideal to develop the business there. But on Brazil, the comment is just that this country has probably a growth potential in the 5% to 6% range. Last year it was well, well below that. The government has announced a number of measures to deal with this situation and, hopefully, come up with a better growth performance in 2013. I think the result is still a little bit uncertain and the comment is really across the board. I don't see sectors which are especially suffering today in Latin-America. It's just that, in comparison with our expectation, the overall Brazilian economy is quite soft.

Bernard de Laguiche

On cost savings, you find them in two places on the bridge - in cost of goods indeed and in fixed costs - but, in the first part of the period, so the first years running to 2015, the majority of our cost savings are purchasing cost savings. So you would find these in cost of goods but we are already seeing economies of fixed costs. That is a result of our Horizon Program.

Investor B

Just to clarify then, would you say that, excluding the cost savings, pricings still offset input costs?

Bernard de Laguiche

I can say that, yes. It's not so easy to compute but yes.

Investor B

Thank you.

Jean-Pierre Clamadieu

Next question? Yes, we have a question here, in the room.

Investor C

Could you share your views on the very options left on the table regarding towards fixing the issues in chloralkali-vinyls?

Jean-Pierre Clamadieu

Oh, I think I've made several comments in the past months regarding the situation. Maybe the first comment, I do believe that we have very different situations in various parts of the world and I'm really looking at finding, for each region, the right strategic plan, and I don't believe in any global solution. Hence the decision regarding Indupa. Asia, for me, not at all a priority. We have plenty of options there regarding our Vinythai business and, as far as I am concerned, today the most obvious option is just to continue with business, which is doing, by the way, very well and which provides us a strong base to develop other activities, mostly the Epicerol[®] production where we have built a large facility in Thailand and we are ready to duplicate it in China. So the key question is Europe. In Europe, one, we have a very good competitive position in relation with our competitors, mostly because we have done – and it is not anymore something which we will weight on our cash flow – we have done investment necessary to upgrade all of our facilities but one, the Spanish one, to the latest technology, and we have now very efficient plants. But we operate in a market where there are other capacities, a lot of players, and we have to find a solution or a scenario which would allow us to contribute to an improvement in the overall structure of the market. So I have said that. I think I have already said that we are not willing to increase our overall exposure to this business. With that, I will leave it to your imagination to think what could be the scenarios which fit into this situation. If we had an obvious solution, ready to go, I would be very proud to announce it today. We are not at this point. At the same time, yes, it is an issue that we clearly recognise and we are working very hard to find the right solution in this context.

Investor C

But will you take a strong initiative on that front or let the market further deteriorate, I mean, the competitive position of Europe?

Jean-Pierre Clamadieu

So am I sleeping behind my desk, waiting for someone? No. The answer is no.

Investor C

Okay, but does it mean you have a timetable?

Jean-Pierre Clamadieu

I think, in the presentation, I addressed the issue upfront. For me, it's really something which is an issue where I would like to bring some solutions. You will understand that it's a complex problem and that there are no obvious scenarios but, yes, we are working and we are not just sitting, waiting for other people to do the job.

Investor C

Okay.

Jean-Pierre Clamadieu

Another question on the phone?

Investor D

Yes, thank you, and good morning. A couple of questions from me as well, if I can. Firstly, given your free cash flow generation and the balance sheet strength, I wonder if you could talk around the dividend decision, perhaps your thoughts about ultimately being a bit more generous on dividend payout, please. Secondly, I wonder if you could just give us an idea of the timescale you anticipate behind the Indupa assets, now that that is deconsolidated. Thank you.

Jean-Pierre Clamadieu

On the first question, I think Solvay has a dividend policy which has been there for many, many years. Bernard presented the path on the last 30 years and yesterday's decision was very much aligned with this dividend policy. So we increase the dividend every two, three, four years and reasonably because the overall policy, once again, is to never decrease it. So each time we make the decision, we know that it has to be followed. I think the overall policy has been very successful and we want to continue with that. Clearly, there was no financial constraint regarding dividend. From just a financial standpoint, we could've taken a bit of a different approach but the discussion at the board yesterday was very much along the continuity of this policy, and I think it's a very wise policy.

On Indupa, I don't want to commit to a timeframe. If we are in a position today to do reclassification it means that we are working on very practical options and as soon as possible we would be very pleased to share with you the outcome of our efforts but, again, no reason to commit to a specific timeframe. The objective is to find the right solution for us, the shareholder, but also for the businesses themselves.

Investor D

Thank you. Could I just come back with a follow-up on the cash flow and the dividend? You talked about maintaining the continuity of the policy of the last x decades but, given the step change probably in free cash flow generation and your personal focus on that particular metric, do you think... I mean you will clearly be accumulating considerable cash on the balance sheet, which is more than sufficient to offset the debt pay down as your long term liabilities mature. So how should we consider your intended use of that cash? Do you see a change in the continuity of the dividend policy or should we look at it as cash to be invested back in the business?

Jean-Pierre Clamadieu

Clearly, our objective is to deliver on our midterm ambition, the 2016 objective, and a very simple example of that is the fact that we are telling you that, despite the challenging

environment of 2013, we consider increasing our capex to the €900 million to €950 million range. That's, I think, a first data point. Will we change our dividend policy in the next few years? I would say we will see. Today the challenge is to make sure that we deliver on this ambition and this year, probably, we should expect a smaller free cash flow generation as we are ready to invest what is necessary to meet this midterm ambition. So I think, overall, these are probably the comments I can share with you.

Regarding the cash situation, we have covered that several times. We have a situation which is suboptimal regarding our balance sheet for one simple reason. When we bought Rhodia, we ended up buying a couple of ideal bonds which add some constraints in terms of liability. When I was CEO of Rhodia I was very proud that we did these bonds at this specific point of time. They were very good in the context of Rhodia's balance sheet. It is true that, in the context of Solvay's balance sheet, it's probably not the instruments that we would like to have but it is part of the integration. So, as soon as we can call them with a reasonable economic condition, we will do it and Bernard has told you that we are already anticipating these calls and this will reduce the amount of cash we have on the balance sheet.

Investor D

Thank you.

Jean-Pierre Clamadieu

Next question?

Investor E

Yes, good morning gentlemen, and thanks for taking my questions. I have got three very quick ones. The first one is on the €400 million of restructuring. Can we assume that, even including the disposal...?

Jean-Pierre Clamadieu

Sorry, I didn't understand your question. Can you repeat it?

Investor E

The first one is on Indupa. Can we assume that, excluding that disposal of Indupa, you are still targeting the €400 million cost savings? So, underlying, you are increasing the €400 million of savings from the integration? The second question is on polyamides and the €100 million of restructuring you have just announced. Can you tell us a little bit more? Does that include capacity rationalisation either on the upstream or on Engineering Plastics? The last question is really to confirm that what we should be thinking about in terms of self-help for the next few years is 230 million from the synergies, plus 100 million for polyamides, plus soda ash, and you just said that you were writing up the assets to the tune of €150 million. So just to clarify that self-help for the next two years.

Jean-Pierre Clamadieu

So the last one is not the easiest one but let's start in sequence. Will Indupa impact our ability to delivery synergies? No. I think this won't impact materially our objective and I feel very comfortable with or without Indupa, and probably without Indupa, to achieve the €400 million that I've mentioned by the end of 2014. So, on that one, a very clear answer.

Polyamide is a combination of activities and decisions. Capacity reduction per se, no. Capacity optimisation, optimisation of our industrial footprint, supply chain, yes. Improvement in the performance of the plants, yes. Basic fixed cost reduction, yes. Revisiting our business model in Engineering Plastics, yes probably, clarifying what is commodity, what is speciality and, within Engineering Plastics, we have, in fact, different business models and making sure that we have the right level of resources to address the specialty business and we will continue to develop aggressive innovation for the part of the Engineering Plastics market which requires innovation. There are other parts where differentiation is minimal and where it is very important that we have the right cost structure. So this is a combination of these measures which will allow us to achieve a €100 million improvement.

Regarding the self-help, it's not a simple concept. So, when you say self-help, it's not so easy to define. I would, first, before adding up a lot of things, which will give you a feeling that everything is nice and simple, if I can give some colour on 2013. I expect to see €10 million of cost reduction coming from synergies. On top of that, I would probably say a few tens of millions of extra savings coming from what you probably call self-help measures, which means projects that we can develop and deliver whatever the market conditions. So that gives you a feeling of where we are. Yes, I think every year we'll have a number of self-help projects, which means projects that can be delivered with whatever the market conditions which will come on top of the synergies that we are presenting in the presentation. Now it is of use but part of that also comes under what we call the operational excellence headline and will contribute to achieve our €3 billion target. I hope this helps?

Investor E

Yes, it does. Just maybe one question on M&A, on that slide where you talk about the different levels for the improvement of performance. You have talked a lot about disposals. You haven't really talked about acquisitions. Should we assume that it is still your plan to do some bolt-on acquisitions? That will be bigger than Sunshield Chemicals, I guess?

Jean-Pierre Clamadieu

No, it's a fair comment. In fact, this slide was really focused on businesses where we see challenges and there are probably not a lot of acquisitions to do. Now, yes, we are looking today at add-on acquisitions which could allow us to speed up our core plan in our growth engines business, and we have more resources than we need to do that. The challenge is to find the right asset. You have seen a couple of small acquisitions in India. They are small, bite-sized, but I think very important because they help us build a more significant base in a country which probably has a lot of potential midterm and we are continuing in each of our growth businesses to develop a pipe of opportunities. Now the question is to find the right one and to be able to deliver on them. I also commented that larger, more transformational transactions are not on the top of my agenda for 2013. Really the focus is to make sure we deliver on our strategy, make sure that we deal with some of the challenges we are facing in some our businesses and, again, as far as growth is concerned, if we sign a good add-on acquisition which could allow us to speed up growth, we will execute them.

Investor E

Thank you.

Jean-Pierre Clamadieu

Next question?

Investor F

Thank you for taking my questions. First, on soda ash, could you update us how the price negotiations were for 2013 and how the situation is in caustic soda? I think those have contributed nicely to the strong performance in the Essential Chemicals. Maybe a little bit tricky but is it possible to give also a number for this pricing power which you have elaborated in the REBITDA bridge, excluding the special effect on rare earth and the guar gum effect? Last, but not least, could you update what you foresee for the CO₂ credit income in 2013 and 2014? Thank you.

Jean-Pierre Clamadieu

Starting maybe with carbon credit, we expect a reduction in the impact of what carbon credit brings to our REBITDA of €0 million in 2013 versus 2012. There are no surprises that carbon credits are coming to an end. There was still, I guess, a bit of a guessing game on your side on what this, particularly speaking, would mean. So the reduction of quantities plus the fact that the price of carbon credit today is close to zero. Hopefully we have, thankfully I should say, we have an edge at a much higher price. So, taking all of that into account, I would suggest we expect €0 million negative impact for the year of 2013.

Soda ash, I would say in the markets where we operate, North America and Europe, I think pricing situation is satisfactory. Obviously, I can't comment on the detail of the current renegotiation we have just closed regarding pricing but I would say, overall, satisfactory. The challenge today is on the export market. We have seen a situation in China on this product which was not ideal. Hopefully, with China going back on a stronger growth situation or scenario, this should help but the challenge for us is more when we export product out of our two home markets. Overall, soda ash is demonstrating its resilience and, if you look back at 2012 results, I think they were quite good, although Essential Chemicals is not just about soda ash. Peroxide also played its role, bicarbonate too. You had another question?

Bernard de Laguiche

Caustic soda prices are flat.

Investor F

Thanks.

Jean-Pierre Clamadieu

You want to comment on the pricing power question? Again, a very, very detailed question.

Bernard de Laguiche

I think, on the pricing power, maybe what I can say is that the guar effect that you have year to year and that was very positive in 2012 and that you will not find anymore in 2013 had an impact of €100 million. That is not, by the way, in the pricing power figure of €35 million we showed for 2012.

Now, will we guide on pricing power for next year? For the time being, no, we would not want to do that.

Jean-Pierre Clamadieu

I think we have a clear challenge and it is something that is becoming very clear. The type of REBITDA bridge that we are presenting for the first time to the market has been used internally since the beginning of 2013 for each of our businesses and we are focusing very

much on our pricing power in each of our activities and the objective, obviously, in a very dynamic environment, is to make sure that we generate a positive pricing power. Giving you a guidance today for pricing power at corporate level is really difficult but I think it is a good way for you, looking at this bridge, to see how focused we are on pricing and how focused we are on defending our positions, whatever the raw material and energy situation scenario is.

Investor F

Thank you.

Jean-Pierre Clamadiou

Next question?

Investor G

Just a couple of questions. I don't know if you are able to say or, at least, maybe give indication of the sort of level of REBITDA from the last two announcements, the new expansions, the sort of typical run rate. Is it high double digit REBITDA? Then I imagine that comes out of the overall organic growth target you have got, moving then towards the three billion. Secondly, just with Indupa then moving out of the portfolio and you sticking to the overall three billion target for 2016, essentially, if you could just highlight in your thoughts maybe where you're making up the difference because, in some respects, you have overall probably then increased the target really because that asset's moving out. Thank you.

Jean-Pierre Clamadiou

On the second one, I think Indupa is not material. The object of Indupa is not material enough for us to come and tell you that we are adjusting our three million target. If I was doing that, you would probably laugh a little bit at me. So, looking at what we have to do to achieve our three million objective, I think we will find room to compensate for Indupa leaving the portfolio. It is very difficult for me, on your first question, to comment on what REBITDA will generate in this plan but, if you look at... It's true that you don't have a view on silica specifically but it is really a high margin business and a business in which we are seeing a very, very strong dynamic. So, clearly, this new plant in Poland will contribute to improve the overall profitability of the business, which is in a very, very good part. Same comment on guar derivatives. I remind you, and it's very important for you to understand that, that we had an exceptional situation in guar but mostly native guar last year and mostly in our HiChem JV which is consolidated in a specific line in our P&L and we think that last year we had probably an exceptional of around €100 million linked to the specific guar situation. This plant is 100% a Solvay plant. It's within our business. It is a plant in which we transform native guar into guar derivatives and this is a high margin business where we serve mostly the oil and gas industry. We have a very strong increase in demand and we are very confident that we will be able to fill up these assets very quickly. We are very confident that we took advantage of the guar crisis of last year to strengthen our relationship with our key customers in terms of contractual commitment and we are very optimistic regarding the fact that this new plant will play a role in the growth of Novacare and, yes, both our examples of what we call organic growth.

Investor G

Okay, thank you very much.

Jean-Pierre Clamadiou

Next question on the call?

Investor H

Yes, good morning, Most of mine have been answered. I suppose I just had one further one to extent on Investor E's question on cost savings. For the three billion and REBITDA target by 2016, what do you have implied for cost savings to get to three billion target i.e. how much is internal? You talk about more coming in 2015 and beyond. Then, I suppose, if you look at the business today and you can see, clearly, commodity parts of this business, clearly specialty parts of this business, how do you envisage that changing and what proportion of earnings as we get towards that three billion target in 2016 will be coming from specialty, as opposed to commodity, earnings? Thank you.

Jean-Pierre Clamadieu

Well, as far as cost reductions are concerned, we are committing to €400 million that we have communicated last year. We are telling you that we expect them to be fully delivered by the end of 2014, which means full impact in 2015. We are developing a lot of activities on top of that and I don't want to quantify them. I told you that, for 2013, it is probably a few tens of millions of Euros coming on top of a one-ten improvement in fixed cost. If I look at the overall 2016 picture, we have three significant levels contributing to that - organic growth, innovation and efficiencies. When I say efficiencies, it is fixed costs but also activities which allow us to improve the overall performance of the company, and we have communicated in the past but the last part should operate at around €400 million. I would probably say today that we should wait until our next capital market there to go a little bit more into the details of this but, clearly, today a strong dynamic. The fact that we have delivered more than expected in 2012, the fact that we are moving our overall target completion by one year, all of that shows that we are still very comfortable that, yes, we have created the conditions and the dynamic which would allow us to deliver. And I have talked a lot about fixed costs, better opportunities but we are also obviously working on our fixed cost structure and we are about to launch another step of fixed cost improvement which is important, which is linked to our shared service organisation. This is something that we have kept for 2013 because we wanted to have done all the other integration activities regarding corporate headquarter and support function but, for shared services, we are starting or will be starting in the next few weeks a very comprehensive plan to allow us to have an optimised shared service organisation, supporting our businesses, and being a lever of better efficiency for the whole organisation.

Regarding your last question on how the portfolio will move and it is true that a number of information we are sharing with you today shows that, yes, the portfolio is moving and I mentioned myself reshaping the portfolio as being a key priority. I think it is a little bit too soon to give you a picture of how the portfolio will look. It is of use that if growth engines today represent almost 50% of our REBITDA, as our growth engine, this will increase and we will see exactly what we want to do. I do believe that the sustainable cash generators have also some potential, in a different way, to contribute to the overall performance of the group. I know we have a couple of issues in which we are focusing our efforts – PVC, Polyamides, to some extent, although it's much smaller, Special Chemicals, but there too we are seeing some results of these actions. Once again, when you look at the, if I use the new structure by segments, what we call Functional Polymers, which include PVC and Polyamides, represented in 2012 slightly more than 10% of the overall REBITDA generation. So, yes, Solvay is changing. Solvay is transforming its portfolio in the direction of specialty high growth product and I think we are starting to see some clear signs of this transformation.

Investor H

Thank you very much.

Jean-Pierre Clamadieu

Maybe a last question on the call?

Investor I

Good morning, gentlemen. Thank you very much for taking my question. My question is regarding capacity additions and if we are expecting to see any sales in uplift in 2013/2014 from capacity additions we made in previous years. Thank you.

Jean-Pierre Clamadieu

Yes, I mean the answer is yes. We are regularly adding capacity and, if I look back at some of the announcements we have made last year or the completion of projects of last year, epichlorohydrin in Thailand, H₂O₂ in Thailand, PEEK in India, other Specialty Polymers in Tavaux, all of this will impact ourselves. So the ramp-up of these plants is obviously dependent on what's happening in the various markets we serve. In some cases it's going very quickly and ahead of our plans. In other cases it's a little bit more challenging but this is part of the equation that will allow us to deliver our 2013 REBITDA.

Investor I

Thank you very much.

Jean-Pierre Clamadieu

Thank you. I think we should probably bring this call to a conclusion. Maybe just a few words to conclude... Maybe in 2013, if I can remind you how we see the situation. Through the call I have mentioned that we had two exceptional elements which we will weight on our REBITDA, if I compare 2013 and 2012. One is with CER, €90 million of negative impact. The other one is with guar, €100 million of negative impact. Facing that, we have €110 million of new savings coming online. As mentioned that, on top of that, we are expecting another few tens of millions of what I would probably call a self-help projects, projects that we can deliver on and which would impact positively our EBITDA, whatever the market condition is, and the rest depends on market conditions. We hope to be able to come back with you in a few months when we will present our Q1 results with a guidance for the whole of 2013.

I mentioned that the start of the year is challenging and this is something we have to realise, mainly due to the situation in Europe, which is still characterised by a high level of uncertainties that we see in our discussions with our customers. Some of our markets have rebounded very nicely in the first few weeks of 2013. In other markets, we feel there is a level of caution. This being said, the company is very much focused on its transformation, portfolio reshaping, making sure that we come up with the right answer to the challenges we are facing and, medium term, delivering on our 2016 REBITDA and, clearly, there is a high level of confidence today within the management team but this is a challenging but achievable objective and we are working very hard to deliver this. Thank you very much for your time and we will talk to you again on our Q1 results presentation in May. Thank you very much. Bye-bye.

Operator

Ladies and gentlemen, you may now disconnect. Thank you.