

# Corporate Participants

**Jean-Pierre Clamadiou**

*SOLVAY – CEO*

**Bernard de Laguiche**

*SOLVAY - CFO*

## Presentation

### Operator

Thank you for standing by and welcome to the Solvay conference call. At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session, at which time, if you wish to ask a question, you will need to press \* and then 1 on your telephone keypad. I must also advise you that this conference is being recorded today, Tuesday the 7<sup>th</sup> of May 2013 at 9am CET. I would now like to hand the conference over to your speaker today, Mr Jean-Pierre Clamadiou, please go ahead Sir.

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### Jean-Pierre Clamadiou

Thanks very much. Thanks everyone for joining us for this unexpected conf call, but we felt the news we are publishing this morning were worth direct discussion with you. I'm in Brussels with Bernard de Laguiche, our CFO, and we will share the presentation. It's available on our website, the presentation, we are not planning to follow it, in fact we make some key comments, Bernard and myself, and we will open for Q&A. We might refer to some of the slides for convenience, but I think it's, the presentation itself, is very clear and straightforward.

I think the headline really today is the fact that Solvay accelerated its transformation. A year ago, during our capital market day, we've shared with you our view regarding the strategy of the Group, and since that, we've been moving forward in implementing the strategy. Today we are announcing what I think is really a key step, a very significant milestone, which leads to a better business profile and reduced cyclicity for Solvay.

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So the news is the fact that we've signed, yesterday, a letter of intent with INEOS to create the world second PVC player in the form of a 50/50 JV. For us, this is a high quality industrial project, value creating for the various stakeholders, which will secure the chlorovinyls activities in the very challenging environment in Europe. We expect, with this project, to allow for better and more reliable supply to our customers in this part of the world. We think, when we look at the assets that we are bringing into the JV with INEOS and ourselves, that this combination is very strong, due to the quality of the assets, eight new state-of-the-art electrolysis plants, when I say new I should say upgraded to the latest and best technologies, five coming from the Solvay side, three coming from INEOS side. A very good geographical footprint, and clearly, high quality teams managing these assets on both sides.

The objective that this JV will have is to improve its competitiveness in an environment which is, once again, a challenging one, challenging today, due to the fact that the market for PVC has shown significant reduction in volume in Europe in the last few years. Challenging because we see competition coming, especially from North American producers, which are benefitting from very privileged access to energy and raw material.

So the JV, once it will be formed, will work on improving its competitiveness. We don't expect plant closure, this is not part of the project, not part of the deal, but we think that there will be significant synergies coming from raw material and energy purchases, and indeed, this JV will be a very large purchaser of electricity and raw materials in the European market.

We think there will be a lot of opportunities to improve and optimise logistics and transport costs. We expect to be in a position to streamline product mix, and increase streamlining of plants, leading to a better cost position. Quality and processes, where the competencies of both teams will allow us there to generate significant amounts of synergies, and obviously on the marketing and sales force, I would say, more generally speaking, there will be some cost optimisation.

In a nutshell, the JV, if I look at proforma 2012 number, we had sales of EUR 4.3 billion, REBITDA of EUR 257 million, it will employ 5,650 people and it will have 17 plants spread over nine European countries, and in the presentation, you have a slide which presents the geographical footprint. Once again, out of these plants, eight electrolysis units using membrane technology, which as you know is the state of the art technology.

Parameters of the JV, what parties will be bringing? very simply, Solvay and INEOS will bring the entire chlorovinyls chain in Europe, as you see, this is a European JV, which is made of electrolysis, so I was referring to that, chlorine derivatives, caustic soda and PVC.

With few cave-out, few exclusions, we won't bring our RUSvinyls project into the JV, because it is currently at the construction stage and we think it was creating more complications than anything else to bring it into the JV, so we will continue with Sibur to build this very attractive project in an attractive environment, as far as access to raw general material is concerned. We will carve out also our VDC, PVDC unit on the Tavaux because this is the upstream of our specialty polymer business, and clearly this is part of the core business of SOLVAY and we want to keep control of our access to Key raw materials.

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On the INEOS side, the only meaningful exclusion to the JV are their 50% equity position in its Rafnes craker which will be excluded, which won't be part of this JV. So with that, I will pass the word to Bernard, who will comment on the financial element of this intended transaction.

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**Bernard de Laguiche**

Thank you Jean-Pierre. The JV is a 50/50 joint venture with the contribution of our vinyls and chlorine assets, and also liabilities from both parties, pensions, environmental, and debt.

Beyond those assets, there is no other cash injection, assets and liabilities. The transaction foresees a put and a call structure, for the transfer of Solvay's 50% stake. So there will be a put by Solvay that can be exercised between the third and the sixth anniversary after closing, and there is a call for INEOS that can be exercised from the fourth to the sixth year after closing. Both put and call are valued at 5.5x mid cycle EBITDA. There is also an automatic exit clause after the sixth year.

Furthermore, Solvay will be entitled to receive an upfront € 250 million cash payment upon completion of the JV transaction. So these are, Jean-Pierre, the key elements. Of course there are also next steps, anti-trusts, information and consultation with employees and thus closing of the transaction, which we expect to be around year end.

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**Jean-Pierre Clamadieu**

Thanks very much Bernard. As you have seen, there are some significant next steps in front of us, and I'm sure that there will be some questions on how confident we are, but just let me tell you upon that, if we are sharing this information with you today, with our partner INEOS, it's because we are very committed to make this happen, and we think today we have a high level of confidence regarding our ability to close this deal.

So a few concluding comments before moving into the Q&A part. When I look back at what I was sharing with you regarding the strategy of Solvay a year ago, I think we are, with this project, ticking all of the boxes that we've pointed out as being key elements in our decision. This is not the quick and dirty exit of the PVC business, this is a very well planned exit, and it's an exit, as Bernard as mentioned, we have in the agreement regarding the formation of the JV. We have set a very clear course and we will be exiting this JV at the latest, six years after its formation. But it's

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an exit which, in terms of value for our shareholder, is very satisfactory. I think the exit value that Bernard mentioned, the fact that we are receiving an upfront payment, all of this show that we've been able, in this discussion, to negotiate and to end-up with a result, which from a shareholder standpoint, is a very satisfactory one in an environment and in a market like PVC.

Second, we are giving us the time for a very orderly movement. We think that in the three years in which we will be minimum part of this JV, we will have the ability to make sure that the integration goes well. We will have the ability to start generating synergies, and the put and call mechanism will allow us to benefit from the synergies being created by this JV.

From the Solvay standpoint, if I look at how this will impact our financial profile, quite significant, in terms of quality of the portfolio first. Cycle sensitive activities will represent, once the JV is in place, less than 4% of our consolidated REBITDA, so a very minimal part, and this is our Polyamide business, where we have not announced so long ago, a quite significant and aggressive REBITDA improvement plan. As you know, we have the objective to improve our REBITDA by EUR 100 million in polyamide. Second the Group REBITDA margin will improve by 170 basis points, after the execution of the transaction. In terms of return on capital, we will see also a significant improvement to the CFROI, and if I look at the geographical spread of the company, after this transaction, Solvay's sales will be evenly spread between Europe, Asia and the Americas. Around 33% for each of these regions, which in our view is a very significant step forward in the realization of our strategy. So with that, I think we are ready to take questions.

## Question and Answer

### **Analyst A**

Good morning, Just what I'd like to ask you about, I mean, INEOS have this arrangement now with Range Resources for importing ethane across from the US and probably significantly reducing feedstock costs. I mean, will the JV benefit from this? In other words, this 257 million EBITDA number, the pro forma number, could that now then experience much lower feedstock costs and higher profitability once that's all finalised? Thank you.

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**Jean-Pierre Clamadieu**

Yes, the short answer is yes. INEOS obviously has, in various forms, access to the raw materials which are needed for to produce PVC. INEOS has made public that they have some project to import raw materials coming from North America to benefit from lower feedstock costs and clearly, the JV will benefit from that. We expect, in terms of REBITDA, significant improvement linked to this types of feedstock or energy improvements, but also, the various synergies that we are putting in place. So in our view today, this REBITDA should improve, and the put and call mechanism was set in a way which will give us the ability to benefit from these improvements.

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**Analyst A**

Thank you.

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**Analyst B**

Good morning. I have three questions please. As far as the invested capital, relating to your part of the PVC joint venture, can you try and give us some numbers around that, so that we can make some estimations on the likely changes to returns on invested capital?

Question number two, you've talked about synergies, any chance you can give us some broad guidance on scale or scope of those synergies. Just my final question would be around your 2016 target for EBITDA, you've always said that if you have that target, it's on a constant perimeter basis, how in any way does the potential exit of PVC impact that, would you be looking to replace EBITDA, for example, in order to get there, thank you.

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**Jean-Pierre Clamadieu**

Taking the questions in reverse order, regarding our 2016 target, as you said, it's at constant perimeter, so it means that we will have to restate this target, taking into account this quite significant change in perimeter. Obviously, it's too early today to give you a view of what this

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would mean. From the strategic standpoint, clearly this transaction opens up opportunities for us to continue the transformation of the portfolio, but again, a little bit too early to give you much more details on that.

But this is part of, this is clearly part of a plan and this plan is really to focus the companies on growth businesses, and we have already a significant part of the portfolio which is made of growth businesses, and this is clearly an opportunity to continue with transformation.

Synergies, it is still a bit too early to give you detailed numbers on what could be the synergies within the JV. We have started with INEOS to put together some plans, but we want a little bit more time before sharing this with the market. And the third question, Bernard, can you help our friend understand better what will be the impact.

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**Bernard de Laguiche**

So we don't give the precise figures, what I can give you as an indication is in terms of total invested capital. We are in the high single digit percentage of total group invested capital. Our working capital is in line, the percentage of sales, with Group average, and our D&A and the CAPEX are more or less in line for that activity, and they are also high single digits of the total group CAPEX.

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**Analyst B**

That's very helpful, thanks guys.

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**Analyst C**

A couple of questions on the rest of your PVC business. You split out RusVinyl from this transaction, can you maybe indicate what's your ambitions with the RusVinyl's joint venture, will you continue with that, or given the better geographic position of that JV, or will you also looking to exit that part of the PVC business.

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**Jean-Pierre Clamadieu**

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Well I think on RusVinyl, the objective is very simple, we need to complete the plant, we need to start it up in the best possible conditions, and then we look at the situation and at the various opportunities that we will have in front of us. As I mentioned, I think it will be a very efficient plant in terms of technology benefitting from very good access to raw material and energy, and serving a market which is a growing market, so a lot of positives. I think our focus for the next eighteen months is really to make sure that we can complete and start up the plant in the best possible conditions, and this will open up I think, a lot of avenues in terms of strategy.

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### **Analyst C**

Okay, and then maybe a follow up question on, I think you said that there will be no major restructuring foreseen at the combined Solvay/INEOS PVC business, but there was still some assets in electrolysis that needs to be converted into membrane technology. I assume you have time until the end of the decade to do that, so maybe it's not anymore on Solvay's watch. But will there be any other kind of restructuring, any initiatives you were looking at, and could you, if that's the case, could you indicate whether there are any one off costs to be expected in the near future?

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### **Jean-Pierre Clamadieu**

I think what we are seeing is that no site closure is part of this project, on top of what INEOS has already announced a few months ago. Yes, I mean some, I mentioned that there will be eight state of the art electrolysis plants in this JV, there will be a small number of plants which have not yet been converted to membrane and I think it will be an important question for the JV to make the decision on whether they will make this conversion or not. But again, it will be really up to the JV to make this decision in due time.

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### **Analyst D**

Good morning. I've got two questions. Just to understand with the use of the 250 million cash, do I understand this properly that this is really money that SOLVAY can spend for other activities,

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acquisitions, or is this cash that you are forced to trap in the joint venture as eventual higher CAPEX or for cash needs of the business? Is the cash really freely available to you?

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***Jean-Pierre Clamadiou***

It is very simple. I mean it's cash that we will receive and that will come into our bank account, and we will do what we want with this cash. So, it's cash that we receive, it's an upfront payment. The mechanism is such that there is a guaranteed exit at year seven, beginning of year seven, and there we are receiving an upfront payment which is linked to this exit mechanism.

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**Analyst D**

Thank you. The second question is on the functional polymers business polyamide and fibre intermediates. They're going to be a bit lonely in there now. What is going to happen reporting wise? Are you folding that business back into the other three divisions, or are you going to report that separately but just with half the size?

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***Jean-Pierre Clamadiou***

Yes, to say that I have not given a lot of thought to this question. My good feeling is that we will probably continue with functional polyamide as it is, but keep that as just a comment on which I will probably need to further reflect. But I think we wanted to give you visibility on this part of the portfolio. I think this will continue. I think it will be necessary to allow you to follow how things develop there.

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**Analyst E**

Good morning. I've got two questions, one on the regulatory concerns. Have you been in touch with the antitrust authorities in Europe given the high level of market share that the proposed joint venture will have, and also against the background of the issues that Chem one is facing, and potential insolvency here of another important competitor. So some thoughts and comments on this would be helpful, and then secondly on the financial strength of the joint venture partner, in 2012 Kerling didn't even generate enough operating cash flow to pay their net interest payable.

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So, can you share your thoughts on the financial strength of the partner in this joint venture and the risks arising from that? Thank you.

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***Jean-Pierre Clamadieu***

On the first question, we have got already; we started the process with the EC teams. We are working currently on the pre-notification, and we have made obviously before moving forward, and we are very confident that we will be able to have this deal approved. This being said, I'm not in a position to guarantee that this will be the outcome. The Commission will make its decision, but if we are making this deal public today, it's really after a lot of, after having a lot of work on how we can make this deal acceptable by European authorities.

Regarding the JV, you know very well what Ineos model is, I would say balance sheet or use of debts, which is a bit different from SOLVAY. So yes, Kerling has a very high level of debt. We won't be contributing that to the JV, which means that right after closing, the JV will be a leveraged company, but a company which will operate within much more reduced than it is today, and which will have, in our view, a balance sheet which will allow it to operate short, medium and long term.

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**Analyst E**

All right, thanks.

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**Analyst F**

Good morning, Just again on, you said eight sites already converted, a small number of plants have not yet been converted from the old mercury to the new membrane technology. Can you give us a kind of feeling what the CAPEX assumption will be then for this joint venture for the next years? Then, just a clarification question, maybe I have missed it, but when the deal is closed, will there be any book gain or impairment from this deal?

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**Bernard de Laguiche**

So first on the year CAPEX, the recurring CAPEX on our Chlorovinyls activity is in line with the D&A. You can expect the joint venture to have a very rigorous financial management and CAPEX management. So it will be held to what is strictly necessary. Now on the impairment, I think we are not expecting an impairment on assets because of the creation of the JV. Of course the accounting implications have still to be analysed in detail, but today we do not see any need for impairment. On the contrary I would say.

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**Analyst G**

Yes, good morning, two questions if I can? The first one is the liabilities that you will be moving to the new co, so I understand there's no debt but can you quantify the non-debt liability that you will be transferring, so pensions and other liabilities? The second question, could you give us an update on the Indupa transfer or disposal process? Thank you.

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**Jean-Pierre Clamadiou**

On the second question, the process with Indupa is moving. We are not yet at a point where we could comment on the outcome, but clearly it will be our next priority with the conclusion of this JV. So you should probably expect some news in the year, in the next few months on Indupa. Liabilities, Bernard, what can we share?

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**Bernard de Laguiche**

Also on liabilities I would not like to be too detailed at this stage. What I can say is it is slightly more than a couple of hundreds of millions of Euros.

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**Jean-Pierre Clamadiou**

And mostly pension and some environmental liabilities.

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**Analyst H**

Just one question, on the regulatory side, if you do have to close or sell an asset or site rather because of antitrust issues, could you share with us what kind of scenarios, if you have worked out that, if you can share with us? I mean, are you concerned that if you have to sell a site it would be difficult to find a buyer? That's the first question, and the second question is given that you are going to exit the business eventually, is it you or Ineos who is going to run or who is going to have sort of the final say on the JV, or from a management point of view it's basically also 50/50?

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***Jean-Pierre Clamadiou***

On the first one, I don't want to elaborate. Obviously we have prepared ourselves for various scenarios as far as the regulatory approval is concerned, but for obvious reasons I don't want to lay out the scenarios in front of you. We will have to run the process with the EC before. On the second point the answer is very clear – up until we exercise our put and Ineos its call it will be a 50/50 JV balance governance rights, and we will play clearly our part, and INEOS expects that. So for the next year, we will manage the JV as a 50/50, knowing what will be the end game.

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**Analyst H**

And finally, when do you expect an approval from the EC? I mean, is it also by the year end?

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***Jean-Pierre Clamadiou***

I mean, if we say that we expect to close by year end, it means that would receive approval in the meantime. Again, we are not in full control of this process. We have just prepared ourselves as best as we could.

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**Analyst H**

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Okay, thank you.

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**Analyst I**

Oh sorry, my questions have been answered, thank you.

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**Analyst J**

Hi, most of my questions have also been answered, but in terms of how you're going to report the JV, is it going to be just equity income from affiliates going forward? Thanks.

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**Bernard de Laguiche**

So, the JV will be accounted as we do for all of our JVs, through equity, meaning the net result or our share in the net result will flow into the PNL as the EBITDA [unclear] level. That's once the JV is operating. Before that, there will be a transition period during which we will have, according to IFRS, we could have to account for it as assets held for sale, and that we will do as soon as necessary from an IFRS point of view once we define precisely the parameter of the JV.

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**Analyst J**

Thanks.

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**Analyst K**

One question on the share you have in the joint venture. What you bring in is the SOLVAY joint venture where you have 75%. Is your participation, SOLVAY participation in the joint venture then 37.5%, or how is that? Secondly, a clarification question, you said that the assets are in percentage line comparable to what you have as sales on group level. I guess that, that is the book value if you take the gross value which you also calculate your CFROI on, is that substantially higher given the high capital intensity of the business? These are my two questions.

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***Jean-Pierre Clamadiou***

On the first question, in fact, SOLVIN, if I understood correctly, SOLVIN today is a 75%, SOLVAY 25% BASF structure. Obviously BASF has been informed in great details about this negotiation. They are supporting the project. Now we need to negotiate with them the details of the new structure of the business knowing that what we bring on our side is not just SOLVIN, we bring also all the upstream, all the Chlorovinyls activities. So BASF broadly in line, but negotiations to be held to see what will be their position once the project is completed. On the second question Bernard?

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**Bernard de Laguiche**

So on the second question, you are right. Our chlorovinyls business is more capital intensive on a CFROI calculation basis than our average businesses. So we would, by constituting the joint venture improve the CFROI of what remains in the SOLVAY group.

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**Analyst L**

My questions have already been answered, thank you very much.

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**Analyst M**

Two very small questions. What might be at first look the starting equity of the JV? Secondly, you already partly answered the question, as there are other assets, than SOLVIN in the contribution of SOLVAY, and as they are minorities in SOLVIN, what might be in the exit price the share of SOLVAY in this exit price?

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***Jean-Pierre Clamadiou***

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Well, on the second one it's a little bit complex to answer. Yes, we are bringing two parts. One is SOLVIN and the other one is all the upstream. BASF position in the end game is something which is still to be negotiated. So obviously we represent the vast majority, the vast majority of the value which is both on our side from the JV belongs to SOLVAY, but giving you a more specific number, it will be a little bit premature.

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**Analyst M**

20% would not affect?

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**Jean-Pierre Clamadieu**

When you say 20%, what do you mean?

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**Analyst M**

I mean of the combined contribution, the share of BASF in the combined contribution.

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**Jean-Pierre Clamadieu**

Again, I don't want to go into these types of speculation, but it's probably less than that. It's 25% of a piece which is probably around half of the total, although again, evaluation is to be discussed. No, I mean the BASF piece is a rather small one in the total assets which is brought by SOLVAY to the JV. Bernard, the first part, equity?

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**Bernard de Laguiche**

On the equity of the JV we still have to see and look at the figures in the big detail. It's too early to share that with you just now.

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**Jean-Pierre Clamadieu**

One last question. I would say we are not short of questions. We are a little bit short of answers. I think we have covered a lot of points, so maybe one last question.

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**Analyst N**

Yes, good morning again. Apologies if somebody has already asked, but can you give us a definition of mid-cycle EBITDA? Do you have a formula to define it?

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**Bernard de Laguiche**

Mid-cycle EBITDA is the average EBITDA over a cycle, and this has been defined in the agreement. I'm not sure we can share that with you at this stage, but it is an EBITDA representing the performance of the joint venture over a multi-year period, and including synergies, obviously.

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**Analyst N**

Okay, so if we take the EBITDA performance from now until let's say 2017, it's not a bad guess. So the average of between now and 2017 is not a bad guess?

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**Bernard de Laguiche**

I don't want to be too precise, but a multi-year period including synergies would be in line with mid-cycle EBITDA.

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**Analyst N**

Okay, thank you.

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***Jean-Pierre Clamadieu***

So, I think it's time to conclude this call. Thank you very much for your participation and your questions you brought to us. Again in a nutshell, for us it's really a very meaningful announcement, the one we are making today. It's clearly a sign that we are very committed today to continue the transformation of the company, and very much in line with what we've said a year ago.

Again, this is for us a very effective way to exit a business which is very challenging and probably does not fit so well with our mid-term strategy. We are doing it in a very responsible way, vis-à-vis our shareholders, extracting what I think is quite significant value, but also a very responsible way to do this vis-à-vis our team as we are offering to our businesses, to our PVC businesses, a very good position within this JV which will be very strong global players. So, thank you very much, and I guess we will talk to some of you a week from now when we will present our Q1 results. Thank you very much, bye, bye.

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