

**Solvay 3Q 2011 Results**  
**Thursday, 27<sup>th</sup> October 2011**  
**14:00 Hrs UK time**  
Chaired by Bernard de Laguiche

**Bernard de Laguiche**

Good afternoon, ladies and gentlemen and welcome to this conference call on Solvay's third quarter 2011 results. I am Bernard de Laguiche, the CFO. I'm joined here by my colleagues Jacques van Rijckevorsel, Group General Manager of the Plastics Sector, Vincent De Cuyper, Group General Manager of the Chemicals Sector, and Gilles Auffret, Group General Manager of the Rhodia Sector. I will briefly comment our excellent third quarter results and continue with some details on the financials. After that we are happy to take your questions.

However, I would like to start by reminding you about our two main priorities after the completion of our successful bid for Rhodia. There is, first of all, the integration process. The integration office composed of Christian Jourquin, CEO, Jean-Pierre Clamadiou, Deputy CEO, and myself meet once every two weeks to manage this important process. Working groups were set up per function for a number of functions like legal, finance, HR and communications. The integration will go fast. We are committed to progressively integrate both organisations and deliver at least the announced synergies of EUR 250 million cost savings. Secondly, we continue to roll out the Horizon project within Solvay and move for growth within Rhodia. The Horizon reorganization targets EUR 120 million recurring cost savings by the end of next year. This is well underway and we are on track. The synergies of the integration with Rhodia come in addition to this. Move for Growth, the reorganization project of Rhodia targets to realize a recurring EBITDA, excluding contribution from certified emission reductions, of EUR 1 billion by 2013/2015, in line with this year's target of EUR 1 billion EBITDA, including certified emission reductions. Again, the key of both reorganization programs is sustainable growth.

Let me now turn to our third quarter results, which at this stage do not consolidate Rhodia's results for the period. Sales at Solvay grew by 5% to EUR 1,632 billion and recurring EBITDA rose 13.13% to EUR 264 million on the back of volume growth and favourable pricing that compensated for the higher energy costs. In the Plastics Sector sales rose by 5% to EUR920 million and we achieved a 13% higher REBITDA of EUR153 million. Specialty Polymers continue to benefit from strong demand since more than one year. The 3% sales improvement was limited by negative currency changes and was merely based on sales price increases. This, together with continue mix improvements explains the REBITDA growth of 29% to EUR 93 million. In Specialty Polymers we are very focused on our R&D efforts. The probability weighted value of the R&D pipeline of some 1,300 active projects represents a potential of additional sales of approximately EUR 250 million in three years. In Vinyls, sales improved by 6% thanks to price increases in a context of high raw materials. REBITDA declined by 5% to EUR 60 million linked to some slowdown of demand and lower spreads.

In the Chemicals Sector sales rose by 6% to EUR 712 million and we achieved a 1% higher REBITDA of EUR 118 million. Sales growth was almost evenly spread between Special Chemicals and Essential Chemicals. In Essential Chemicals sales increased by 6% due to continue good demand of soda ash, caustic soda and hydrogen peroxides. We experienced a slowdown in demand for epichlorohydrin REBITDA continued to grow plus 10% despite higher energy costs which were compensated by higher sales prices and volumes. Sales of Special Chemicals rose by 4% thanks to volume growth of fluorinated chemicals, though sales price decreased due to lower demand from the electronic industry and higher competition in the cooling applications. As a consequence REBITDA dropped by 36% to EUR 15 million.

As is indicated in our results report, we consolidated Rhodia only in the balance sheet as at the end of September. Rhodia's results will be part of our consolidated income statement from the fourth quarter of this year onwards. Here too we are committed to a tight management of the operation with a strong focus on cash generation. For the third quarter 2011 I only want to mention the performance highlights. Rhodia sales rose by 23% to EUR 1,670 billion while REBITDA improved by 16% to EUR 273 million. The segment New Business Development reports REBITDA of minus EUR 8 million, which represents mainly research costs using leading edge technologies which go beyond the technologies of our existing businesses. In the segment Corporate and Business Support we report REBITDA results mainly from the timing of positive revaluation regarding reinsurance of risks, most of which will have disappeared in our full year numbers. Across the Group we are working on the tight management of our businesses with a strong focus on cash generation, tight management of CAPEX and working capital in order to match evolving demand.

Regarding the financials I want to mention the following six points.

First, excluding Rhodia Solvay's industrial working capital from continuing operations increased to EUR 1.19 billion compared to EUR 1.04 billion at the end of Q3 2010. It represents 17.8% of sales which is comparable with the level of the second quarter of this year and to 16.4% last year. Second, CAPEX will be below guidance, and this is true both for Solvay and for Rhodia. Third, charges on net indebtedness amounted to EUR 124 million. Interest income on cash deposits yielded some 0.7%. Fourth, our effective tax rate for the first nine months is 20%. Taking into account recent changes in French law and the relative weight of France, our medium-term tax guidance changes. We expect that our tax rate from 2012 onwards will be somewhat above 30%. Fifth, the impact of the consolidation of Rhodia: we have to use purchasing accounting which recognizes all assets and liabilities at fair value. At the end of Q3 we did this for the liabilities. The assets are to follow in the coming months. Provisional goodwill, i.e. before fair valuation of the assets, amounts to EUR 3,959 million. Importantly, the re-measurement at fair value of the stocks will in Q4 2011 be allocated to non-recurring items. Sixth and final, net income of Q3 does not include the proceeds the result of EUR11.5 million linked to the EU fine cancellation on our soda ash activities.

Let's conclude with our outlook statement for 2011. Solvay Group is attentive to the macroeconomic deterioration and to the need for tight management of its operations. Despite the current softening in some of its markets, Solvay expects, as foreseen, to improve its operating results both in Chemicals and in Plastics in 2011. The previously announced outlook for Rhodia is confirmed, before the accounting impact of purchase price allocation.

Let us now open it up for a Q&A session. Operator, could you give us the first question?

## Questions and Answers

### **Investor 1**

*Yes, good afternoon, everyone. Three questions. First on soda ash. If I'm not mistaken, I understand that you had a force majeure of a couple of weeks in your US operations. Could you indicate what the impact on REBITDA was in this quarter? Secondly, on hydrogen peroxide and caustic soda, we've seen several pulp and paper companies talk about slowing demand, especially in developed regions. Can you tell us what your view is on this end market for Q4 and perhaps also beyond? And then, finally, on Rhodia, is there a significant seasonality in consumer chemicals that we should be aware of, given that EBITDA margin declined by roughly 300 basis points quarter-on-quarter? Thank you.*

### **Bernard de Laguiche**

Okay. So, I will first pass the words to Vincent for soda ash and caustic and then to Gilles for the Rhodia-related question.

### **Vincent De Cuyper**

Yes. First a comment on the force majeure we had in the US in October. So, it was linked to an electrical shutdown in the region which impacted our unit. I don't have the exact figure on the REBITDA impact but basically we had a reduction of our production during two weeks and now everything is back on normal production in this plant. One question then on the paper market. Indeed, I think this is something that we didn't observe in the third quarter but in the last week we confirmed that the paper industry has seen a slowdown of its activity.

So, we confirm what you have seen in the reports of paper companies. This being said, today in the hydrogen peroxide business all our units are running at full capacity. And I would like to remind you that we tend to progressively reduce our exposure to pulp and paper by investing in the hydrogen peroxide for propylene oxide and this is why we started the second unit in Thailand early September and we have now two units representing, I think, more than 40% of our production capacity which are linked to the propylene oxide business and no more to the pulp and paper activities. Gilles?

### **Gilles Auffret**

On consumer chemicals you have one segment in which seasonality has an impact, which is the agro business where we are low in Q3 and Q4 and strong in Q1 and Q2.

### **Investor 1**

*Okay. Thank you.*

### **Bernard de Laguiche**

Next question, please.

**Investor 2**

*Good morning. As a credit analyst I had a quick question regarding your bonds and specifically I'm referencing the legacy Rhodia notes. I was hoping you could comment on your plans for those notes, specifically the six and seven ace notes that mature in 2020. Is it your current plan to leave those bonds outstanding or would you consider tendering for those bonds, given the higher coupon relative to your cheaper cost of financing?*

**Bernard de Laguiche**

It is too early to give you a precise answer on that one. What I can tell you is that the nominal coupon is, of course, relatively high to our cost of financing but we consolidate Rhodia and mark this debt to market so that the economical coupon or the real coupon is, of course, not as high as the one at the time of issuance and it is relatively comparable to financing costs of investment grade.

**Investor 2**

*Thank you very much.*

**Bernard de Laguiche**

Next question, please.

**Investor 3**

*Yes, good afternoon, I've got two questions, actually. The first one is for Gilles on advanced materials and I was just wondering if you could help us to, well, navigate through what's happening in rare earth and how we should be thinking about the next few quarters. We've seen some prices definitely collapsing but still being higher than where they were 12 months ago. So, yes, any guidance on advanced materials would be very helpful. The second question, Bernard, is on the restructuring of the efficiency gains related to Rhodia. You've said at least EUR 250 million. I understand that it's still very early but could you maybe tell us if in the past few weeks you've already been able to identify areas where there is upside to the 250? And maybe the third question is, when do you think you will be able to maybe educate us on the new Solvay in terms of doing an Investor Day? Thank you.*

**Bernard de Laguiche**

So, I will answer your two last questions and then leave the floor to Gilles on rare earth. On the EUR 250 million synergies, we confirm that we will at least reach them. I cannot tell you more. What I can tell you is that we are working head on in plenty of teams across all the company in France, in Belgium and mainly starting with the functions and we are working very hard to deliver all the synergies and the new organization as soon as possible but it is still a little bit early to give you a precise figure, different from the 250 we commit to at least. On the timing concerning the new Solvay, I would say spring would be the right timing, we believe, to show the new Solvay to you and to present it with the bright future we will see for this new Solvay. Gilles, on rare earth...

**Gilles Auffret**

First of all, as you know, the results on Q3 are very strong, exceptionally strong, due to three factors. The first one is a strong supply base, not only in China but in the future with Lynas. Second, we've been able to improve significantly our market share through our strong position, especially in the electronics segment and, as far as the rare earth price material is concerned, we have a delay between the price on the market and the cost we

have. Therefore in the system we have, which is the FIFO system, we will have a strong impact on Q3 and then it will decrease progressively in Q4 and probably at the beginning of next year but remain at the strong level and much more than the level we had before, in 2009 or 2010.

**Investor 3**

*Can I maybe sneak in a follow-up on advanced materials? Gilles, you had volumes between 21% and 26% in Q1, Q2, Q3. How much do you think the market was growing or, in other words, can you quantify the impact from market share gains? Is it fair to assume that the market was at around 10% and the rest is...?*

**Gilles Auffret**

More. It's more mix change than volumes in itself. We focused our sales on high end products and therefore the volume in itself doesn't give the right answer. So, we moved from commodities to specialty high end products and trying to fix or to put in place long-term contracts with selected customers.

**Investor 3**

*Okay. Thank you.*

**Bernard de Laguiche**

Next question, please.

**Investor 4**

*Yes, thank you very much, I've actually got five hopefully not too long questions. Firstly, on the polyamide business within Rhodia you make comment about some... lesser extent some softness in Polyamide and intermediate. I wonder if you could say whether that's because you're only starting to see some weakening in that market or whether the new adipic acid contracts, which were designed to give more stability, are actually showing that benefit, please. Also in Rhodia, you mentioned some exceptional one-offs in the Acetow and Eco services division. I wonder if you could just identify what they are, please, and quantify them.*

*Then in the corporate cost line, I'm afraid I misunderstood or didn't understand your explanation about the absence of corporate costs in the third quarter in terms of some reinsurance issues and what you meant by disappearing in the full year. I wonder if you could perhaps just give us simply, you know, your best guess as to what that number will at the REBITDA line will look like for the full year, please. Then on the Vinyls business, I wonder if you could give us an idea of the monthly dynamics through Q3 in terms of activity and margin and perhaps how it looks in October so far.*

*And, finally, you obviously saw weakness in PVC but the soda ash activity remained pretty healthy into the flat glass market, so similar sort of construction markets. I wonder if you could perhaps draw any conclusions, you know, as to whether you're likely to see any construction-relation weakness in soda ash, please. Thank you.*

**Bernard de Laguiche**

Okay. So, first I pass the word to Gilles on polyamide and Eco services. I will then comment on the corporate sector and then Jacques vinyls and Vincent soda ash.

**Gilles Auffret**

So, to start with Acetow, the one-off, it's a maintenance cost in our plant at Freybourg but it's behind us. Second point, on polyamide softening, I have to just remind you that the first semester has been very strong with an imbalance between supply and demand. We have had ourselves, but also our competitors, some force majeure and therefore the market was very tight. In Q3 the market is rebalanced between supply and demand and we are facing a normal situation. What we noticed at the end of September was a softening in some segments and more precisely on the engineering plastics due probably to some cautious forecast done by our customers and therefore it has an impact on their short-term procurement systems and therefore it's clear that at the end of September we've seen some softness.

**Bernard de Laguiche**

On the corporate costs, the positive result we had in Q3 was linked to the actuarial review of our reinsurance reserves and this gave positive results, the significantly positive results of the order of magnitude that explains the results for Q3. So, it's more or less EUR10 million. Over the year you can expect the EBITDA of our corporate sector to be in line or slightly more negative but I would say in line with previous years. Now, on vinyls, Jacques, if you want to...

**Jacques van Rijckevorsel**

Yes. So, thank you for the question. As you know, we are in three different regions of the world and that is, by the way, also a strong point of our situation in vinyls and, indeed, the dynamics in the three different regions are rather different. In Asia the situation has been very strong during the summer and now we are experiencing some softening, mainly, we believe, due to the stocking along the value chain but the situation in Asia remains healthy. In Europe, there we have traditional market seasonality and we have that again this year. That means that we had maybe some softening during the summer and now, at the end of September and October, we have the same comment as for Asia, I mean softening of the demand, and it is true that on top of that we also have some margin squeeze related to, for instance, a power price increase and ethylene.

But globally the situation is, I would say, according to the seasonality with some softening. In South America, there the demand remains very healthy. Volumes are good and there it is more a matter of squeeze on our margins that is due to the very strong pressure from American producers and also the two strong currencies that we have there, I mean the Brazilian real and the Argentinean pesos, and that gives a pressure on our margins. There is one news item which shows that the situation could be critical. It is that the Brazilian government has reinforced anti-dumping fees for American producers for September. That is the situation.

**Bernard de Laguiche**

There is maybe one point I would like to make before passing the word to Vincent on soda ash. On the corporate sector, as you will note, that we are progressively, and we are now succeeding in, compensating for the lack of contribution to fixed costs from the pharma sector. So, from a corporate point of view we have adapted our structure to compensate for the loss of contribution to fixed cost of pharma. Vincent, soda ash.

**Vincent De Cuyper**

On soda ash, I'd just like to clarify that, in fact, we don't see a weakening of the construction because construction in the last years has not absolutely recovered from the previous crisis, even if the situation in the northern part of Europe was better than the southern part. So, we confirm that situation and we confirm today that the market in soda ash remains extremely good in Europe, in the US and in all export markets. We are running at quite high operating rates and we don't see significant change in the demand. Out of the construction, the automobile business is doing well, particularly in Germany. The construction in the northern part is reasonable. A weakness in the southern part but there is no change from the past quarters. And container businesses as well as detergent and other activities for the soda ash business are doing well. So, all in all we don't see a significant change for the time being on the soda ash which remains quite healthy and on top of that our derivative activities remain also extremely strong, the bicarbonates.

**Investor 4**

*That's very comprehensive. Thank you very much.*

**Bernard de Laguiche**

Next question, please.

**Investor 5**

*Yes, good afternoon, a few questions, if I may. First of all, maybe a detail on the Plastics Integration. There was a decline in top line there in the third quarter. Is this the normal summer dip you see there or are there any specific comments you can make there? And then, secondly, on the CAPEX guidance, you indicated in your introductory remark it would be lower than guidance. Could you maybe give some kind of range where you see that ending up? And then, finally, on the financial integration of Rhodia as of the fourth quarter, when will you be able to indicate more details on the purchase price allocation and new levels of depreciation and amortization, for instance? Thank you.*

**Bernard de Laguiche**

I will take the two last questions and pass on the word to Jacques for Plastics Integration. On CAPEX, no, sorry, at this stage we cannot make more precise statements but I would like to repeat firmly that we are managing for cash. We are focusing on working capital and on CAPEX and that is true for both legacies, the Solvay legacy and the Rhodia legacy, and we will be below in both cases the CAPEX guidance we gave at the beginning of this year. That's for CAPEX. On the Rhodia... Sorry, I forgot your question now. On the purchase price allocation, yes, sorry, we will do that by Q4. You will see that mostly reflected already in the Q4 balance sheet figures and obviously the P&L impact will also be accounted for in Q4.

**Investor 5**

*Any chance of giving there some indication on where that could end up, for instance on depreciation and amortization?*

**Bernard de Laguiche**

It's too early. You know that according to IFRS we have 12 months to complete the purchase price allocation. We have done it for liabilities in one week. We are doing everything we can to do the rest in three months but, okay, this gives you an idea of the complexity of the exercise. Okay? Jacques, on the Plastics Integration.

**Jacques van Rijckevorsel**

Yes. For Plastics Integration, you know that we are reporting a consolidated figure only for Europe and PVC compounds activity. The rest of the integration and, for instance, Pipelife is not consolidated anymore and it is in equity consolidation. So, that is true, that in the European compounds the situation was a little bit softer during the summer but if we look at Pipelife, that is exactly the opposite. The volumes of Pipelife, I'm talking in tonnes, during Q3 were better than Q3 last year, both in Europe and in America. As you know, we also have there operations.

**Investor 5**

*So, it's not necessarily linked to some weakening or further weakening in the European construction market, given the Pipelife volumes.*

**Jacques van Rijckevorsel**

If you look at Europe, then you have a patchwork of countries. You have countries that are... Anyway, Pipelife is not the top line. If that is your question, there is no influence on the top line. Is that the answer?

**Investor 5**

*No, it's clear that Pipelife is not in top line. I was just wondering whether there's a further decline in European construction market but you indicated that's not the case, given the pipe life volumes in Europe. So, what is explaining then the 5 % decline, for instance, in the third quarter in Plastics?*

**Jacques van Rijckevorsel**

The decline in the turnover that you see is only the decline of vinyls, PVC compounds. Pipelife is not consolidated anymore.

**Investor 5**

*Okay. That's clear.*

**Jacques van Rijckevorsel**

Thank you.

**Investor 6**

*Yes, thank you for taking my questions. I've got a couple left. Maybe now you've been able to look at Rhodia and your combined balance sheet for at least a couple of days, perhaps you could give us some guidance for the financial items, so the net interest line, the discount in provisions for... on a full year basis. And, second, on specialty polymers, I was under the impression you were running more or less at full capacity there. How could you explain, let's say, a sequential drop of about 6% on your top line? Thank you.*

**Bernard de Laguiche**

On the financial items, for the time being there is no big change in the way we account for these. So, what you see is, of course, the P&L part relates only to Solvay legacy. The balance sheet part includes the Rhodia liabilities. So, therefore the relationship at this time of the year, for Q3, does not represent the economic reality anymore. What I can say is that on the Solvay side there were no major changes in this quarter from that point of view versus the other quarters and that we do not expect any other major change in Q4, apart from the inclusion of Rhodia.

**Investor 6**

*And would you say the same holds for the other side? As you have done your liability accounting already, maybe you can also tell us then what you expect to be paying, additional interest and/or in terms of discount in provisions.*

**Bernard de Laguiche**

I did not understand the content of your question, sorry.

**Investor 6**

*Well, you have just told us at the start that you've done your purchase price allocation for the liability side of the balance sheet.*

**Bernard de Laguiche**

Yes.

**Investor 6**

*So, you probably know more or less what your net financial line is going to look like for Q4.*

**Bernard de Laguiche**

Well, the purchase price allocation or the purchase price accounting for liabilities, you know, is very well regulated by IFRS3 and when we talk of liabilities, we have actually marked to market the outstanding liabilities or the outstanding debt of Rhodia and these are figures that you know. We have also reviewed the contingent liabilities of Rhodia because according to IFRS3 we have to book these contingent liabilities compounded by the probability and so there we did have an impact but it will not play a role on the P&L line. It does play a role on the opening balance sheet of Rhodia, the one we show in Q3.

**Investor 6**

*Sure. Or maybe on Specialty Polymers then?*

**Bernard de Laguiche**

Yes, please, Jacques.

**Jacques van Rijckevorsel**

Yes. I don't know where your data is coming from because -6% in volume is not what we have. I tell you that the volume effect Q3 is still positive but what we have on the turnover, on the sales effect, is that an important conversion exchange rate effect, US dollar mainly, much weaker than Q3 2010 and that is why apparently the sales in specialty polymers are not growing that much. Now, if you ask me about the current situation, it is true that also there for the same reason working capital management, cash management along the value chain, we are seeing some softening in the demand.

**Investor 6**

*Okay. Thank you.*

**Jacques van Rijckevorsel**

Thank you.

**Bernard de Laguiche**

Next question, please.

**Investor 7**

*Yes, good afternoon, two or three questions, actually. First of all, again with regards to vinyls, you talked about sort of destocking in Asia but also in Europe. How good is your visibility in terms of seeing if you know the reduction in demand is really destocking or is that really down to maybe a reduction in demand also at the end of the value chains that you supply? And, secondly, for Plastics in general, Specialty Polymers have continued to be very good. Vinyls have started to show some weakness on the volume side. Could you maybe give a more detailed split as to from which end markets in terms of demand those are coming, if it's largely engineering, if automotive? So, where is the strength in Speciality Polymers coming from? Are there any areas in Specialty Polymers where there's already maybe a bit weakness and also where... which segments in vinyls are running better and which are running worse? Thank you.*

**Bernard de Laguiche**

Jacques, I think these are two questions for you.

**Jacques van Rijckevorsel**

Yes. So, the question about the end of the value chain is an important one and if we see South America, the end of the value chain is very clearly still growing. In Asia it depends on the countries but we can say that the balance is still positive. In Europe, there you have countries... For instance, in some Eastern European countries, some Scandinavian countries you have still growth or growth is coming back and in other countries, like, for instance, southern Europe – Italy, Spain and so on, and Greece – it is obvious that there the situation is more difficult. Therefore I think that the only possibility..., real effective one, is to have a very strict cash control inventory management. For instance, now in Europe we are starting to get orders from customers asking the product for the very day and not having sufficient inventory until the next day. Now, to tell how the value chain is now, it's very, very tight.

In Specialty Polymers the situation is also... it's a global situation. Then you asked me about what were the sectors but, again, as for the Vinyls we should also ask what are the countries or the regions in the world and the global picture for the regions and the countries is the same as for the Vinyls. And for the segments, yes, obviously you have segments that are a little bit softer. Amazingly, it is not in automotive. In automotive we are still growing but it is more in electric and electronics we see, for instance, some destocking and we know that very well in some membranes and the robustness of the operations is exactly there but we are very well diversified in the regions, in the sectors, in different applications and all that allows us to be confident.

**Investor 7**

*Okay. Thank you very much.*

**Bernard de Laguiche**

I would like to rebound on what Jacques just said because this word diversification is very important. You will all have noticed and will notice that the Solvay/Rhodia combination is very powerful in terms of spreading the risk better in terms of segments where we have less exposure to one or the other segment, so less exposure to construction, less exposure

to automotive, better... brighter exposure to more segments. And also in geographies where we have less exposure, if we look at Solvay, to Europe or less exposure only to emerging markets, if you look at Rhodia but a better geographic spread across the board. So, what is true for Plastics and for vinyls is also true for Solvay/Rhodia as a whole – better spread of risk in terms of markets and in terms of geographies. Next question, please.

**Investor 8**

*Thank you very much for taking my question. I think one of my questions was pretty much already answered before but I just wanted to pose it in a different way. I'm also on the credit side and quite interested, of course, in your willingness or ability to take out the Rhodia bonds and I'm just wondering if there are any other reasons such as reporting requirements or any covenants within the Rhodia bonds that would perhaps prompt you guys to take them out sooner rather than later. I realize a lot of the covenants have fallen away since the Rhodia bonds were rated investment grade. And then just of that question in terms of cash, looking as we going to the end of 2011 to 2012, you have, I guess, with the revolver as well about EUR 4.4 billion of liquidity, if I'm not mistaken and I'm just wanting to know your outlook for cash use. You know, where is your preference to use that cash? Is it going to be used to take out the Rhodia bonds? Is it going to be used for bolt-on acquisitions, CAPEX? I'm just wanting to know a bit more about your cash intentions and the waterfall for that as we move into 2012.*

**Bernard de Laguiche**

Yes, these are two good questions related to the Rhodia bonds, actually, directly or indirectly. So, we do have the cash to take them out but we believe, first of all, as I said, the cost... the financing costs linked to these bonds economically for Solvay is an investment grade cost, so it is a reasonable cost. Number two, as you rightly say, it gives us strategic flexibility and as financial markets are, as you well know, difficult for the time being, we do believe that this strategic flexibility is very attractive and is of value for Solvay/Rhodia. Now it also has a cost, obviously, and this cost is the negative carry of cash. On our cash investments, we do see it as a strategic reserve.

So, we are extremely prudent in our investment guidelines and they are, by the way, more or less the same as the ones we had when we had the whole cash of the pharma proceeds on our balance sheet. We are very conservative and we really carry this cash in order to have additional strategic flexibility in the future. And that will be part - most probably - also of the presentation of new Solvay in spring 2012. Now, you know, strategic flexibility is very important to us. Cash has its cost. We are not in a hurry to take or to take the definitive decision concerning the Rhodia bonds. We see a lot of value in them. That's the situation today.

**Investor 8**

*Okay. I really appreciate the color. Thank you very much.*

**Bernard de Laguiche**

You're welcome. Next question, please.

**Investor 9**

*Yes, hi, good afternoon, thanks for taking my question. I have questions on three areas. First of all, just follow-ups on Advanced Materials. Gilles, I think on the answer at the*

*beginning of the call you said that one of the reasons why you have a very good result in Q3 is because of first-in-first-out accounting. What would be the margin if you buy raw materials at current price? What is the FIFO impact on Q3, please? And, secondly, on Advanced Materials, are you ready to share with us what is the sales split in Q3 of the division between silica and rare earth, please. So, that was it for Advanced Materials.*

*The second question is on the Consumer Chemicals. 20% price increase is pretty impressive this quarter. It's quite unusual. And I'm curious to understand, you know, what... And that is generated without margin expansion which for me suggests that it's mainly raw material pass-through. Can you just give a bit of color here? What are the exact raw material prices that you had to pass through to customers and what's the outlook?*

*And, thirdly, fluorinated products, in the text you mentioned about some price weakness for fluorinated products. Again, if you can bring a bit of color. On which segment do you see competitive pricing from your competitors? What are the competitors and have we reached already a level where you think some of the high cost producers might take some capacity out? Thank you very much.*

### **Bernard de Laguiche**

So, Gilles, the two first questions on Advanced Materials and the Consumer Chemicals and Vincent fluorinated products.

### **Gilles Auffret**

On the Advanced Materials. The first question was about the effect of the FIFO system. I will not give you what it could give without the FIFO system but what I can tell you is that we have an exceptional increase in margin in Q2 and Q3. The margins will of course decrease in Q4 progressively but will remain at a rather high level and that will beat the consequence of the shift that has been done in the quality of the high end products we sell, as well as the customers we have selected. And once more it's directly linked to our capacity to supply our customers in difficult conditions that have been faced during the last part of 2010 and first semester of 2011. Now, on the split between silica and rare earth, normally we don't give that type of figure but just for you to understand, it's around two-thirds in rare earth and one-third in silica. On consumers you pointed out the fact that prices have increased significantly. It's due to the fact that we have been able to pass on to our customers the strong increase in some raw materials price, especially guar, where we have a very strong position, as you know, because of our joint venture with I-Chem and, as you know, guar is a raw material which is not easy to get and therefore there has been a scarcity due both to the usage of guar in the gas and oil sector as well as home and personal care. We have reinforced our position there also by acquiring a new plant in China, buying the guar assets and therefore we benefit from a very strong position and are able to pass on these prices to our customers.

### **Bernard de Laguiche**

Thank you, Gilles. Vincent, fluorinated products.

### **Vincent De Cuyper**

Yes. So, indeed, in fluorinated products we suffered a squeeze of margins. Well, globally speaking in this business today, even if we have reasonable good protection through the fluorspar integration, we are facing some increase in cost of raw materials and also of

energy. And as far as the sales part is concerned, it is mostly on the refrigerant business that we have seen a quite significant decrease of price. We are exposed this business through the product 134A, so HFC, and what we have seen... We have taken advantage from quite good pricing in the first half of the year but this has triggered a restart of a certain number of operating units in China which were idled and they are back on the market, including in Europe, and this has squeezed the margin in the refrigerant activity. This being said, I hope that you have seen in the meantime that on the Essentials part we are really maintaining our margins high in the Q3, confirming our resilience and the pricing power we have.

**Bernard de Laguiche**

Thank you, Vincent. Next question, please.

**Investor 10**

*Yes, good afternoon. Three questions, if I may. First, in soda ash you have described the situation of demand and supply as very favorable. Looking forward at the usual annual contracts, are you now more confident to increase prices by a higher amount that your cost base on mainly energy prices have increased so that you might even achieve margin improvements next year? Secondly, on hydrogen peroxide, the new plant you just started up in Thailand, is that something where we have to take start-up costs for Q4 into consideration or will it be contributing to earnings immediately? And, last but not least, in PVC you mentioned the issues you have in Latin America but the FX came down and you have import tariffs. How will the PVC business be in markets, looking forward in Q4, and what do you expect in the usually off-season in the construction business in Europe in the fourth quarter? Thank you.*

**Bernard de Laguiche**

Two questions for Vincent and one for Jacques.

**Vincent De Cuyper**

So, on the soda ash, indeed, the fact that energy prices are not going down that much for the time being and that the market remained reasonably good around the world makes us confident that the price negotiation should enable us to increase the price for the year 2012. What is the magnitude of that increase? It's difficult to say at this stage. What you can see in the official publications like Harriman, they talk about increases of prices of EUR 10 to USD 20 on domestic markets and USD 50 on export markets. While these are numbers which are circulating, we will have to see. Negotiations are only starting and it's far too early to say but we are really looking for price increases. It's important to mention that the margins are still not satisfactory enough in the European soda ash activity and that the energy price will probably remain high next year. So, we have to pass some price increases to the customers.

On the hydrogen peroxide, indeed, I think we have some start-up costs in the last two months and probably during the last quarter we have the HPPO start-up. The plant started early September. We are progressing with the start-up of the epichlorohydrin plant in Thailand as well, which is still expected to start during the first quarter of 2012. So, there we have also some one-off costs for the start-up of these two big units which will have a small impact during Q4. So, I don't expect a positive impact of the HPPO2 before 2012.

**Bernard de Laguiche**

Jacques on PVC?

**Jacques van Rijckevorsel**

Yes. If I understood well, your question, it was about the construction market, both in Latin America and in Europe. So, in Latin America construction is doing fine and still positive and mainly also supported by government expenditure and projects. The point is not that much, as I said, to the volumes, it is much more the spread and we are happy with that reinforcement of anti-dumping fees for American productions but at the end, the point is it will probably take some months before bringing back the spreads to a normal level. As you know, it is easy for prices to decrease but to get prices back, okay, it takes more time. That is for Latin America.

In Europe, there volumes are, as I said, seasonally weaker than at the top of the season, that is clear, and we also see some softening and that is also clear. Now the point about the spreads. We are still running at a good level of capacity, not at full capacity anymore but at a good level and the point is here, what will be the variable cost that we have and then I am back to the ethylene and to the electrical power. Ethylene should start to decline in Europe. You are attending now a kind of global balancing in the world. It is going up in America and it is going down or should go down in Europe and in Asia it is also going back down. So, you have a kind of rebalancing for the ethylene.

**Bernard de Laguiche**

Thank you, Jacques. Next question, please.

**Investor 11**

*Hey, good afternoon, and thanks for taking my questions. Well, the first question is just with regards to your facilities and logistics in Thailand. I wondered if there'd been any impact from the ongoing flooding there and, if so, are you able to quantify that? The second question was on order patterns. Some of the other companies have talked about more frequent smaller orders. Is that something that you're seeing? And also, linked into that, can you talk about what level of inventories you see in the pipeline? So, do you believe that your customers are running with very low levels of inventory such that if we do see a major slowdown, then destocking effects are likely to be less severe than maybe we saw back in 2009? And then, finally, just an apology. I might have missed this but, just to be clear, in terms of the reason for the lower CAPEX guidance, what is the cause of that and does that apply to both this year and to next year? Thanks.*

**Bernard de Laguiche**

I will answer your questions on order patterns and on CAPEX and then, on Thailand, maybe pass the word to Vincent and Jacques who have their operations there. First on order patterns and on inventories in the supply chain, yes, the supply chains are reducing their levels of inventories. Yes, we do see in the industries or in the markets where we have orders and typical order sizes, those sizes being reduced so that the order patterns are becoming smaller, that is true. The level of inventories in the different supply chains we are servicing is low to very low and that is also the reason for the reviewed guidance on CAPEX. We are very prudent where cash management is concerned. We are focusing on cash generation through tight operational management and so inventories, as you well know, working capital and CAPEX are the key levels we can work on.

Now on Thailand, Jacques.

**Jacques van Rijckevorsel**

Thank you, Bernard. Yes, indeed, we have a plant in Map Ta Phut and there we have nothing particular. The plant is running well, there is no problem with the floods. And in Bangkok we took some preventive measures in the sense that we allowed our people to go to work in Bangkok or to stay home in order to prevent difficulties not related to our office but more related to the traffic inside Bangkok. Yes, that's it.

**Investor 11**

*Okay. Thank you very much.*

**Vincent De Cuyper**

Maybe just I'll come in on the chemical plant in Thailand. Yes, in the peroxide there is a small impact on the business activities because of the more difficult transit of the peroxide trucks going to the north of the country. This being said, that's a marginal impact on our reserves, so it should not influence the reserves of the chemicals. And, as Jacques said, as far as the Map Ta Phut area is concerned, there is no impact of flooding and so the start-up of the two units is totally unimpacted by this flooding. Just to give you a good information, is that the H22 mega plant, which started early September, of course it's linked to the PO line of Dow Chemicals. They have three reactors and today they are already running at full capacity on two of the three lines and they intend to start as fast as they can the third line which is showing that the business is going well. And now on our side the plant is running perfectly well.

**Bernard de Laguiche**

Thank you, Vincent. To come back to your inventory question, I would like to underline that we see no general decrease of demand. There are some spots of weakness, mainly due to customers reviewing their levels of inventories and we are adapting to that very proactively and managing our working capital for cash. Thank you. Next question, please.

**Investor 12**

*Yes, good afternoon. First of all, on the tax rate, you said going forward from 2012 onwards above 30%. Could you be a bit more precise how much above 30% that would be and for 2011 where do you see the tax rate? Also coming back on CAPEX, could you please also be a bit more precise in terms of where CAPEX this year will be? In the first nine months we've seen about EUR 250 million. You were guiding for EUR 625 million for the full year. And what was the guidance for Rhodia for the full year 2011 and where do you expect CAPEX to be next year? And, lastly, on consumer chemicals in Rhodia, the margins declined by 300 basis points quarter-on-quarter. I understand that there were higher raw material costs but you seem to have been able to offset these. So, could you just explain this sequential margin decline in consumer chemicals? Thank you.*

**Bernard de Laguiche**

Okay. I will answer the two first questions and then pass on the word to Gilles for Consumer Chemicals. On the tax guidance, I cannot be more precise than repeat what I have just said; we are reviewing our tax guidance somewhat above 30%. And why that? As you know, the French government has passed a tax reform where tax losses carried forward can no longer at 100% be offset against profits and Rhodia did have a significant amount of tax losses carried forward. We will not be able to offset the full losses against profits. So, that will increase the tax base in France. On the 2011 tax rate of the Solvay

Group combined, that will not have any impact. So, for 2011 we do stick to our former guidance. The new guidance is in 2012. On CAPEX we had guided for EUR 625 million, Rhodia had guided for EUR 370 million for this year and, as I answered to your colleague, we can not at this stage give to you a precise figure but we know that we will be below in both cases.

**Investor 12**

*Can I maybe ask then of this EUR 625 million how much is maintenance capex?*

**Bernard de Laguiche**

So, as you know, our CAPEX figure includes acquisitions. It does not include the Rhodia acquisition, obviously, but does include small add-on acquisitions and it includes CAPEX. Of the CAPEX figure, you can assume that more or less one-third or slightly more than one-third is maintenance CAPEX. Yes? The Rhodia figure CAPEX, EUR 370 million, is only fixed assets, including maintenance. Gilles.

**Gilles Auffret**

On Consumer Chemicals, you've noticed the drop in the results between Q2 and Q3. I said before it's mainly due to the exposure on the seasonal market for agro that we have both in healthcare and in aroma. So, that's the major effect. To a lesser extent we have the effect on the oleo chemicals price in Asia that has been recorded in Q3 for a slight decrease also. But that's absolutely normal compared to Q2.

**Investor 12**

*And you also in the press release... Sorry, last thing, in the press release there in consumer chemicals you're talking about ongoing investments for growth impacting margins as well. How long will these investments be ongoing? Is that a story for 2012 as well?*

**Gilles Auffret**

Yes, we are starting the second plant in Zhuhai in China for surfactants. So, it's in the process to start and we expect to be running at the beginning of next year and that's it for that plant.

**Investor 12**

*Okay. Thank you.*

**Bernard de Laguiche**

Thank you. Next question, please.

**Investor 6**

*Yes, thanks for taking on a follow-on. My favorite subject pension debt or, let's say, the net deficit on the combined pensions you have. I remember with Rhodia at the end of 2010 it was at roughly EUR1.5 billion and at the end of the second quarter it was at EUR 1.46 billion because you had raised your assumed discount rates. Could you give us an indication, first of all, how you have seen those move, also... I think a fairly large part is invested into equities/funds and what the combined pension deficit would look like other than that what's on your balance sheet currently?*

**Bernard de Laguiche**

So sorry, I don't have the precise information or the precise answer to your questions. Maybe our investor relations can get in touch with you to give it. What I can say is that already in Q3 2011 we have aligned the Solvay and Rhodia assumptions. In some cases Rhodia assumptions were more conservative than the Solvay ones, in other cases Solvay assumptions were more conservative. We do see an increase of pension liability in the Q3. As you know, equity markets are down and rates... and discount rates have been decreased slightly. But we would have to give you more precise answers offline.

**Investor 6**

*Okay. Thank you.*

**Bernard de Laguiche**

Next question, please.

**Investor 14**

*Good afternoon, gentlemen. A few questions. Maybe first on the timing of your change in managing for cash and working capital. Can you elaborate on what event triggered it and when did you decide to manage for cash and reduce your CAPEX? Was there a specific month/week/meeting. And then, second, can you update me on the Horizon project? Maybe can you give some color on the non-recurring costs that you might incur in the fourth quarter and maybe also already on some savings that you expect by the end of this year? And is there also a...? Are we to be...? Shall we expect non-recurring costs related to Rhodia for the fourth quarter? And then, finally, if I'm not mistaken, you pay no taxes in Belgium. Is there any risk that this will come to an end in the not too distant future?*

**Bernard de Laguiche**

Thank you. On taxes in Belgium, that is a huge misunderstanding. The mother company, Solvay SA, does not pay any tax but we have other companies in Belgium that do pay taxes. So, we do pay taxes in Belgium but our main company, Solvay SA, does not. On Horizon, as you know, we have always guided for having the costs, realizing the cost synergies at the end of 2012, and what I can tell you today is that we are on track with these synergies, meaning for the external savings, purchasing savings, and for the headcount savings. More light will be clear end of 2012. Today I wanted to tell simply that we are on track. Non-recurring costs due to the Rhodia acquisition have been booked already in the third quarter. Integration might generate its own non-recurring costs but it is much too early to talk about that. That will become clearer in the coming months and quarters.

Now, your first question related to when did you see... when did you start managing for cash. I would say that was triggered by the changes in the supply chains or in our different supply chains linked to the general inventory reduction at some of our customers. That depends a lot on segment by segment or activity by activity. There is a negative change in pulp and paper. In the case of electronics also. In automotive not so. In construction it was already at a low level. So, it depends a lot on the segment. But there were inventory changes in the supply chain and when we saw that we did immediately react on our working capital, including reduction of production rates in some of our plants, especially the plants where the supply chain is a long one and this is true for high value-added products. And we also of course, as we are prudent, we are seeing these moves in supply

chain. We do focus on prudence and so we also reviewed and are reviewing our CAPEX programs in order to limit them and to focus on cash generation.

**Investor 14**

*If I can follow up on that, I mean, July and August are typically summer weeks/months, so you could also conclude that this is typically summer weakness but apparently it was more... weaker than from a seasonal pattern to be expected. Is that correct?*

**Bernard de Laguiche**

No, I would not say it was weaker. It was in line with the seasonal patterns, if you take both months, July and August, together. There was some noticeable change in the year's supply chain in September. But, again, no general decrease of demand. There are some spots of weakness due to some customers reviewing their inventories. Okay?

**Investor 14**

*Thank you very much.*

**Bernard de Laguiche**

Next question, please.

**Investor 15**

*Hi there. Just a quick follow-up question from the previous question that you got on the Rhodia bonds. It's my understanding that as long as the bonds remain outstanding you still have to meet the requirement of producing a cash flow statement, balance sheet and P&L accounts for the bondholders on a quarterly basis and I was just wondering when will those be available for Rhodia and where will we be able to find them? Will they just be posted on the old Rhodia website or on the Solvay website or do we have to get in touch with somebody to get on a list? How are you going to manage that distribution list?*

**Bernard de Laguiche**

I cannot give you a precise answer on that. Wait just a minute. So, as usual, these statements will be available 60 days from period end and they will be available on the proper media which is the agent and the bank.

**Investor 15**

*What do you mean, the bank?*

**Bernard de Laguiche**

The agent bank is the one...

**Investor 15**

*Who is it? I'm sorry, I'm only asking because, you know, we used to get those on a public basis just from the website. So, I don't even know who the agent bank is.*

**Bernard de Laguiche**

That's Bank of New York Mellon.

**Investor 15**

*Right. Okay. All right. No problem. Thank you.*

**Bernard de Laguiche**

You're welcome.

**Investor 16**

*Yes, sorry, just a couple of quick follow-ups on specialty polymers. Firstly, you mentioned in the Q&A there that you'd started to see some softening, presumably after the end of the quarter in specialty polymers because there's no mention of it in the statement. Was that? Your comments about the electronics area easing and auto remaining pretty solid, did that relate to specialty polymers so far in October? And just with regard to your R&D pipeline and the additional EUR 250 million of sales that you anticipated from new products over the next three years, will that require new investments in capacity or will we just primarily see that in the effect of... in a mixed effect on pricing and margins in that division? Thanks.*

**Bernard de Laguiche**

I would like to give the floor first to Jacques on specialty polymers but maybe also to Gilles on engineered polymers, if he could give some light on his view of the evolution of the business. Jacques first.

**Jacques van Rijckevorsel**

Yes, thank you for the question. First some more information about the softening that I mentioned in Specialty Polymers and that we are currently experiencing. It is true that we have, as I said, electric and electronics, some healthcare and so on a little bit softer, that is true and that has been amplified also by the inventory management that we are doing along the value chain, including in our own production system. Now, the question about the R&D pipeline and the EUR240 million or EUR 250 million that we are working on, do we need new CAPEX? That does not need more CAPEX than what we have already announced. We have announced some new capacities, new compounding operations. All that is going on, because demand for those products is still very good. And with that there will be no new CAPEX expenditures.

**Gilles Auffret**

If I may, in Rhodia engineering plastics give you some elements at the end of Q3 and what we see. First of all engineering plastics is mainly exposed to the automotive sector and for the second segment it's electrical, to be simple. Now, on the automotive sector, what is interesting is that if I compare Q3 this year and Q3 last year, we are still at +4% growth and if I look at the numbers given by JD Powers today for the fourth quarter, it is 9% growth compared to last year. So, even if we see some softness it's related to what Bernard said before. We see that our customers are very cautious and they are really trying to adapt and to limit your inventories, the lower the better, and therefore it has, of course, an influence on our own sales which are reflected by that but we do expect that it will not last for long and it's a temporary effect.

**Investor 16**

*Thank you very much.*

**Closing Comments**

**Bernard de Laguiche**

So, I would like maybe to make three concluding remarks. First of all, you will have observed that Solvay and Rhodia separately realized good results in the third quarter. Secondly, together we now enjoy a balanced business portfolio, both in terms of end markets and geographic reach coupled with a strong financial structure. Thirdly, as pointed out more than once, our focus goes to cash generation through tight operational management. And thank you for having participated to this call. Goodbye and thank you.