Event: Solvay H1 & Q2 2016 Earnings Conference Call

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Speakers: Jean-Pierre Clamadieu, CEO and Karim Hajjar, CFO

Operator: Ladies and gentlemen, welcome to Solvay half year and second quarter 2016 earnings conference call for analysts and investors. I am pleased to present Mr Jean-Pierre Clamadieu, CEO, and Mr Karim Hajjar, CFO. For the first part of this call, let me remind you that all participants will be in a listen-only mode, and afterwards there will be a question and answer session. Gentlemen, please begin.

Jean-Pierre Clamadieu: Thank you very much. Thanks everyone for participating in our Q2 call. I would like as usual to highlight what I think are the key elements in what I view as a strong set of results, in a market which is still a little bit complex to read. And then Karim will go deeper in our financial performance. So probably the three key headlines for this set of results are the following: 8% EBITDA growth; solid margin, 22% – it's a record for us, even compared to the pro forma including Cytec 2015 – and good cash generation.

So if we look at how we achieved that, sales volume growth for the first time since Q4 2014, although I have to say, a very modest growth. I should probably say more 'stable' than 'growth'. Broad-based volume growth in a number of segments – Advanced Materials, Performance Chemicals, Functional Polymers – which overcomes a decline in advanced formulation which continues to be related to one very specific market, which is oil and gas. And clearly, I think, our results are the demonstration of the strength and the breadth of our portfolio, which allow us, even when we see some segments facing challenges to deliver indeed strong results.

Looking at the EBITDA 8% growth at 652, three out of four of our operating segments are indeed showing profitability growth. So if I go through all these segments, Advanced Materials is up 6.3%; we are facing challenges as you know on the smart device market, but despite these specific challenges, we are seeing growth in automotive, healthcare, consumer goods, industrial markets. On the smart device market itself, we expect the second half of the year to be significantly stronger, linked to a product cycle.

And as far as the composites into aerospace business is concerned, we are slightly down in terms of volume, which is a consequence of a transition which is sometimes a little bit difficult to achieve by our customers, from the legacy aircraft platform to the new one. Some of you have listened to the Airbus or Boeing results know what this mean, so strong optimism looking forward as we see new programs coming in line with a significantly higher content of Solvay composite products. But we see the transition being a little bit more challenging than some people expected. And on top of that, specific weaknesses in Business Jet and Helicopter. But we continue to be very optimistic, and this optimism is linked to the ramp up of some specific programs which are still in the early phase which look like very successful programs, like the Joint Strike Fighter, or the Leap Engine which will be fitted on both the Airbus A320neo and the Boeing 737 Max.

Then in industrial composites, we've seen the trend improving in our business, which is turning into a turnaround type of situation. So in Q2 we've seen volume picking up, which is the result of the efforts of our team to go into new customers, new programs, with a better level of profitability. And by the way, the cost reduction part of the equation is also very significant as far as industrial composite is concerned.

Advanced Formulations, unfortunately, still the same story. Significantly down versus the same quarter of last year, linked to oil and gas. Rig count is 50% down versus Q2 2015, although it has stabilised since late in Q2, where in Q2 we've seen the rig count starting to slightly increase. I will be very prudent in view of the current oil price to make any prediction of what this means, but at least the degradation has stopped.

Other key markets continue to grow in the segment, although not enough to compensate for what's happening in oil and gas, but we see strong growth coming from the other market growth but also specific innovation product being put on the market on personal care, agro and coatings. The mining environment is still challenging; we've seen some projects being delayed, but all business remains resilient. We retain our leadership position and we see some slight growth in this segment.

Performance Chemicals up 20%. Very good performance. Soda Ash is clearly a significant contributor, but not just soda ash; we see all of our businesses operating well. Acetate, too, is recovering. The peroxide business is doing well, and again in soda ash we benefit from both volume growth, good pricing power, but also our ability to continue to improve our core space.

Functional polymers, up 24%. Major reason this quarter is RusVinyl, RusVinyl now is operating almost at capacity has found its place in the Russian market and is starting to contribute to our EBITDA. Polyamide was a little bit impacted by the large maintenance turnaround that we do every three years. So this was the time where we did it. The start-up was a little bit more difficult than expected, so overall stable performance, which means the underlying business performance was positive.

On the cash – and Karim will comment more on this, but clearly we have a strong focus on cash this year. And when I say 'this year', I expect it to continue in the following year. We focus very much on cash conversion. We have generated €174 million of free cash in Q2, which is 27% improvement, year on year, compared to last year, as far as continuing operation is concerned. If I look at the first semester, which is probably a better way to look at cash as there was some movement between Q1 and Q2, overall, we come €350 million higher than in the first semester of last year. So a strong performance and clearly a strong focus on cash for all the organisation.

Portfolio. Key element is the Cytec integration. Going very well. In terms of cost synergies, we are generating €14 million in Q2. Run rate, we are almost at 50 for the yearly impact, and that's something which is very much in line with our upgraded objective to generate more than €100 million of cost synergies due to this integration. I think that being already at €50 million per year running rate six months after the integration is a very good result for an asset of this size. But synergy is also on top line synergies, our ability to continue to execute our growth strategy.

Just to mention a few reasons which I think demonstrate the potential of the combination. Boeing has decided to select Solvay Composite Material to produce part of the primary structure of the 777x. That's very good; it is the first time that we are awarded a primary structure in one of the two big OEMs. We are already producing primary structure component for fighter jet or for business jet, but with Boeing – entering into Boeing is a very important achievement. The product itself will be produced in a JV, that we will set up with Mubadala in the United Arab Emirates.

Another interesting element, more on the technology side: the Russian plans, the MS21, was presented. What's interesting is that this plan adds very new technology to composite wing. But the technology's very original. It's not any more using autoclave; it's what's called resin infusion, and Solvay's a provider of technology and we think that besides this specific Russian project, it's a technology which could be a breakthrough in aerospace and we are very proud to have been chosen some years ago as the partner to develop this technology.

And we are continuing to see very interesting opportunities in specialty polymer. Probably the one I would like to mention before turning to Karim is the battery market. We're seeing as I mentioned during the past two calls we're seeing here a turning point in terms of batteries for electric vehicle. This is linked to some of the large project that we are hearing about in the news, but this is also linked to us a very important development that we are seeing in China for buses and an electric vehicles where the actual production is indeed increasing tremendously creating opportunities, we are a supplier for most of the battery producers with our specialty polymers. And we see a very significant opportunities looking forward. With that, I would like to turn to Karim for a deeper look in our financials.

Karim Hajjar: Thank you Jean-Pierre. Good morning and good afternoon. As usual, I'm going to refer to the slides that are on our website. And I'm going to start with Slide number 10, which really looks at our sales. And as you can see, our sales in Q2 dropped by 6% to 2.9 billion. What are the drivers? I'll come to the volumes and the pricing in a moment. But I had to start with foreign exchange because the euro has depreciated against some key currencies. The dollar $1.13 in Q2 compared to $1.1 at the same period last year that's 2%vs the USD appreciated or Euro appreciated by 17%, 8% against the Chinese RMB, the Thai baht, the Korean won. All of this conspired against us with an impact of nearly 4%.

Pricing, Jean-Pierre has already given you some colour, and it really is a consequence of the deflationary environment with lower raw material prices been partially partially passed through to our customers basically in the businesses such as polyamide. There is a tiny bit of pricing pressure as well in our advanced formulations oil and gas business. Activities although in this market as you know the main issue is volume rather than price. Now volumes, Jean-Pierre has alluded to the fact that debt growing modestly despite the headwinds that we're all aware of. The headwinds being obviously oil and gas and what we're seeing on smart devices. If I take that to the side and say where is the growth coming from? I'm going to highlight some of the key ones.

Specialty polymers at the same growth in automotive, health care, consumer goods, rare earth automotive catalyst. And other care excluding oil and gas, we're seeing good growth in home and personal care, agro, and coatings, continues. In other words, whilst you can see a modest volume increase two things I'd like to say one the 1% volume growth is the first growth we've seen since the end of 2014, and we welcome that. And secondly, as we look at it we see this as a very clear evidence about the strength and the breadth of the diverse portfolio that we have. Turning to page or slide 11, I'd like to turn to profits. Jean-Pierre has already highlighted the key headlines with 8% EBITDA growth. The EBITDA margin reaching a new record of 22%.

Now pricing power has continued to progress albeit more modestly, but this is the tenth quarter in a row, and that again demonstrates continued momentum on excellence with some also some tailwinds wins from the impact of our transactional hedging policy, but fundamentally a very, very welcome continuation of the momentum that we've seen now for quite a while. Cost discipline and is here and it's here to stay. Our fixed costs are down over the period last year, and that is despite the inflationary impact. Inflation alone would have reduced our profits by about 25 million in this quarter. The fact that you see the cost, the fixed costs go down also is despite the additional costs from the added capacities from the new plants that we've added so this is something that we're particularly pleased with, and it also reflects the savings and the synergy delivery which were totalling €14 million in the quarter.

In the first half, the synergy delivery on Cytec equated to €24 million already. And you can see the impacts of that both in our corporate expenses as well as in our composites and technology solutions business. The other aspect maybe to highlight on this is the fact that RusVinyl is going from strength-to-strength. It is now running at close to full capacity, and we have one-time gain in our soda ash business with the sale of something like 338 railcars that was surplus to the needs and it generated a gain of 11 million that we've highlighted for clarity. Page 13, I don't want to ignore that income because there's some good progress here as well. I recognise there's a lot of information, a lot of data on this page, but there are two things I want to highlight.

One, our underlying net income from our continuing businesses so excluding the impact of the businesses we've now sold was up 17%, and that is a result essentially of the high EBITDA, but also an improvement in our underlying tax rate, which is 1.5% better than last year. And that is something we were very, very pleased with. Total underlying income was 4% lower because of the impact of the profits that we no longer have associated with the European chlorovinyl business. As you all know we transferred to Inovyn in the middle of last year and we have now sold fully and have the cash in at the beginning of July. Turning to cash, Jean-Pierre has given you the key headlines, but if you turn to page 15 maybe a couple things I would like to highlight.

Q2 showed a significant increase in our cash flow. It's 27% up. You remember we had a strong cash flow in Q1 so it is worth taking a step back and recognising that the free cash flow from our continuing business of 200 million in the first half were 346 million better than the last year. Now despite that our debt is 0.4 billion. Two things I'd like to say about that. One is that increase in our debt is completely in line with our expectations, and it reflects the incidence, the timing of dividend, payments, and all interest charges completely in line with expectations. The other thing I'd like to mention is that in the same period in 2015 the debts of Solvay increased by a 0.8 billion. So with half the increase we were particularly pleased.

What I can't confirm is that the delivery you see is completely in line with our indication that the Group's free cash flow for the year will exceed €650 million. Finally, before I hand you back to Jean-Pierre, if you take a step back again and look at our balance sheet, our cash flow, our indebtness, I can confirm to you that our credit metrics remain entirely consistent with the investment grade that we'd have significant importance to. Jean-Pierre?

Jean-Pierre Clamadieu: Thank you very much Karim. So just a few comments before opening the Q&A session. As you just – as Karim has just indicated cash generation is very important for us in 2016 and in following years. Clearly, we're very well-positioned today to exceed the €650 million of free cash that that we have set as an objective. Second point excellent programs, we continue to deliver significant value creation and really I think it's quite impressive to see that three years after launches this, we still have a full pipe of opportunities. We are now launching Excellence programs in the former Cytec perimeter with some very significant opportunities in front of us. And indeed we'd be in line with our – with of the whole cumulative €800 million target at the end of this year.

This was – this is what we will have delivered over the last three years. Bit of integration at Cytec, going very well in terms of synergy and terms of organisation, and cost synergies. Clearly the challenge now is to deliver the top-line synergies and make sure that indeed in the various markets that we serve. Aerospace, automotive, but also mining and more broadly speaking the market that the advanced formulation is serving, the combination which Cytec gives us the opportunity to go further and faster. We have a great opportunity to share this with you when we will meet at our Capital Market Day in London on September 29th we are planning to focus our presentations to give you the opportunity to gain some insights in what we are doing in advanced material and advanced formulation.

Again I think you've noted it, but we have confirmed with this set of results our full-year EBITDA growth guidance. We expect to grow EBITDA by high single digit number. And with that I'll turn to you for the Q&A session now.

Operator: Ladies and gentleman we'll now begin our question and answer session. If you wish to ask a question please press 01 on your telephone keypad and your will enter a queue. After you're announced please ask your question. So once again please press 01 on your telephone keypad. The first question is coming from Peter Mackey, Exane BNP. Sir, please go ahead.

Peter Mackey: Thanks very much and hello everybody. I had three questions if I can please. Firstly on the smart devices business, would it be fair to assume that that was pretty much at zero in the in the second quarter given the destocking process that's continued there or is it started to pick up a little bit? And can you just remind us exactly when the new US PEEK plant will ramp-up and begin to contribute to volumes please? Secondly on composite, you've mentioned rotorcraft this quarter, but I think that's been an issue for the composites industry for some time. Can you talk about, is there any margin impact on from mix, or does it actually not make a great deal of difference in composites? And can you talk about margins in that composites business ex-synergies please? And final question just on acetate tow. You still sound sort of pretty confident about business and volume developments and so on. I think Celanese earlier this week was suggesting that they were seeing or expecting more price pressure as they come up to renewing annual contracts and so on. Are you seeing the same sort of thing? They were talking about people potentially chasing volumes. I wonder if you could just give some commentary about what you're seeing in acetate tow please. Thank you.

Jean-Pierre Clamadieu: Thank you very much. So going – taking your question in the order you've asked them. Smart devices is bit of an exaggeration to say that it was zero during the quarter, but indeed low volume. And yes, we expect to see the benefit of new product coming online. I would say with Q3, may be they were on few orders in the last days of Q2. But the simple message is that it will happen in Q3. PEEK plant, we are almost at mechanical completion which means that we are starting. We are starting the ramp-up. For this plant we expect to complete the startup process sometime during the second half. I don't want to be more specific because it's a bit of a complex process to startup, so it's not always easy to predict. But I would probably say that if things goes well we expect the plan to be online in the middle of the year, in the middle of the second half of the year, and then there's obviously customer approval and so on.

On composite the mix effect has little impact on EBITDA as far as, as long as we talk about composite for aerospace. If we're looking at different types of application then you could see some changes, but no, I think the rotorcraft, business jet or other market situation doesn't have any impact on the mix. Rotorcraft, you're right to say that this has been pointed in previous quarterly result. The impact is a bit different from a one player to the other. And the reason is very much linked to oil and gas. Once again oil and gas industry is a very large user of helicopter and in the current situation they are very prudent on their investment. Acetate tow I read the Celanese comment that was, yes, I mean we are seeing price pressure. Then we are reacting to this defending our margins and part of it is commercial activity. Part of it is focusing on raw material, access to raw material.

Part of it is continuing to work on fixed cost, but yes indeed, I think I'm a little bit more positive than what I've read the coming from other player in this market.

Peter Mackey: Thanks very much. Could I just follow-up on composites and press you a little bit on the margin ex-synergies in composites this year or perhaps in the context of year-on-year development. So has that actually improved in composites please?

Jean-Pierre Clamadieu: What has improved you mean the margin?

Peter Mackey: The margin yeah sorry.

Jean-Pierre Clamadieu: Well I think it really improved slightly, but part of it is having to do with the industrial business, what we're doing in industrial materials where we had very a very challenging situation when we took over Cytec so there's been some restructuring. There are some efforts to renew the product portfolio going into a new program. So we're seeing some improvements linked to these activities so it's probably the first factor explaining the improvement. And the first one is synergies, but the second one would be the efforts that we are doing in industrial materials to improve the situation of the business which was clearly not doing very well when we took over.

Peter Mackey: Thanks very much.

Operator: The next question is coming from Thomas Wrigglesworth, Citi. Sir, please go ahead.

Thomas Wrigglesworth: Hi, thanks very much for taking my questions. A couple if I may. The first on the current drop through that we're seeing from the volume and mix gross in the sales number that impacted EBITDA. It looks like it was 30 million positive in sales, but only 2 million positive in EBITDA. I'm quite interested; I did kind of expected that to be a little bit stronger given a lot of the growth was coming through in advanced materials. Any additional insights that would be much appreciated. And just on the – going back to Cytec on and specifically the aerospace so the new planes as it were in the new build. Could you give us some kind of sense of I assume that that is growing. It's just being offset as you said by declines. Could you give us some of a sense of the rate of growth that you're seeing in the uptake of the high value kind of new planes that's being offset by the old planes? Thank you.

Jean-Pierre Clamadieu: Well I will take the second question and Karim will give you some clarity on the first one. And my answer will be a bit of a prudent one. And I suggest you be a bit patient and wait until our Capital Market Day where we'll have the opportunity to give you more clarity on the various programs. In fact we have different situation. We have programs like the Joint Strike Fighter or the Leap engine where the program is moving up with limited hiccups if any. We are still at the initial stage where the number of planes or engines per year is still limited, but with a very impressive growth track in front of us. And we have situations which are a little bit less readable when it comes to new planes where we see the OEMs are facing some difficulties which is slowing down the ramp-up.

And again I don't want to repeat what Boeing or Airbus executives were saying in the past few days regarding the difficulties they are facing to bring their industrial production available where they can meet their current expectations in terms of delivery. So it's this two phenomena plus the fact that some older platforms like the 747 which was in the news today are slowing down significantly or the 777 as they're seeing customers waiting who are willing to wait for the new version. Solvay creates a bit of a complex situation and indeed, creates a situation where volumes are a little bit soft, but again in our view, no reason for concern just an adjustment in an industry which is going through a significant transition. And if you take the example of a 777, what we'll have in terms of content to into this new plane is several time what we have in the current version. So far as we need a bit of patience, but the transition is clearly something which we have a very significant positive impact and shorter term JSF and the Leap engine really are the two programs which will be a significant contributor to growth in the next quarters and years. Karim on the first part of volume growth into EBITDA?

Karim Hajjar: We're indeed, I think fundamentally there are many, many moving parts, but it's all around mix. And in particular what I would say the biggest contributor to the 30 million you talk about and that resulted in the fact that the EBITDA is relatively modest in that context is the functional polymers business as one of the factors that drive that mix impact. For the rest I would say, clearly, a lot of moving parts. The oil and gas, smart devices, but very much broadly in line I'd say what I talk about, but it's really about the mix of business. No other factor to highlight.

Thomas Wrigglesworth: Okay so in functional polymers that's sort of the kind of raw material base coming up and just a timing issue. Is that how I should understand that?

Jean-Pierre Clamadieu: That's a good way to summarise it yes.

Thomas Wrigglesworth: Okay thanks very much. Gentleman, thank you.

Operator: The next question is coming from Martin Rodiger, Kepler Cheuvreux. Sir, please go ahead.

Martin Rodiger: Hello, probably you can hear me. I have also three questions. First on soda ash, is it fair to assume that the suspension of the soda ash production in Egypt helps you in Q2 in terms of earnings as this side was loss-making and beside that did the high utilisation in the other plants from which you serve now the clients from your previous Egypt site also contributed to earnings. That is my first one. Second is on Aroma performance. You talk about competitive price pressure. In which products did you feel this in particular and is it coming from new players entering the market or increased capacity by existing players? And finally on the adjusted EPS I struggled to derive to the 2.16 when I look at the adjusted net profit of 223. Which number of shares did you use there? I thought your number of shares is 104.47. Maybe you can clarify that? Thank you.

Jean-Pierre Clamadieu: Okay thank you. So that on, soda ash the impact of the shutdown of the Egyptian plant is marginal both because the – both in terms of cost because it happens during the quarter. Yes there will be some redistribution of volumes to other plant, but frankly speaking not something which is extremely significant to the business, and certainly not something which was significant in Q2. Aroma performance, I would say a bit of pressure everywhere, and not necessarily coming from the new entrants although there are some especially in Vanillan where we need to defend our position and the quality of a product that we sell, but even in polymerisation inhibitors, we feel so a bit of pressure. But again, I would not see that as a major driver of performance for the next quarters. Karim on the last question?

Karim Hajjar: Well on the EPS calculation you quote the wrong number of shares. Unfortunately, we can't make the numbers work because I can tell you they are correct. What we can do perhaps is if you will contact directly the Investor Relations team they'll help you get to the right conclusions as well.

Martin Rodiger: Okay. Can I ask a follow-up on soda ash?

Jean-Pierre Clamadieu: Sure.

Martin Rodiger: What was the main driver then as I understand that this was the big growth engine earnings beside the 11 million gain from selling railcars? What was the restructuring or savings from that or what helps you in soda ash to perform so well?

Jean-Pierre Clamadieu: Well first, soda ash is probably a better business than some of you think. But in terms of actual levels for improvement, its on the whole business. Pricing is good. I mean margins are good in our main market. Second growth was a little bit higher than probably some of you have expected. And third, we are continuing to work with a lot of focus on improving our competitiveness and extracting cost and it will continue for some years. And maybe the last point is the fact that we have now a new bicarbonate plant in Thailand, which is starting to also to contribute to our results. So all of these elements added up to what I think is indeed with or without railcar strong performance for soda ash.

Martin Rodiger: Thank you very much.

Operator: The next question is coming from Paul Walsh, Morgan Stanley. Please go ahead sir.

Paul Walsh: Yeah, good afternoon gents. Just two questions from my side if I can. Just coming back to your comments on the cash flow and potentially exceeding your 650 target. Yes, cash was better in the first half, but I noticed net debt was still going up. So just to confirm you're expecting to be able to reduce net debt organically by the time we hit the end of the year and just some ideas around what changes cash flow-wise in the second half is it working capital, is it further reductions in Capex, is it just the composition that it gives you that confidence please? And secondly just in terms of the guidance for the year, do you feel like you can do higher EBITDA in the second half when normally you have a seasonally weaker half I guess in the world of chemicals. And if yes, you've covered some of this already, but just the key pillars behind that. Thanks very much.

Jean-Pierre Clamadieu: Well I would take the second question and Karim will answer on the first one to try to reassure you. On the guidance – when I look at the full-year, in fact we are – we've shared with you the fact that we are expecting high single digit growth for the first, for the whole year first half plus 5%. So when we compare the profile of 2016 with 2015 clearly we have an expectation that the last quarter will be significantly better. And the reason for that is the number of reasons for that. One of them is the smart device market. But when we look at the detail of what we expect in various of the programs that we serve, and I'm not talking about the behaviour of the general economy, but specific programs indeed we think today that we should be able to deliver a significantly stronger fourth quarter than what we usually do. If you look at historical seasonality's so is probably where we see the difference of behaviour between this year than last year. Karim on the debt?

Karim Hajjar: Paul, I mean looking forward clearly; I'm not going to give you a very specific indication. What I can reassure you is that debt will fall organically. The drivers of that are absolutely those you would expect. Let me start with Capex. What did you see in the first half? You saw that our Capex was 15% down year-on-year. Our cash conversion was up from an average last year of 53% to 66%. So you can expect more of the same there. EBITDA, clearly, you can form your own views. I don't know you will, but that will contribute to the cash flow because we will maintain that discipline on cash conversion. Working capital, there is a lot of ongoing improvement. I won't go into the details of it. What I say to you is whilst I believe we are factually speaking in the top quartile of our sector. I think there's still more we can do to that discipline. And one thing you may underestimate the impact. But if you take note of the fact that our effective tax rate was improved compared to last year by I think I've quoted 1.5%.

Each percentage point is 10 to 15 million so just staying where we are maintaining that discipline that tension will contribute to that organic strong cash flow. And clearly, the only other aspect to recognise is there are normal dividends and interest charges. And all of that will also be part of the normal recipe, but there should be no surprises there at all. Not at least because in the first half of the year you all have taken note that we did retire some debt significantly. It's quite expensive. Now we don't have any of that this year. So there will be the benefit of that looking forward as well. Does that help?

Paul Walsh: Understood. Yeah it does help. And just coming back to the second quarter EBITDA strength, is there anything in there is that you would notionally classify sort of not being or being one-off, but not sort of restructuring charge or one-off charge? Anything in that EBITDA number you know write-ups or anything like that is flattering that number it's just pure performance.

Karim Hajjar: Great question. That's a pure performance of good quality sustainability. And the other thing which I'm just taking the obvious for those of you who know was well, but I will do just for the ones who have doubt. Our cash flow has been back-ended. We've typically seen us generate more than three quarters of our annual cash flows in the second half of this year. And you'll hope you remember that for the last two, three quarters. That Jean-Pierre and I have been very focused on let's say improving the phasing of them

Paul Walsh: Great guys. Thank you very much.

Jean-Pierre Clamadieu: Thank you.

Operator: The next question is coming from Patrick Lambert, Raymond James. Sir, please go ahead.

Patrick Lambert: Hi, good afternoon I guess we're past noon. I have a few questions, sorry. The first one is trying to reconcile the composite market again the trends. I think Hexcel last week with 10% growth in its business and clearly the A350 was the big driver there. Could you help us to understand – I understand the moves of legacy platforms with new platforms, but what's the difference, do you think, between Hexcel's exposure to new projects versus your exposure to new projects? And is it just actually the big Safran exposure, which seems to be a bit weaker in 320 than 350? That's the first question, dynamics about the aerospace. Maybe it's defense too, if you can comment on that.

The second is –

Jean-Pierre Clamadieu: Sorry, go ahead. Go ahead with the second question.

Patrick Lambert: Yeah. Jean-Pierre, we've also had very decent automotive production trends in H1 everywhere; automotive OEMs, components, you guys. Could you share your view on H2 post Brexit, post maybe some slowdown in the US, your view on how it can shape up the automotive demand as a whole in H2?

And third question: RusVinyl, what – I got, again, surprised by the strength of RusVinyl contribution, net income affiliates: could you help us just to the run rate as it is in terms of contribution?

And maybe the last one: I heard Cytec's synergies at €24 million; is that the run rate in Q2? The net number if you could provide it, the net from restructuring charges. Thanks.

Jean-Pierre Clamadieu: Okay. Well, composite, if you compare Hexcel and us, there is just one difference: A350, where Hexcel is providing the primary structure component. And that explains the difference. The rest of the performance, having looked at their announcement, are very similar if you correct for this.

On automotive, I'm not sure I'm the best guy to give you a view on automotive in H2. It's true that European car makers are a bit worried about the Brexit, although they think it will probably take another couple of months before they have a view on what this means in terms of activity in the UK. We've seen the growth kind of reducing a bit in the US, but it's not a region where we have significant exposure. And in China, we continue to see some transfer of growth from international companies to Chinese OEMs. So these are the trends that we foresee, but all of that taken into account, we are probably a bit more present in H2 versus H1. Although I remind you that we are still in a position where we are gaining share versus other technology, other solutions, which does not make us so dependent on just the underlying market trend.

RusVinyl: why do we have a good performance? One, the plant is now running at almost full capacity. Second, we find our position in the Russian market. Clearly Russia is going through a lot of challenges, but something turned out to play in our favour, with is the volatility of the rouble, which makes it very difficult for people to import PVC, which means that today we have been able to put most of our product on the Russian market. This is clearly a better solution than exporting, so overall a good level of performance. And what we have seen in Q2 is probably a reasonable proxy of what you could see in remaining quarters; at least, I don't see any significant risk of seeing this number changing.

Patrick Lambert: So it's about €15–20 million on RusVinyl contribution?

Jean-Pierre Clamadieu: Karim, do you want to…?

Karim Hajjar: What I don't want to do is give you an overly precise number. What I can say is point you to page 12, and the comment that shows an increase this year, Q2, for functional polymers, from €50 million to €64 million. What we have said is the majority of that is RusVinyl, so that gives you a good enough indication of the magnitude.

Patrick Lambert: Yeah.

Jean-Pierre Clamadieu: And on synergies, I mean, the numbers are very clear and precise: Q1, €10 million, Q2 €14 million. So running rate, if we were to stop any further cost reduction activities, we would be at almost €50 million on a yearly basis. But we will continue to improve – we will continue to deliver synergies, and yes indeed we will see a higher run rate number at the end of the year. I don't know, Karim, if you want to be more specific on this?

Karim Hajjar: No, I think you've said it very clearly. Essentially the restructuring costs, we've been trending at about €50 million, and I think the opportunity for us is to make sure that we deliver the savings that Jean-Pierre talked about within that kind of envelope, give or take. That's part of the discipline.

Patrick Lambert: Sorry, you said 15, one-five, or five-zero?

Karim Hajjar: Five-zero, on an annualised basis. That's typically what you can expect.

Patrick Lambert: Perfect.

Karim Hajjar: That integrates the expectation to deliver the Cytec synergies within that kind of envelope, give or take.

Patrick Lambert: Thank you, and congratulations again.

Karim Hajjar: Thank you.

Jean-Pierre Clamadieu: Thank you very much.

Operator: The next question is coming from Peter Clark, Société Générale. Sir, please go ahead.

Peter Clark: Yes, good afternoon. Two questions, one for Karim and I think one for Jean-Pierre. The first one, Karim, is the FX transactional effect. You gave us a number in the first quarter, you didn't in the second quarter, but from the commentary am I right in assuming it was the bulk of the pricing power? And if so, how will you see the pricing power develop in the second half? Because you'd already warned that, you know, the pricing power that we saw in the first quarter was probably not sustainable.

And then the second question, and I understand the want to be prudent, but clearly – and people are pretty cautious on the oil price as well – but clearly the rig count is now materially up from the bottom, up over 15%. Just wondering: if a recovery did continue, when would you expect to see that sort of thing reflect in your volumes? Or is the focus on cost going to delay that effect? Thank you.

Jean-Pierre Clamadieu: Well, on the second question I think the impact would not be quick. But again, I think we have to be careful: we've seen rig count going down 50% year on year; it's probably up sequentially by 2% or 3%. So yes, maybe we've reached the bottom, but we are not yet at a point where we see people rushing to drill. By the way, there were some interesting statements made last week by some service companies while they were presenting their results, saying that today the technology has evolved to a point where the number of rigs necessary to maintain production in the US is probably significantly lower than it was. The good news is that chemicals are still needed in the same volumes.

So all of that to say that I think, once it picks up, I think we will see very rapidly some impact. But I'm very prudent on the question of when it will indeed pick up. So I think the current oil price is still volatile; $50 is probably a good trigger point. So we were there a month ago, we are now closer to $40, so I think caution has to be there. But I spent some time with our North American teams a few weeks ago, and I'm absolutely convinced that during this difficult time we have increased significantly our market share, we have increased significantly our ability to bring cost improvement solutions, competitiveness improvement solutions to our customers. So yes, I think the day it starts up we will be very well positioned to benefit from it, but I'm not counting on it to give you my H2 guidance.

Peter Clark: Okay.

Karim Hajjar: Your first question on pricing power: you are correct in deducing that foreign exchange, the transactional impact is a significant factor. But you also asked a very difficult question for me to respond in terms of, 'What about the future?' I'll tell you why I think it's very difficult. Because there are a few levers, I believe I can be very confident, because we have control of our destiny. And I'm thinking there around our excellence programs, continuing to focus on improving our yields, reducing our variable costs; that's predictable from our standpoint. Our leadership positions, our ability to do what Jean-Pierre was talking about, which is meeting the needs of our customers and holding our own in a competitive marketplace; I have confidence there.

Where I have less visibility, like everybody else, is the impact of foreign exchange going forward, the impact of energy cost, and etc. etc. So what I would say to you is the future is uncertain, clearly, but history tells us the last ten quarters sequentially we have managed to deliver, and we're absolutely intent on doing everything we can to keep that kind of performance. Burt there's no guarantee. I do think we're very well positioned though.

Peter Clark: Thank you.

Karim Hajjar: Thank you.

Operator: The next question is coming from Mutlu Gundogan, ABN AMRO. Sir, please go ahead.

Jean-Pierre Clamadieu: Hello Mutlu.

Mutlu Gundogan: Hello, good afternoon. Two questions from my side. The first on pricing power: I mean, very strong track record, with ten quarters in a row, although you do see it coming down, with a 10% benefit in Q1 and now coming down to 3% in the second quarter. Just wondering, can you tell us where you stand today? I assume that the 3% also came down throughout the quarter. So are we still up at this moment in terms of pricing power, and how do you see that developing in the remainder of the year?

And the second question is on your aerospace business within composite materials. If I understand correctly, Cytec was historically strong with Boeing and less so at Airbus. Can you share with us what your strategy is, or what you're doing to increase the share of Airbus within your business?

Jean-Pierre Clamadieu: Ah yes, that's a very good analysis. But let me start with pricing power. Again, you should realise that today we are not a commodity chemical company managing prices every day; I mean, a significant part of our business is done on a number of programs, like what we do in smart devices or aerospace. And then the ability month after month, quarter after quarter, to manage pricing power is not always exactly the same. But no, I'm quite optimistic regarding our ability to continue to demonstrate this pricing power. We are in a situation where we've seen some steep increase in some energy and raw material cost with the ability to pass them immediately to the customer is not always I mean we're not always in a position to do so as quickly as we would all expect to be. But frankly speaking I think with the track record of Solvay demonstrate that we've been doing quite well in this regard. And I'm optimistic that for the full-year we'll be able to continue to demonstrate this ability. I might add that we've been also very active on the fixed cost part of equation and overall even if the pricing power impact is modest, the EBITDA margin improvement, which is quite significant and demonstrates that the company is very much focused on profitability.

On Airbus versus Boeing I mean it's probably something we can discuss at our Capital Market Day. But to analyse this is a very good one. In fact we're strong in both cases. On secondary structure, we've had a lot of activities. We're going to develop a position in primary structure in past year which explain why we got this award of the 777X which means that there will be more than one supplier of composites for a primary structure with Boeing. With Airbus, we want to demonstrate them our capabilities. We are – they're already a significant customer, but we can certainly do more. I'm using my own personal network to make sure that the top management of Airbus understands what we can do. We see also with Airbus some interesting opportunities to bring some of our specialty polymer materials.

You might remember that we announced some approval of product called Tegracore for the A350 for some applications we think that there could be much more significant opportunities here and there mostly for within the cabin application. So clearly with Airbus, we want to reestablish ourselves as a key strategic supplier. And the response today is good although it takes time to have a product on aeroplane, in an industry which is very cautious. But clearly, one of the potential top-line synergy that we've seen the integration of Cytec into Solvay is ability focus in a more balanced way between North America and European players. And so far I would say the response is good. Let's make sure that we can transform that in future sales.

Peter Clark: Thank you. Can I may be follow-up with another question on M&A. I mean you've done the acquisition. You've done Cytec. I know that for example that last year you spoke about potentially a function of polymers. There's also mentioned certain business with performance chemicals. Just wondering how let's say how high in the agenda the divestments are at the moment? I mean could we expect something significant already this year?

Jean-Pierre Clamadieu: Already on the agenda they're quite high on my agenda. Now we need to move cautiously. We need to move with the objective to indeed find the right solutions for our shareholder for the businesses which could be part of this program. So I don't want to be pressed by calendar. I think there is a, from a financial standpoint, there's no need for us to make these divestments. The ability with divestment is more strategical element of a portfolio making sure that we can focus resources on businesses which are significant growth opportunities for us. So mainly the quality of the processes is probably more important than just the timing. But yes, it's high on my agenda.

Peter Clark: Thank you Jean-Pierre.

Operator: The next question is coming from Martin Evans JPMorgan. Sir, please go ahead.

Martin Evans: Yeah thanks. Just one question, following up on Paul's question earlier about that your guidance for the year and you're sort of confidence in high single digit EBITDA growth. And you made the point that the fourth quarter this year will be I think the phrase is significantly stronger than normal. And you referred specifically to the smart device market. Can you, I mean you've had this guidance out there for some time. You're obviously expecting some orders to come through in the fourth quarter relating I guess to the introduction of new cell phone models and so on. Has that visibility from your customer or customers is sort of materially increased to give you sort of strength and confidence, or are you essentially just hoping that these orders come through in the October to December period. Is this ability now much stronger than it was three months ago?

Jean-Pierre Clamadieu: Yes. No yes, I mean back in January it was the view on the usual product cycle. Now we are going in a period in which where we are starting to build some specific programs or specific models. So we've – we are gaining confidence now. We have the order for our December activities and so it’s clearly no, I mean it's huge. It would be dependent on the commercial success. It will really dependent on a lot of factors, but yes, we have increased significantly our level of confidence. And by the way the Q4 situation is not just linked with – it's not just linked to this specific segment, but as everyone has in mind the impact we’ve suffered in Q1 and Q2 I think it's of the view that it will play a whole. But yes, overall, we expect to let run on seasonality in Q4 than we used to.

Martin Evans: And just finally once your own facility in PEEK comes on fully online I think you said in the third quarter. Will you be then self-sufficient or will you continue to outsource on that production?

Jean-Pierre Clamadieu: Well, once the plant is fully operational, and again I don't want to commit to a specific date for this because it's a bit of a complex plant in process. But yes, I mean we will be self-sufficient for at least some years once the facility is up and running.

Martin Evans: Thanks very much.

Jean-Pierre Clamadieu: And maybe I can take the last question, and then we will wrap-up.

Operator: There are no more questions for the moment.

Jean-Pierre Clamadieu: Great, so let's wrap-up. Thank you very much for your time. I hope that we were able to share with you what we were the key element of these results. Once again, I think we demonstrated that the strength and the breadth of Solvay portfolio allows us even when we see a headwinds in a couple of segments to generate significant growth. Strong focus on the free cash flow we've said it on the beginning of the year, and it's really something well we are seeing some changes. I think the cash profile this year will look very differently from where it was last year, and it's a much safer and much less back-end loaded profile. EBITDA margin at 22% percent probably something which in comparison with our peers shows again the quality of the portfolio that we have today within Solvay.

And regarding portfolio transformation, Cytec integration is going very well in terms of its growth synergy delivery, and indeed in terms of topline opportunities we are starting to see also the strength of the combination. We are looking forward for the opportunity to share more of this with you in our Capital Market Day 29th September. And with that, I thank you very much once again to have spent this end of July Friday afternoon, early afternoon with us. Good holidays for those of you who going on holidays, and looking forward to see you in London at the end of September. Thank you very much.

Operator: Thank you Mr. Jean-Pierre Clamadieu and Mr. Karim Hajjar. Ladies and gentlemen this concludes today's conference call. Thank you all for attending. You may now disconnect.