Event: Solvay Q1 2017 Results Conference Call **Date: 03.05.2017**   **Speakers: Jean-Pierre Clamadieu and Karim Hajjar**

Operator: Ladies and gentlemen, welcome to the Solvay First Quarter 2017 Results Conference Call for the investment community. I am pleased to present Mr Jean-Pierre Clamadieu, CEO; and Mr Karim Hajjar, CFO. For the first part of this call, all participants will be in listen-only mode, and afterwards there will be a questions and answer session. I would like now to turn over to Mr Jean-Pierre Clamadieu. Please go ahead.

Jean-Pierre Clamadieu: Thank you very much. Hello everyone. Thanks for joining us for this Q1 Results Call. I'm here with Karim, our CFO, and Kimberly in charge of IR. I will just make a brief introduction, and then turn to Karim for deeper insight in our Q1 results, but clearly the headline for me is that this is a good start to 2017. We've been able indeed to generate significant amount of EBITDA growth, driven by volumes, and this is exactly what we were planning to do. But we've seen supportive news or behaviours coming from the markets we serve. So, this allowed us to generate a 12% EBITDA growth. Operational excellence measures offset most of the higher input cost, and this allowed us to sustain record operating margin of 21%.

Something which for me is very important when I look at these results is our ability to generate a record free cash flow of €160m for continuing businesses. For the past couple of years, we've made sure that the focus of the whole team was on cash generation. We wanted to have a much more stable cash generation along the years, and indeed this record level for Q1 demonstrates our ability to control much better than we did in the past our free cash flow generation.

Supportive market environment, I was mentioning it. I mean, this is true for the overall economy. I think in most regions where we operate, with probably the exception of Latin America, we see a supportive market environment. But specifically, we've seen some of the headwinds that we have suffered from in the past couple of years turning. Indeed, oil and gas in North America is in a very different situation than it was in the past quarters, so we are now starting to see a very significant amount of activities in this area. And something which is very specific to us, smart devices, we are also seeing a very good start to the year, and indeed opportunities which will develop along the course of 2017.

Before turning to Karim, maybe just a word on a different subject, regarding our annual report. We've made big changes in the annual report this year, focusing on producing what we call an integrated annual report. I really strongly encourage you to spend a bit of time on our website to look at this report. I think it gives a bit of a different picture, and once again a much more integrated picture, putting together both financial and non-financial indicators and performance at Solvay. With that, Karim, I turn to you for additional insights in our key financial results.

Karim Hajjar: Thank you, Jean-Pierre. Good afternoon and good morning. As usual, the numbers I'm going to highlight are on an underlying basis, and I will refer to certain slides that are available to you on our website. And I'd like to start with the top line, with our sales. As you can see on slide 9, the facts are that sales were up almost 10%, and that is the second consecutive quarter where we've seen sales growth. You will recall that Q4 last year showed a 4% improvement in volume-driven sales. This quarter, volumes are up 7.5% and, as you will see in a moment or two, that growth was very broad-based. Particularly, I'd say automotive, agro and easing of headwinds in oil and gas and smart devices contributed to that dynamic.

EBITDA is key, clearly, and you know the headlines, so if you turn to slide number 10 there are three or four points I'd like to highlight in general terms. One, volumes as you'd expect contributed significantly to the growth. And this was about what you'd expect in terms of the associated fixed cost increases. Pricing power was modestly negative this quarter, as our excellence programmes couldn't fully mitigate the rapid rise in raw material input costs. Foreign exchange contributed favourably this quarter, mainly due to the appreciation of the US dollar and the Brazilian real. Taking all of these together, our EBITDA margins expanded 0.4%, from 20.4% last year to 20.8% in this quarter. So, strong records.

As we turn to our segments, I'll look at Advanced Materials, and there what you can see is that our EBITDA increased 9%, and our margins expanded more than 1% to 26%. Two to three things to highlight: Specialty Polymers continued to go from strength to strength, strong growth momentum. Very broad-based, several markets. I talked about automotive: electric vehicle battery market stood out as well, as a strong driver of growth. The composite business showed modest sequential improvements compared to the fourth quarter of last year, as we're now beginning to see good growth in single-aisle aircraft, military related to the Joint Strike Fighter programme, helping to partially offset declines in wide-bodied civil aircraft, rotary and business jets. I think one has to be patient to see that inflection come through, and we expect that growth dynamic to be more evident towards the second half of this year and into next year. We also saw the strength in automotive markets show through to the bottom line in our special chem business and silica businesses as well.

Turning to Advanced Formulations, what do we see? Clearly, we recognise and welcome the 4% EBITDA growth, but we did see some margin pressure, as Jean-Pierre highlighted. As we explained last quarter, we have begun to see activity levels improve in oil and gas markets. Clearly, the rig counts alone are double what they were this time last year. And the modest sequential improvement continues, although we note that you cannot extrapolate that because of the different mix of products; so, for example, strong friction reducers, less guar. So, the mix is changing. Nevertheless, the momentum is very positive. Novecare also demonstrated and delivered growth in a number of other markets: agro, coatings and other industrials. In our technology solutions business, we had some customer-specific issues in mining – I'm talking about strikes and industrial action – and that offset the new business developments that helped to maintain the profitability at a decent level.

Performance Chemicals had another strong quarter: EBITDA up 12%, margins a record 28%. Soda ash is performing very well, with volumes up mainly in the seaborne market. Bicarbonate continued double-digit growth, supported by the fruits of the investment in our new Thailand plant that we made last year. Peroxides benefited from the kicking-in of the contract for our new HPPO plant in Saudi Arabia, which is now beginning to take effect, and we are entering the mechanical start-up phase of that project. Our 28% margin also reflects the maturity and the strength of our excellence programmes in that segment.

Functional Polymers delivered a 34% increase in EBITDA, and there we saw strong volume growth in polymers and intermediates, primarily for automotive applications both in Europe and Asia. Here also, excellence programmes strongly underpinned the performance, and we were able to successfully pass along increases in raw materials.

Turning to slide 11, our net income improved by 33%; €70m up on last year. And that reflects both the improvement in EBITDA growth as well as the reduction in the underlying tax rate from 31% to 25% last year. And that's largely driven by the evolution and the geographic mix of our pre-tax earnings in the quarter. We're not changing our guidance of around 30% at this stage, but clearly welcome the performance at this stage.

As Jean-Pierre mentioned, cash is really a feature that we're particularly pleased with and, as you can see on page 12, our cash flow is very strong; in fact, as we mentioned, it's a record. The previous high was €52m, and you have to go back to Q1 2012. And so, you can see we're more than three times what we did previously there. It's not an accident; it comes from high profits, real attention to Capex and working capital management. Very, very strict, very diligent in delivering that performance. And we are still targeting an annual spend of about €800m on Capex for the full year. And this is approaching parity with depreciation, entirely consistent with what we set out in our strategic roadmap when we spoke in September last year. So, all in all a strong start to the year, both in terms of profits and cash. And with that, I turn you back to Jean-Pierre.

Jean-Pierre Clamadieu: Thank you, Karim. So, just a few comments before opening to Q&As. Regarding our priorities for 2017, no significant changes; very much in line with what we've shared during the past similar calls. Focus on portfolio optimisation; we know that there's still a few things we need to do to continue on the track of upgrading our portfolio of activities, and we are indeed very focused to make sure that we can deliver this.

Regarding the outlook: as I've mentioned at the beginning, and I think Karim has developed it, we see a strong start to the year, which is good. We are pleased to see that indeed, volume growth is a key driver for the improvement of our performance, very much in line with our expectation, but it's good to see that materialising. Core growth engines are indeed doing well, and all of this gives us confidence that we should be able not only to deliver, but probably to exceed on the EBITDA and cash outlook that we've provided some weeks ago.

More importantly, probably, we are at the midpoint of the strategic guidance that we gave last year during our capital market day, and I'm pleased to confirm that at this stage we are very much on track in every respect in relation to our mid-term objectives. With that, I think it's time to take your questions. Operator, can you start the Q&A session please?

Operator: Thank you, yes. Ladies and gentlemen, if you wish to ask a question please dial 0 and 1 on your telephone keypad. After you are announced, please ask your question. Once again, please dial 0 and 1 on your telephone keypad to ask a question. Thank you.

We have a question from Peter Mackey from Exane. Please go ahead.

Jean-Pierre Clamadieu: Hello, Peter.

Peter Mackey: Hello there, Jean-Pierre. Hello, Karim and Kimberly. I've got a few, of course, as ever. The first question: I'm surprised you didn't see slightly more negative input costs at the Group level. I just wanted to check that that does include the energy costs? And also, I wonder if you could give us a little bit of a flavour by division, please? It looked like the greatest pressures were in Advanced Formulations; just wanted to confirm that.

Secondly, on Advanced Formulations, the margin was pretty disappointing, I think, in the first quarter. And it's interesting that you're talking about seeing some genuine pick up in oil and gas now. We've obviously seen some down trading in oil and gas areas. I wonder if you could talk a little bit about mix across the whole of the Formulations activities, please?

And then two hopefully smaller questions. In Specialty Polymers, can you give us some idea of the size of your EV battery exposure now, perhaps in proportion of Specialty Polymer revenues or something like that, to give us an idea of the impact of growth in the EV market?

And finally, on the Sadara HPPO project: you talked about mechanical start-up. The sort of revenue step-up that we saw in the quarter, is that effectively the full contracted revenue that we should be expecting going forward, or is there still more to go? Thanks very much.

Jean-Pierre Clamadieu: Okay, so a lot of pointed questions. So yes, indeed, input cost includes energy, obviously. But when we look at the mix of raw material and energy purchases that we do, we end up with what you see in our numbers. So, don't underestimate the fact that through the portfolio transformation, we are less and less dependent on energy, which means that we buy less and less energy in various forms. So, our sensitivity or exposure to energy has changed quite significantly in the past couple of years.

Regarding Advanced Formulations, what I see today is more a bit of a mismatch in terms of timing, between what's happening on the input cost and what's happening on the selling prices. I have a feeling that things will improve over the year. It will improve because we have just renegotiated some contracts for some of our significant raw materials, mostly in the oil chemical area, which will bring significant improvement in terms of competitiveness. And we are starting also to see some impact coming from selling price adjustments, which were done probably a little bit late in comparison with input costs. So for me, no reason to worry there, but just a bit of a mismatch, which is quite obvious when we look at this quarter's margin.

On Specialty Polymers: I mean, batteries represent only a few percentage points of our total exposure, but it's a market which is growing very significantly. So yes, indeed, we are quite pleased with the development that we've seen for large batteries; mostly electric vehicles, but also stationary batteries. I remind you that we have a new PVDF facility which will start up in China in the next month, probably during the summer; we've just finalised the mechanical completion on this plant. And this will give us much more firepower to follow up on some opportunities that we see linked to electric vehicle development in China. So, a good niche to continue to grow our position in Specialty Polymers.

So, Sadara, the situation is rather simple; two elements. From a practical standpoint, we have produced the first batches in the past few days, so the unit is operating not yet at full capacity, but is operating, which is good news. I remind you that we are part of a very large and complex industrial setup, so we need to make sure that in the next few weeks, the whole HPPO chain will be indeed up and running and moving up to reach full capacity. And the second element which took place is that we started the contractual arrangement, which is basically a take-or-pay contract. And the starting point was December 2016, so it explained why we see actual contribution from Sadara during our Q1 results. Don't expect big changes over the next quarter regarding Sadara; our view regarding how the plant will operate gives us a feeling that we should continue to see similar levels of contribution for the Sadara project over the next few quarters.

And I think with that, I've probably covered all of your questions.

Peter Mackey: Thank you. Very briefly, I wonder if I could just push you on the Formulations side? You talked about mismatch in general between selling prices and raw materials: are there any mix issues or particular areas within Formulations where you've seen that more than others?

Jean-Pierre Clamadieu: No. I mean, you know that Formulations is a group of complex businesses. We are serving a lot of market sub-segments, but generally speaking, I would say that it's probably in home and personal care where we've seen a bit of a – when I say mismatch, don't overplay it, but a situation where, indeed, we had suffered more from input cost increases than what we have passed to our customers in terms of price increases. If I had to name a segment, it would be home and personal care. But it's true that generally speaking, we've seen a spike in some of our raw material prices. And by the way, some of them have already gone down a bit, which explains why we've seen this slight pressure on margin.

Peter Mackey: Thank you very much.

Operator: Thank you. Our next question is from Thomas Wrigglesworth from Citi. Please go ahead.

Thomas Wrigglesworth: Thank you gentlemen, and Kimberly, for your presentation. A couple of questions I think have been left by Peter. The first one, if I may, just to go back on the variable costs, which you show in your bridge at negative 2%. If you took out the operational excellence, what would have been the variable cost inflation in the year?

The second question, just in terms of the fixed costs performance, which was obviously – how much of the Cytec synergies are in that, are part of the negative €35m that's in your EBITDA bridge there?

And lastly, on the Others line, you mentioned several associated companies and a sale of small surplus assets. Could you just elaborate a little bit on what happened in that component? I know that swings around quite a bit quarter by quarter, but how should we think about the Others line on a full-year basis? Thank you.

Jean-Pierre Clamadieu: Karim, do you want to take these questions?

Karim Hajjar: Sure, let me take each in turn. On the variable cost: I don't want to give too much, let's say, inordinate information or detail. What I can say to you is excellence and synergies combined delivered more than €50mn in this quarter; predominantly on variable costs, but also impacting fixed costs. So, the momentum that we saw last year that helped to build the strong performance last year is continuing. We also had a modest favourable impact of less than €10m on foreign exchange that came and helped this quarter into the variable costs. So, hopefully that helps you understand the key drivers that helped to produce the strength of the result in that perspective.

When it comes to the Others, the other contribution that you saw, fundamentally what we have is this: last year, we had some minor restructuring costs, and pre-commissioning, pre-ramp-up costs which were a small negative last year. This year, we had the favourable impact of some modest asset sales – we're talking less than €10m a time – and an increase in joint-venture equity earnings, and that has quality written all over it, be it RusVinyl or others. So, the recovery, the positive dynamic we see in our main businesses, we're seeing in our smaller equity JVs as well, and that's a contributor to the result.

Jean-Pierre Clamadieu: Has that helped, Thomas?

Thomas Wrigglesworth: Yeah. And where are we on Cytec synergies? Sorry, I may have missed that in your answer.

Karim Hajjar: We're not giving this quarter a specific deep dive on Cytec. What I can say to you is the momentum is continuing. We've added a bit, but it's within the €50m-plus that I highlighted of excellence and synergies.

Thomas Wrigglesworth: Okay.

Karim Hajjar: We will give an update on Cytec and synergies possibly more periodically, more of a strategic update. It kind of makes sense.

Thomas Wrigglesworth: Sure.

Jean-Pierre Clamadieu: We ended the year with a €100m of cost synergies' run rate, and –

Karim Hajjar: We're going beyond that.

Jean-Pierre Clamadieu: – we are going beyond that in 2017, so continuing to deliver very strongly.

Thomas Wrigglesworth: Yeah. Okay, thank you very much.

Karim Hajjar: Thank you.

Operator: Our next question is from Nathalie Debruyne from Degroof Petercam. Please go ahead.

Jean-Pierre Clamadieu: Hello, Nathalie.

Nathalie Debruyne: Hello, good afternoon. Well, basically, two questions on my side. First one, if I can try it again: where are you in terms of synergies with Cytec? Sorry for the question, I know it's just been asked, but in terms of run rate for the year, are we ahead of your expectations for the time being, or should we wait until H2 to have a view on how it's evolving?

And the second one is on pricing power. I was expecting it in the first quarter to be a little bit more negative, actually, so I am wondering what you anticipate for the full year. When you look at today's raw materials evolution, the fact that you've been a little bit lagging in terms of price increases in some segments, can we expect that number to be positive by the end of the year, or rather flat?

Jean-Pierre Clamadieu: On Cytec, as Karim said, I think we'll update you with our Q2 results, but we ended the year at a €100m run rate as far as synergies are concerned, and we are continuing to make progress. It is something which is going well.

Pricing power: it's good that you're surprised, but I think it shows the quality of our portfolio. It shows also the fact that we are more and more moving into businesses where, indeed, the input costs are a less important component than they used to be in some of the commodity businesses that we have divested. As I've mentioned, the segment where we've seen some impact is clearly Advanced Formulations. We expect the situation to improve over the next quarters. I will be cautious, and probably I'm not ready to make a forecast on what will be the overall yearly pricing power impact, but I don't have any sign that it should be degrading in the next quarter, to try to help you get a feeling on where we are. So, probably for the full year, something close to neutral would be a reasonable hypothesis to make today. I mean, we'll see how things will develop.

Something I did not mention when I was answering the previous question on input costs is the fact that, as far as energy is concerned, probably the area when we had the most pressure was coal for our Soda Ash business. It's clearly an area where we've suffered a bit from some unexpected spikes in the price of coal. But overall, again, a situation where we feel that we've been able to manage through price adjustments with our customers.

Nathalie Debruyne: Alright. And if I can maybe follow up on oil and gas: I understood actually from your IR team that what you see today in oil and gas in the US is that a lot of rigs that are being added are basically drilled but not stimulated, which more or less has a negative mix impact on Chemlogics' activities, or Solvay's activities. How do you see the mix evolving in the coming quarters? Did you already see some switch or some kind of change in your customers' behaviour, or can we expect a negative mix to persist in the medium term?

Jean-Pierre Clamadieu: Yeah, I will just correct a little bit what you've said: we are seeing *some* rigs being made but without the associated stimulation; it's not the majority of them, but some, yes. We are seeing today some slight improvement – or let me put that in a different way: the trends are positive as far as mix is concerned, which means that we are seeing people getting more and more interested in a higher cost formulation. We are starting to see interest again around guar-based formulations. But it's more than a trend than an actual fact, so the trend's positive, but I won't quantify what this represents. But what's clear is that since Q4, we've seen very positive trends regarding volume, negative mix effect. Expectation would be to see this negative mix effect slowing down in the next quarters.

Nathalie Debruyne: Alright. Thank you, that's very helpful.

Jean-Pierre Clamadieu: Thanks.

Operator: Our next question is from Peter Clark from Société Générale. Please go ahead.

Jean-Pierre Clamadieu: Hello, Peter.

Peter Clark: Yeah, good afternoon. Thank you for taking the questions. I've still got a few left, actually. You're obviously more confident on where the macro's coming through with some of these businesses, but in two areas where you saw pretty much double-digit volume growth – soda ash, and you mentioned the Asian seaborne market; and the polyamide business – just wondering how you see the progression there? They were against pretty soft comps year on year, I think, but how do you see that business progressing, those two areas?

And then the inventory revaluation you saw in polyamide, how much did that contribute to the EBITDA?

And then just finally, for Karim, actually, just a quick clarification on the guidance for the full-year tax charge, if you can remind me where we're at, at the moment? Thank you.

Jean-Pierre Clamadieu: I will comment on the first two points, and I will let Karim answer the last two questions. Soda ash, we see indeed a good situation regarding volumes at the beginning of the year. Export markets have been quite active, and that's clearly a positive. We all know that the second part of the year will be a bit more difficult for soda ash, because we'll start to see new volumes coming from our Turkish competition going into some of the markets that we serve, but once again, we're probably as well prepared as we can be for this situation. And what we've seen in the beginning of the year gives us a good feeling regarding the development.

On Functional Polymers, the dynamic is pretty positive there. There is some inventory effect, and Karim will quantify that, but not major. What we see is a level of demand which is good, linked to the automotive industry, and the fact that, as usual, some of our competitors are having some production issues here and there, and as our plant tends to operate in a very reliable and efficient way, we have the ability to benefit from that. But again, reasonably good development expected in front of us. I remind you that for this business, especially polyamide, raw material and energy inflation usually tends to create a positive environment for us. I mean, if you look back at history, we've always been able to manage reasonably well prices in such an environment.

Karim, inventory at polyamide, what does it mean? What does it represent?

Karim Hajjar: Sure. It's favourable, but it's single-digit millions. Without it, pricing power in Functional Polymers would still be positive, is the best way I can describe it. So yes, it's normal business, you get ups and downs, but fundamentally the pricing power remains strong without that. Does that help, Peter?

Peter Clark: Yeah, that helps. And sorry, the tax charge for the full year?

Karim Hajjar: I'd say that the guidance we have of around 30% holds strategically. Clearly, there are a lot of pluses and minuses. If I look at, for example, the start-up and the impact of our HPPO plant in Saudi Arabia, that doesn't have the same tax charge as a business in Europe. So, I'd say as the evolution develops further, let's see, but around 30% still makes sense, and that's something we'll update you with clearly when we speak again. But clearly, it's a good start and we like to see low tax rates, obviously.

Jean-Pierre Clamadieu: Now, Peter, going back to your first comment regarding growth coming from the non-growth-engine businesses, let me just go back to this. We are expecting significant growth coming indeed from our growth engines in the remaining part of the year. You should be reminded that there's a number of significant new plants, new capacity which will start up, especially for Specialty Polymers. I already mentioned the PVDF facility in China that will start up during the summer. We have also our PEEK facility in Augusta in the US, which is currently starting up. All in all, five new plants in Advanced Materials which will start up in the next months, so we really expect the growth in volumes to be coming from all of our businesses, with a focus on the growth engines.

Peter Clark: Yeah. Okay, thank you.

Operator: Thank you. Our next question is from Mutlu Gundogan from ABN AMRO. Please go ahead.

Mutlu Gundogan: Yes, good afternoon. A couple of questions. The first is on Novecare: can you tell us how your actual oil and gas fields are developing compared to the recovery that we see in the US rig count?

The second question is on peroxides, or on Performance Chemicals if you may: can you quantify the contribution to sales and EBITDA of the new HPPO plant in the quarter?

And then thirdly, it's linked to that, the fixed costs. These went up by €35m in the quarter: how much of that was linked to new capacities, and was that mainly the new HPPO plant? Thank you.

Jean-Pierre Clamadieu: Well, oil and gas, overall volume is moving very much in line with what we see when we look at activity, and again, rig count is not the only metric of activity. We have increased very significantly our market share over the past couple of years during the crisis, because a number of small players have disappeared, and the supply chains are much more tightly managed, which clearly gives a plus for the largest players.

Second phenomenon: mix, as I've mentioned. Friction reducers are doing very well. In the past months, we've seen very few formulations using guar for cost reasons. The expectation is that this could change, at least in terms of trends, in the next quarters, because we see operators gaining confidence and willing to make high-quality fracking. So, with that, clearly opportunity in front of us, with still some uncertainties on how significant this improvement will be.

For peroxide and fixed costs, I turn to you, Karim.

Karim Hajjar: Sure. On peroxides, you may recall Jean-Pierre's indication back in February that the run rate we expect from the new capacity in peroxides, both in China and Saudi, was in the order of €50m a year. We are on track; Q1 reflects its fair share of that. That's probably the most precise guidance I can give you, confirming what we said previously.

On fixed costs, our excellence and our synergies offset largely inflation, so the majority of the increase is related to new capacity, to growth, as well as changes in personnel provisions and costs; things like bonuses, etc. So clearly, we share the successes of a strong performance with our staff, but the majority of that is absolutely related to our growth, Sadara amongst others.

Mutlu Gundogan: Thank you very much.

Jean-Pierre Clamadieu: Thank you.

Operator: Thank you. Our next question is from Patrick Lambert from Raymond James. Please go ahead.

Jean-Pierre Clamadieu: Hello, Patrick.

Patrick Lambert: Hi, Kimberly, hi guys. Thank you very much for taking a few questions. First one, I think again on Advanced Formulations' margin: I think comments from Karim saying that the Cytec business, the mining/additives was mixed, in particular on mining. Can you quantify the impact on margins from the problems in mining? Was that significant, and most importantly, how does it look over the next few quarters, do you think? Because I know that was a pretty high-margin business, so if you could get the outlook on the strikes on the copper mining business, would be good. That's the first question.

The second question on aerospace; coming back to, again, Cytec, sorry. Good performance at minus 3%; if I put some FX on it, it would be, I don't know, minus 4–5% maybe, in terms of volumes. Again, could you comment a bit on the order backlog, or the order book overall? It seems to have picked up from the capital markets day, especially on the narrow-body planes. If you could comment on that, and your confidence in H2 going back to positive growth, how the F-35 seems to be helping that?

And the last one, very quick for Karim: on the €21m of Others, are these numbers basically split around divisions, or is there one that we should put more into it? Thank you, that's it.

Jean-Pierre Clamadieu: So, a lot of detailed questions. Advanced Formulations: yes, technology solutions was impacted by what we've mentioned; strikes in some copper mine. It stays a very good business in terms of margins, and significantly above the Group average, and very significantly above the cluster average, but we've lost a few percentage points in this situation. Frankly speaking, in our view, no reason to worry. We are very optimistic on the ability of this business to generate very, very solid margins for the remaining part of the year. And if I had once again to name once segment where we've suffered a bit, which explains this pressure on margin, it's probably the home and personal care segment of Novecare. A little bit also on the aroma performance.

Aerospace: well, the situation is relatively clear, if I may say so. Narrow-body or single-aisle planes: order books are filled both for Boeing and Airbus. I mean, Airbus, they are not able to take orders for delivery before 2022. Boeing is in a similar situation, so the challenge is really production. There, we are seeing a very steep increase in the number of planes produced, and indeed Airbus and Boeing had some production issues – I mean, some of them made the headlines, so there's no need to comment – which are slowing down actual productions. We are seeing the situation improving, but our understanding is that we are not yet at the level of production rate that these OEMs would expect, so there are still opportunities in front of us. A little bit differently from our competitor, Hexcel, we tend to think that the inventories in the supply chain have been taken care of. So, we suffered from that last year, some adjustment along the, in some cases, complex supply chain. We think that this is a 2016 phenomenon. On wide-body, it's where the market is a bit soft. Waiting for new planes coming online; the 777X from Boeing is a good example. So there, we are seeing a little bit of reduced activities, compensated by a good development of the military side and the F-35 ramp-up rate, which is improving.

But clearly, the area where we suffered still in Q1 is the non-aerospace segment, which is a number of very different markets, from wind energy to automotive, and there we continue to work to make sure that we can improve the performance of this non-aerospace segment within our composite materials. But overall, very optimistic about the development of composite over the year, but we are still in a period where supply chains are adjusting and people are trying to understand how they can increase their rates, which will mean more business in front of us but challenges in the short term.

Patrick Lambert: The non-aerospace, how big is it now if you look at 2016?

Jean-Pierre Clamadieu: It's about a quarter of our composite materials position.

Patrick Lambert: Okay.

Karim Hajjar: So far as your other question, Patrick, around where's the impact: you find it mainly in Advanced Formulations and in Functional Polymers. That's where you see the majority of the impact.

Patrick Lambert: Thank you.

Operator: Our next question is from Laurent Favre from Evercore. Please go ahead.

Jean-Pierre Clamadieu: Hello, Laurent.

Laurent Favre: Hey, good afternoon, everyone. I have three questions. First one, just a clarification on what you just said, Jean-Pierre. Have you seen any destocking impact on top of what you were expecting in terms of lower production rates in wide-body on the aerospace side, which clearly was mentioned by one of your peers, or is the decline we've seen just what you were, I guess, forecasting or expecting internally?

Second question is on silica pricing, which is still down quite a bit. Can you talk about the competitive pressure there? Obviously, we've seen more capacity additions from you and your competitors, but I'm just wondering if there should be even more pressure as the cycle starts to turn, or whether you think that we've seen the worst in terms of pricing?

And the third question is a more general one on the auto side, given that you're so well exposed to all the different parts of the autos value chains. It looks like your volumes in autos have been broadly at 10–11%. Obviously, car sales in Q1 were up only 3%. Are you not worried about, say, an inventory stocking cycle which will bite us in the rest of the year?

Jean-Pierre Clamadieu: Okay. Well, just to clarify on aerospace: we've seen in 2016 some inventory reduction in the supply chain, which kind of increased the impact of some of the production delays. We think that this is behind us and, as we entered into 2017, we think that inventories in the supply chain, the supply chain that we serve, are at a very normal level. So, we don't expect any more impact linked to inventory.

Silica pricing: you know that it's a business where we have, in most of our contracts, some price inflators which are linked to energy costs, so there is a bit of a delay as far as the impact of these price inflators or deflators; inflator, in this case. So, we are suffering from this delay, but we expect the situation to improve in terms of pricing in Q2. We are indeed seeing some changes in this market, but in the segments where we focus ourselves, which are really the more technologically advanced silica formulations, we continue to enjoy a very strong position, very good relationship with key customers, and we have the ability that we can continue to enjoy very solid opportunities in these segments.

Auto, we are reasonably confident. I mean, what we understand is that there has been a bit of an overproduction, or a bit of an overstocking – mostly in China, by the way – linked to the expectation that some new government incentives will be put in place. But we think that the growth in the automotive industry is solid. And I remind you that the difference between the overall automotive industry growth and what we see at Solvay is linked to the fact that we are gaining market share and continue to gain market share. New cars have more polymers than the older ones, and this explains why we continue indeed to enjoy very solid growth in this segment.

Laurent Favre: Is this a trend you would say is also supported in polyamides, or is it mostly in specialty plastics?

Jean-Pierre Clamadieu: Well, I think it's both. I mean, in polyamides, we continue to see that, but probably the trend is stronger on the Specialty Polymers side of the business.

Laurent Favre: Okay, thank you very much.

Operator: Our next question is from Paul Walsh from Morgan Stanley. Please go ahead.

Paul Walsh: Thanks very much. Afternoon Jean-Pierre, Karim and Kimberly. Thanks for taking my questions. Just two clarifications, and then one on the polyketones market, please. So, Karim, just on the write-ups and also some of the smaller land asset sales: I don't know, my maths is getting me to something like a €20m benefit in underlying EBITDA for the quarter. Just wondering if that maths is broadly okay?

Second question, really back to Laurent's around the volume growth, which was fantastic, really, in the first quarter. And I'm just curious: selling days, restocking, anything like that that you're worried about, or are we looking at a run rate which is broadly sustainable?

And then just a final question on PEEK. I think one of the newswires picked up that you were making some positive comments around the PEEK market moving through the year: is that ahead of new product launches with customers, is it because the new facility ramps? Just a bit more information around that would be helpful, thank you.

Jean-Pierre Clamadieu: I forgot the first part of your question, sorry. It was…?

Paul Walsh: Sorry, I was wittering on too long. It was for Karim.

Karim Hajjar: Well, your maths is absolutely correct, as usual. €20m is a good order of magnitude for this quarter. What I would say, though, is this: €17m approximately is to do with our equity earnings, so very much business as usual. And you've got another €3–4m to add on top of that to get to the €20m-ish that you get to, which is more incidental asset sales and normal business optimisation, let's say.

Paul Walsh: Okay, clear. Thank you.

Jean-Pierre Clamadieu: So, on the PEEK situation: yes indeed, we are reasonably optimistic, because as you know, we've been able to market quite large volumes of PEEK-containing formulations, which means that in some cases we had to source PEEK outside of Solvay. So, now we have more capacity available, thanks to the Capex project that we've done. And yes, we see opportunities in various markets, probably the most significant one being the smart devices market; we see opportunities in front of us. So overall, a very good dynamic in the PEEK market for us.

Paul Walsh: And just on restocking, Jean-Pierre, and sales days? Anything that might flatter the volumes?

Jean-Pierre Clamadieu: No, frankly speaking we don't see any phenomena like that. Now, should we take Q1 and consider that it gives a good proxy for volume growth for the remainder of the year? I think we need, obviously, to be prudent, because we are exposed to very different markets. But I've commented on the oil and gas dynamic. I think on the smart devices, we are expecting good following quarters in terms of volumes. Sadara, we've told you that we are probably, in terms of contribution, with rather a flat situation in the following quarters, so our performance will be a combination of all these different building blocks. I forgot to mention batteries, which again for Specialty Polymers, despite the fact that it's still small in terms of percentage of sales, we expect very significant growth. I mean, it can double in 2017 versus the previous year. So yes, overall, as we said when we presented our full-year results, we expect 2017 to be a year where volume growth will be the key driver for our EBITDA generation.

Paul Walsh: Very good. Very good, thank you.

Operator: Thank you. We have a next question from Geoffrey Haire from UBS. Please go ahead.

Geoffrey Haire: Hi, this is Geoff Haire here from UBS. Thank you for the presentation. I just have one question I wanted to ask on Sadara: could you just confirm that – are you receiving, currently, the full payment on the take-or-pay contract, or will that ramp up as you hit full production?

Jean-Pierre Clamadieu: So, I think the message: yes, for 2017 what we have received in Q1 is probably a good proxy for what we will receive in the next quarters. Now, there are opportunities to see the contribution of this plant increasing, but we don't expect to see that in 2017, because it would require the whole complex to be producing at its full capacity.

Geoffrey Haire: So, is it fair to assume that the current fee or payment you're getting now is flattering your margin? So, as you go towards full production, you head towards a more normalised margin on the plant?

Jean-Pierre Clamadieu: I'm not sure I understand your question, or your point. When you say 'flattering', what does it mean?

Geoffrey Haire: Sorry, what I mean is: is the current payment you're getting giving you a much higher margin on the sales that you're getting from the plant, and therefore as you go towards higher production, that margin will come down towards what you expect the normal margin to be?

Jean-Pierre Clamadieu: No.

Karim Hajjar: I think the rate we saw there – our contribution is assured. So basically, we have a contribution and a fixed cost, and what you see in Q1, you can take as a given that we'll see for the rest of this year. There's no distortion because of the contractual arrangements, let's put it this way.

Geoffrey Haire: Okay, thank you.

Karim Hajjar: Thanks, Geoff.

Operator: Thank you. We have no other questions over the phone.

Jean-Pierre Clamadieu: Well, good. It means that we've answered all of your questions. So, thank you very much for participating in this conference call. Once again, in our view a very good start for 2017. Volume growth indeed was significant. We expect the remainder of the year to allow us to continue to demonstrate our ability to generate indeed volume growth, which will support EBITDA growth and cash generation. With that, we'll see each other or we'll talk to each other once again at the end of July, when we'll present our Q2 results. Thank you very much, and have a very good day.

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