Event: Solvay Conference Call

Date: 28.02.2018

Speakers: Jean-Pierre Clamadieu and Karim Hajjar

Call Duration: 56:15

Jean-Pierre Clamadieu: Thank you very much. Thanks everyone to participate in our call today. I'm here in Brussels with our CFO, Karim, and Kimberly, Head of IR. And, the activity is obviously to provide you with a view of the full-year 2017 results, but also share with you the outlook for 2018.

Q4, as you have seen, was strong and it completed year 2017, which was indeed – at least in my view – a very good year for Solvay. We delivered fully on our strategic priorities, and I think we are very much on track with our mid-terms objectives that we've shared with you in 2016. Regarding portfolio, we've reached what I think was a very important milestone with the divestiture of Polyamide to BASF. This was really the last, but very important part of the current chapter of portfolio upgrade that started back in 2012. We expect the Polyamide transaction to close in the second part of 2018, and things now are going exactly as planned.

Regarding the operational performance, we have achieved in 2017 a 7.5% increase in EBITDA, with all our operating segments contributing to the growth. If we are, however, thinking on an organic basis, which means excluding foreign exchange and scope impact, we grew at almost 10% our EBITDA, which is a good achievement. And once again, very much in line with our strategic objectives. We have a strong EBITDA margin – 22% – despite rising raw material and energy prices. We had a specific impact in soda ash, but overall, a very good ability to sustain margins which are best in class in the European industry playing field.

Cash generation continue to be a priority for us. We have generated €871 million of free cash flow. And you've seen also our earnings per share moving up very significantly. If I look at the prior guidance that we've shared back in 2016, you see that we are very much in line to achieve or exceed, and in most cases, exceed our objective. If I look at cash flow, we expected to deliver on our target get of €2.4 billion, despite the divestments that took place during the period.

And, I don't want to forget the sustainability aspect of our objectives. Indeed, I am very pleased to see that today, what we call sustainable solutions represents half of Solvay's sales – 49% to be specific. This is good for the planet, but we are also convinced that this is good for our growth and our bottom line.

With that, I will turn to Karim and ask him to provide additional insights on our past performance and I will get back to you with some comments on what we expect for 2018.

Karim Hajjar: Jean-Pierre, thank you. Good afternoon and good morning. As usual, I'm going to refer to slides that you can access on our website, and everything I will talk about will be on an underlying basis, clearly restated for the divestiture of the Polyamide business, which is now in discontinued activities.

I will start with the sales, and if you turn to slide 11, you will note that net sales have increased by 6% in 2017 relative to 2016. It is worth noting that volumes really drove this. They were up 8% driven by growth across all our operating segments. Advanced materials up 5%. We see that in automotive where we continue to benefit from the secular trends, the growth in the replacements of metal with high performance polymers and also growth in smart devices. Composite sales to aerospace ended the year slightly up, as the production ramp-up of the F-35 program and the LEAP engine compensated for the continuing and expected declines in the wide-bodied platforms.

Industrial composite sales did decrease sharply in the year, as we experienced demand softness across all industrial markets, be it wind, high-performance auto, and rail to name but a few. And this unfortunately weighed on the overall composites growth. Advanced Formulations – volumes up 13% as 2017 marked a recovery year for the oil and gas market. Technology Solutions ended the year slightly up as well, with higher sales of phosphine products sold to the electronics industries. We also noticed an improvement in mining towards the year end, with increased copper and aluminium prices driving higher demand for mining reagents from customers.
Performance chemicals volumes up 8% on good growth in soda ash seaborne markets and specialty bicarbonates applications. And of course, we continue to benefit from the new HPPO peroxide plant in Saudi Arabia that started up earlier in 2017.

So, going from the top line to the EBITDA, you can see the outcomes and the bridge on slide 12. The fact is, we delivered 7.5% growth in EBITDA. Although as Jean-Pierre just mentioned, this is after overcoming headwinds in forex and accounting for the scope effects, without which EBITDA would have grown nearly 10%. As I've already indicated, the growth was driven by volume increases across our three business segments. Clearly there's more. If you look at the fixed cost line, excellence programs and synergies have continued to play their part fully, to essentially offset the inflation effect.

However, it is important to note that the overall increase in fixed costs also reflects two or three other factors. Clearly, the significant impact of the capacity additions, not entirely China, US and Italy, that have contributed to the top line. Clearly, we need more resources to support the volume growth. But additionally, we saw the effect of orphan costs in the divestments as well as an increase in the variable remuneration as we shared the successes and the progress that Solvay employees have contributed to this outcome.

Overall, as Jean-Pierre mentioned, we're really pleased to report that we have sustained our industry-leading EBITDA margins of 22% for the year, despite what you saw towards the end of the year, which was the headwinds in terms of raw material and energy costs that have eroded some of the progress. It's very, very strong as we see it.

But, it's really important to also look at the cash and the cash conversion, and if you turn to slide 15, The cash flow we believe is still very positive. Eight-hundred seventy-one million euro compared to last year doesn't tell you the full story, because last year we have the beneficial impact of businesses such as Acetow and Vinythai that were within our perimeter. But they were sold. On a comparable basis – a like-for-like basis – just focusing our continuing businesses, free cash flow was 19% up as it grew from €658 million last year to €782 million this year. That stems from three factors: higher EBITDA that I've explained; a reduction – which was fully anticipated – in capital expenditures; as well as ongoing relentless focus and discipline on working capital.

Now, that strong cash flow combined with these factors and proceeds of divestments funded the debt service costs, the growing dividends, and helped to reduce the underlying net debt by €1.2 billion, which is now down to €5.3 billion. Now, that represents a leverage of 2.2x and indeed will reduce further on a proforma basis once we complete the Polyamide deal to approximately 1.9x. You'd also remember that during the year, our credit rating was upgraded by both Moody's and S&P, and again, another independent appreciation of the improvement in our credit strength.

Now, clearly, there's quite a bit more I could say beyond cash and debt, but I'd rather have a conversation and respond to your questions. But I will highlight two aspects. One is we have continued to focus on improving our profitability beyond just EBITDA. If you look at the reduction of financing charges, note the significant reduction in our underlying tax rate. That's why we say, we've increased our underlying continuing business EPS (Earnings Per Share) by 26%. Secondly, and really importantly, when we look at value creation to the profits in cash, returns is one indicator that we have always recognised. We are keen and really determined to improvement. And our CFROI, which you will recognise is one of the most demanding cashed metrics, has improved by 10%. We are now back at the levels that we had before the strategic acquisition two years ago. And indeed, if you recall, we'd indicated we'll get to this level within three to five years of the acquisition. So, we are essentially one year ahead of expectations on this particular measure.

I'm sure you have plenty of questions we can take later, but before you do that, I'll hand you back to Jean-Pierre to take us into the forward-looking aspects.

Jean-Pierre Clamadieu: Thank you very much. And I can look backward just for a second, clearly the big achievement in 2017 was volume growth. It's thanks to this very significant volume growth that we've been able to generate the improvement in EBITDA and cash that Karim has commented. And indeed, this was our priority when we entered in 2017 and I think you see now where we've delivered.

For 2018, we remain focused on driving growth. On an organic basis, and it's important to be specific on the wording, which means at constant perimeter on exchange rate, we expect full-year underlying EBITDA to grow between 5% and 7%. If you look at page 13 of the financial report, you'll see a very detailed presentation relating to this outlook.

In Advanced Materials, we expect double-digit growth driven by volume improvement, both in the specialty polymer and composite part of the equation. We see a strong growth coming from automotive. I would say classical automotive, combustion engine, but also electric vehicles. We see opportunities in smart devices. We see opportunities in aerospace, where indeed the LEAP engine and F-35 programs are now firmly on a growth trajectory. And in a situation where we expect also a significant increase in build rates from the single-aisle jet project. To finish on composite, on the non-aero part of the business, we are also expecting to see significant progress as some high-end automotive programs are starting again.

High single-digit growth in Advanced Formulations. Same driver as last year, both from the mining and oil and gas side of the equation.

Then, in Performance Chemicals, I know that a lot of you had questions on what would be the situation of soda ash. We've been very clear that we're feeling that the situation was under control and that we should not expect a catastrophe, as Turkish volumes are finding their ways into Europe. Indeed, we can come to you today telling you with a strong level of confidence that we expect the impact in our Performance Chemicals segment at the EBITDA line to be less than €50 million, which is a meaningful impact, but again, far from being a catastrophic impact. And we expect the soda ash business to have reached the bottom of its performance within the current environment.

So, this 5% to 7% organic growth will lead to cash generation where we expect to maintain the momentum. We are also seeing opportunities in the lower part of the P&L, where our significant improvement, which are still to come on our financing costs, we expect to gain around €100 million in this part of the game.

So, this leaves us with a couple of comments. The first one about priorities. The key priority for Solvay top management in 2018, besides delivering on our financial objectives, is creating a more efficient operating structure. We've been working on this for the last 12 months. We are now about to launch a pretty comprehensive program with one simple objective – making sure that everyone at Solvay is focused on the customer, making sure that we simplify the processes which need to be simplified, to have an organisation which will allow us to deliver with customers which are more and more demanding. When we sell in aerospace, when we sell in automotive, when we sell in smart devices, we have customers who are expecting Solvay to deliver the best solution, the best level of service, and it's why it's so important for us to make sure that the organisation is indeed completely focused on customers. This is what we will achieve, and this will deliver both some efficiencies – some short-term operational improvement, but also – and this is the real objective – this will allow us to generate more solid long-term growth.

Maybe, one last comment regarding Solvay. It's for dividend. We had a discussion yesterday at the Board, and the Board of Directors recommended a dividend increase of 4.3% to €3.6 per share. This reflects both a strong delivery in 2017, but also the confidence in our ability to continue to create sustainable value for our shareholders.

Maybe a personal word before we move into the Q&A. I just want to make sure that you will understand where I stand. In fact, I was in past months, I was preparing for a next stage in my career. I didn't know when it would happen, where I would take non-executive positions, because I think it's another and very interesting way to contribute to the development of various companies. You might have seen, by the way, that this morning I was proposed to become a member of the board of Airbus, which is indeed a very interesting opportunity. But earlier this month came an unexpected offer from the Engie board of directors which offered me to become their chairman. I have accepted this with a clear condition that I wanted to be available at Solvay to do two things: one, deliver on the 2018 priorities and second, make sure that the board can run without any time pressure the high-quality process to identify my successor and make sure that there will be indeed time for a smooth transition.

So the board has decided to accelerate the identification of my successor and our common objective, the board and myself, is to conclude this transition by the end of 2018 and I think that this should be seen as a very smooth transition by all of our stakeholders, internally and externally.

And in the meantime, although it was – it started independently but I think it's a good coincidence – I have just made the decision to strengthen our COMEX. We have three new people going into the COMEX, while Roger Kearns is leaving us to go back to a position in the US. I think that Augusto, who used to run our Specialty Polymer business; Hua Du, who used to run our Special Chem business and Cécile Tandeau de Marsac, who is our Head of HR, we have indeed a very strong COMEX, able to deliver on 2018 priorities but also to prepare the next steps of transformation for Solvay.

With that I'm ready to take your questions with, obviously, the support of Karim. Okay, first question? Hello?

Operator: Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. The first question is from Tom Wrigglesworth from Citi. Go ahead.

Tom Wrigglesworth: Hi, Tom Wrigglesworth here from Citi. Hi Jean-Pierre, Karim, thank you very much for your presentation and Jean-Pierre, congratulations on your new appointment, I was wondering if you could maybe, just following on from your comments there, if you could just highlight what you think the core competency should be of the new incoming CEO of Solvay and share your thoughts in terms of what they need to achieve going forwards in the years to come; I'd be interested to hear on that.

With regards to the results, could you – you obviously talked about this focus on getting closer to the customer. Obviously, following the divestments, your business is now less cyclical. What do you think is the – how much do you think you're underselling the technology that you've currently got? I.e., what do you think the EBITDA margin of the businesses should – of the business should be if you were operating at a very maximum?

And lastly, pricing in the fourth quarter was – wasn't a big contributor in your bridge and yet I would have thought that cost inflation was probably quite prevalent given what we're seeing in some of the input costs. Is there cost – are there price increases yet to come through? Where are we on the price-versus-cost dynamic, starting 2018 and looking beyond? Thank you.

Jean-Pierre Clamadieu: Okay, well on the first point I will be prudent because this is for the board to have – to set the profile of what would be my successor. Out of a discussion we had, including yesterday, with the board, there is a clear willingness to continue the strategy that we have started and on which we have delivered. So clearly, we need someone with a strategic vision and is able to imagine what will be the next steps in Solvay's transformation.

On an operational point of view, the exercise that we will start this year to create a much lighter, customer-focused organisation is also something which needs to be developed. Bringing Hua into the COMEX means that we think that Asia, indeed, is a strong potential growth platform for the group. We are probably one of the most diversified European-based chemical companies in terms of geographical spread. I think we should be in a position to use even more this Asian platform and at the end of the day I think the objective of the board is just to find the best person possible to take the responsibility for Solvay executive teams. It could be internal, it could be external but clearly the objective is to find the best person and I think we have ample time to do this.

Regarding our current situation and where do I see – how do I see our performance in the various clusters. Advanced Material cluster – we are almost at 40% EBITDA margin. The cluster is earning significantly more than the cost of capital, so the challenge there is growth, not – much more than further improvement in profitability and growth will come from a pretty full pipe of opportunities, short term in Specialty Polymer where we have indeed a number of business opportunities that we've seen in very different end markets. When it comes to Composites, the short-term opportunities are linked to the fact that some of the key programs where we have taken a position are indeed taking off. This is the case of F-35 LEAP engine, we've seen it already in 2017 but it will be even more obvious in 2018; increase in building rate for single-aisle, the arrival of a 777X and longer term we see very significant opportunities there.

Advanced Formulations – I think there's a bit of a space for improvement in margins. What we have seen in oil and gas, what we are currently seeing in mining gives us a feeling that, indeed, the profitability could be improved to put this business also firmly in the value creation zone, which leads to lower EBITDA margins than performance because we have – than Advanced Materials because we have less capital to M&A rate in Advanced Formulations and then growth again is the priority.

On pricing I think we had a specific situation in Soda Ash. In fact, the impact of what's coming from Turkey is not so much a volume impact. It was more a pressure on prices which makes it difficult for us to fully compensate for the increase in energy costs, mostly coal.

Overall, in other businesses, I see a pretty strong situation, as you've rightly mentioned. In the type of activities where we are, we don't come back to the customer to ask them to increase prices because energy costs are on the increase because energy cost is a very small part of our cost. And yes, I see some opportunities looking forward in terms of pricing but I remind you that with 22% margin we are probably best in class in the European space as far as margin is concerned, so we'll probably have a bit less room than some of our competitors when it comes to demonstrating our pricing power.

Tom Wrigglesworth: Excellent, very clear. Thank you very much.

Operator: We have another question from Alex Stewart at Barclays. Please go ahead.

Jean-Pierre Clamadieu: Hello Alex.

Alex Stewart: Hi, good afternoon. Thanks for the presentation and congratulations also on your appointment. I've got three quite simple, slightly boring questions, maybe more for Karim. Firstly the €30 million scope impact fell, I believe, in between Polymers and Technology Solutions. Could you give us some idea what the split was between the two of those?

Secondly, you talked about an additional €20 million post-retirement boost to earnings in the second quarter of 2018. Is that on top of the €38 million this year? So is it €58 million in aggregate or do we have to net one off before adding on the other?

And then finally, the discontinued line, excluding Vinythai and Acetow I think remember reading was only about €2 million. Why is that so low, given that presumably Polyamides are still in there and still recorded as a discontinued item. Any light on those would be great, thank you so much.

Karim Hajjar: Okay, so three questions. I'll take the first one and that is to do with the €30 million related to – can you just remind me please, Alex? You threw quite a few numbers at me.

Alex Stewart: It's the scope effect from the small acquisitions.

Karim Hajjar: Yeah, yeah. It's predominantly in advanced formulations of the new Technology Solutions business; that's approximately two-thirds of the €30 million. The rest is in Advanced Materials and in very small divestments that we did in Specialty Polymers.

But for the second question on the Cytec-related synergy what we're indicating is a supplementary new opportunity that we'll crystallise during 2018. First half, second half, let's see; we haven't really finalised yet. So that is in addition. If you look at it on a comparable basis, what it does mean, it's a lower contribution than we had last year but nevertheless we see it as an additional source of value creation.

So far as your question on the discontinued businesses, your real question is around the profitability of Polyamides, is that what you're looking to understand?

Alex Stewart: No, sorry. Do correct me if I've got this wrong but I seem to remember reading in the release that the discontinued line, if you exclude Acetow and Vinythai, which have been de-consolidated, was de minimis. Perhaps if I put it another way: what was the contribution from Polyamides in the discontinued line in the P&L for the full year?

Karim Hajjar: I'll quickly get access to the figure just to tell you exactly what it is. It's – the full amount is essentially Polyamides. So what you see is essentially the €2 million, that's essentially Polyamides.

Alex Stewart: So but that was my question, maybe. Why is that so low? I would have thought that it would have been a considerably bigger contribution.

Karim Hajjar: Sorry, I am talking about the quarter. What you need to look at is €159 million for the full year, excuse me and that is essentially the figure that is issued to that business. So €159 million predominantly Polyamides, we only had a couple of months' worth of trading for Acetow; Vinythai was not significant. Last year the figures were much higher, at €240 million because you had the full year for all the three businesses. Net-net, that is the impact.

Alex Stewart: Okay, perfect. Thank you so much.

Karim Hajjar: Thank you.

Jean-Pierre Clamadieu: So next question?

Operator: The next question is Martin Roediger from Kepler Chevreux. Please go ahead.

Jean-Pierre Clamadieu: Hello Martin.

Martin Roediger: Yes. Hello. I have also three questions if I may, first on Composite Materials. There is a lot of consolidation taking place in the aerospace market, with Safran, Zodiac, Boeing, Embraer, Airbus, Bombardier; do you see the consolidation in your end markets as a challenge for you because customers might have more purchasing power or as an opportunity, as you may leverage your business?

The second question is on Advanced Formulations. The volume and mix effects in Q4 were +10% and that sounds quite high to me. And of course this is triggered by Novecare, with double-digit growth in Q4. Was there any pre-buying in advance of any price hikes you may have announced for the beginning of 2018?

And the third question is on your end markets. With the disposal of the Nylon business, your exposure to the end market automotive and aerospace obviously shrinks from around about 28% to around about 22%. I would like to know the split of both end markets, i.e. is automotive now half of this roughly 22% sales exposure? Thanks.

Jean-Pierre Clamadieu: I'm trying to figure out whether I can answer to your last question but let's start with the first one. The consolidation that you are referring to are opportunities for us. Always specific situations but Bombardier, we have a significant position on this commercial jet. When I say significant position, we are the supplier of composites and it's a plane which contains a lot of composites. So my reading is that the Airbus-Bombardier deal will increase quite significantly the probability that this project will be a commercial success, so for us that's very good.

On the Safran-Zodiac, frankly speaking, we have a very good relationship with Safran on the LEAP engine. The relationship with Zodiac was pretty complex. They are not a large user but they are using some of our materials. Zodiac was a pretty unconsolidated organisation, with a lot of teams working quite independently. My understanding is that Safran will align this in a more systematic way and I think we're well positioned to benefit from this. So overall, I think that this consolidation should play in our favour.

On top of that, it's clear that the key issue that the launch of the commercial aircraft producer is the organisation of their supply chain. That's something which in my view will be improved for this consolidation. And as production rates will increase, will see opportunities arising for us so all of this is good news.

Advanced formulation, frankly speaking we don't see any meaningful pre-buying situation. Yes, volume growth was significant. We showed again good development in oil and gas. You've seen some news coming from there. We showed good development in mining. Metal prices are back at the level which allows for some projects to move on so quite a strong situation that we expect to achieve.

On your last question, I think is probably pretty close today. I would need to make the exact calculation, but I think the automotive in our space probably represent around 1 billion each, but again take that as something directional and we can clarify it, but it's what I have in mind. After the divestiture of polyamide which we leave the EP business out of our scope so a reasonable assessment on after polyamide divestiture is probably 50-50.

Speaker: Thank you.

Speaker: Next question?

Operator: Another question from Peter Clark, Société Générale. Please go ahead.

Peter Clark: Yeah, good afternoon. Thanks for the question. There is two. You mentioned soda ash and potentially some opportunity on price. I'm just wondering obviously the Turkish mine is ramping up. Still you made it quite clear he felt the market effects of that was pretty much in. But just the risk on 2019 in that business when we're at full ramp on the pricing situation, do you think there's a risk in the pricing as we go towards 2019 and the pricing for that year?

And then the second question on industrial composite issue, you say it's still shrinking in Q4. You're expecting stability just a feel for how much it shrunk since 2015. I would guess somewhere over 30%. But how much lower could it go before returns and when do you expect return second half or perhaps second quarter? Thank you.

Jean-Pierre Clamadieu: You want to use my crystal ball. On industrial composites, we think that we've hit the bottom. Industrial composites, once again it's a lot of small projects. And when you think automotive again, Ferrari, Lamborghini, is involved in it. So these guys produce a few hundred in a given model and they move to the next one some time with a bit of a lag time in between. So our view today is that we reached the bottom and that we should see some increase as we move into 2018 and this is that we start to see.

It has dropped about 25% since 2015 so a little bit less than what you were implying. I remind you that when we took over business it was still in that middle of an SAP or ERP crisis. That's something which has waived obviously in customer loyalty. We have solved the situation and we have I think a much better relationship with our customers.

On soda ash, to be absolutely clear, what I've said is that due to a very strong volume situation we've enjoyed for the last part of 2017 and the beginning of 2018, we've been able to weather reasonably well the arrival of the Turkish volumes, physical arrival of the fact that this volume will be made available during the course of 2018. The only impact not meaningful, but the only impact is that there was some implicit pressure on prices which makes it difficult to fully compensate for the increase of the energy cost.

And this is the reason why we are pointing to this negative impact on performance chemical although we feel very confident to say that this impact will be less than €50 million. 2019, a bit early, but most of the impact of the new Turkish volumes are in 2018. So I am a reasonably confident that we've seen the worst and that we should see the situation which develops reasonably favourably in the next few years.

Peter Clark: Thanks and congratulations.

Operator: Next question is Stephanie Bothwell from Bank of America Merrill Lynch. Please go ahead.

Georgia: Hi. It's actually her colleague Georgia here. Thanks for taking my questions. And the first question is just on the cash flow statement. And so you have guided to your restructuring payments of €80 million in 2018, but the commentary suggests that and this restructuring opportunities may impact on your spend levels, but not impact the cash generation. And so just one if you could help us to understand a bit more what these payments are related to?

And then is this part of the operational excellence plan set out at the 2016 CMD or are no additional savings on top of that so just a bit more clarity on that would be good. And then secondly on the LEAP engine and the F35, can you give us a better sense of the level of composites content in these projects compared to your current base level? Thanks.

Karim Hajjar: So I'll start with the first question, Georgia. The €80 million is an indication we're traditionally been of the order of €60 million or so in the past three years. This is really reflecting the fact that we are really determined to maintain the cost discipline will be through portfolio transformation. We go after cost, we go, we tackle them.

So there has an element of restructuring cost. What we're saying is as we look into prepare the future and really align the organisation we're breaking ourselves with a modest increase in restructuring cost. But whatever we do we do two things. We absolutely look for a very rapid payback. We typically talk of less than two years cash payback on a set cost.

And secondly, no matter what we do need, we will just need to focus on the overall free cash flow of the group. So it's about making choices and delivering the cash. That is what we intend there.

Jean-Pierre Clamadieu: Does that help?

Georgia: Yes, thank you.

Karim Hajjar: And the second question, can you just repeat?

Georgia: On the LEAP engine and the F35, I just wanted to get some idea of the composites content and how that relates to your existing base level of composite sales?

Jean-Pierre Clamadieu: On F35 we have published the number saying that it will present above €1 million per plane so quite significant. I have to say I don't recall if we have published something on LEAP, but no I'm getting the answer that we have not published the number for the LEAP engine so I won't comment this, but F35, very significant.

Again in terms of sales per ship set we are probably at the high content of composite or among the high content of composites.

Georgia: Okay, thank you.

Operator: Next question is Laurent Favre from Evercore ISI. Please go ahead.

Jean-Pierre Clamadieu: Hello Laurent.

Laurent Favre: Good afternoon Jean-Pierre. Congrats on the way ahead. Two questions if I can one for you one for Karim. The first question for you is on formulations and net pricing. I think you've had about a 150 million squeeze on net pricing over the past two years. I was wondering if you could talk about the drivers of that in terms of mixed versus like-for-like pricing and whether when you talk about better net pricing in 2018, you're referring to expectations of better mix or something that you control around your pricing initiatives?

And the second question is around the corporate cost and simplification program. If we benchmark Solvay against other diversified I think that for the size of this business we end up with around €150 million of corporate cost of what would be the benchmark. Is this what you're trying to achieve with the simplification and the overall change in the corporate centre or would you say that you're more looking at a top line exercise rather than a cost exercise? Thank you.

Jean-Pierre Clamadieu: Would you take the second one Karim?

Karim Hajjar: I'll take the second one sure. I agree with your overall benchmark comment you're making 150 million. The way I look at it is this if you look at traditionally what we've done is see cost of between 200 million and 250 million in the last few years. We have divested orphan costs, we tackle them and that's always going to be part of our model.

What I would say the benchmark can be simplified is approximately at least 2% to sales. On top of which one would typically invest means that it would be as an investment for the future on which I mean corporate R&I in our investment. This is another 50 million a year. And if I take your €150 million and add the €40 to €50 million of our R&I which is having a good cost, we are very much in the top quartile of those benchmarks.

The focus on preparing the future, realigning our functions to help serve our customers, has nothing to do with cost motivator but around sales growth. But it will have an efficiency impact that will show itself through in the next couple of years.

Jean-Pierre Clamadieu: Well on your first question and we are a little bit prudent before giving net pricing information per segment for reasons that you probably understand. We have two impacts. One is indeed mix, a little mix in our analysis is within the volume. The mix was from oil and gas from the expensive guar-based formulation to the less expensive friction reducer.

There we've seen a movement in the direction I just mentioned which impacted us negatively in 2016-2017. We are starting to see guar coming back in the formulation so that's good news and its part of the volume growth that we expect. In terms of pricing, there's been pressure here and there. We are today seeing a situation both in mining with technology solution and in oil and gas we have enough care where we have space for price adjustment. That's good.

We have a situation regarding purchasing conditions and this impact especially the home and personal care cluster which have improved significantly in the last part of 2017 we have negotiated and started new contracts for all your chemical with significantly better conditions after over a similar period in 2017, and this will have a full year impact next year. So these are the reasons why we expect some positive impact on margin for our advanced formulation in 2018.

Laurent Favre: Thank you. And just going back to the point on the cost sense as just what I understand you're talking essentially of a €50 million potential. I assume this is not for 2018. This is more something we should be thinking about for 2019 given that those plans take time and you haven't actually announced the plan.

Karim Hajjar: I think overall as a general guidance, yes, that's in the mid-term 2% of sales is absolutely what we consider to be a very appropriate level of corporate cost because essentially we're trying to lighten it up and make sure we build to the strength of our global business units. But I'm not going to say that for 2019. That is the direction of travel.

Laurent Favre: Yeah, thank you.

Jean-Pierre Clamadieu: Next questions?

Operator: Next question is Geoff Haire, UBS. Please go ahead.

Geoff Haire: Hi, good afternoon. Thank you for the opportunity to ask some questions. Just two very quick questions. Off the guidance you've given for performance chemicals of a macro of a €50 million hit at the EBITDA level. Could you just split out what your thoughts are between price declines and the rising cost for 2018 to get to that number? And then secondly on the free cash flow for 2018, with the guidance you've given do you believe that you will cover the dividend payment when you include interest payments so more normalised cash flow number in 2018?

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

Karim Hajjar: Sure. I think on the soda ash, there is a very modest price erosion in 2018 rather than 2017. But again, the team that we have in soda ash is really doing a lot to mitigate with really raising the bar in action. So there is a lot of mitigation to compensate. So I'd say operationally, we're making in the volumes in our leadership position. Yes, there's modest price erosion but I'm not going to quantify.

But net-net what we can't do in the current market conditions and the new capacity is also to overcome the increased energy cost that we're already seeing. So essentially had energy cost been more favourable, I'm not going back to say how can we get a different expectation despite the significant capacity addition. And that's not by accident because we've been planning and anticipating, getting ready for these for three years now.

So as far as free cash flow is concerned, I can give you a very simple answer, which is yes. Our free cash flow will exceed financing cost and dividend. One thing I'll highlight though is we have been working hard to just in reducing the tax rate, but also the financing charges. And we've also indicated that the cash financing charges on 2018 will be lower than in 2017 as well.

What does that mean? It means that our cash available to equities of free cash flow after all financing costs will be quite a lot higher than we had in 2017. Does that help?

Geoff Haire: Yeah, thank you very much.

Karim Hajjar: Thank you. Next question?

Operator: Next question Chetan Udeshi, JP Morgan. Please go ahead.

Chetan Udeshi: Yeah, hi thanks. Again a question on free cash flow. So in the outlook you mentioned that the net cash out for provision is going to be €390 million. Is this to be compared to the €190 million you had for 2018? So net €200 million increase is that the right way to think about this increase?

Karim Hajjar: The answer is no, it is not. Let me just give some more specifics. The equivalent losses they were €367 million. That's a modest increase, €373 to be more precise.

Chetan Udeshi: Okay fine, so that's clear. And then the second question was again on raw material headwinds. If you look at some of the raw material prices like acrylonitrile, etc., have gone up quite a bit starting September of last year. But you don't seem to have seen any impact from that on your margin. So is it because you have some indexing on your contracts or are you successful in offsetting that through some other cost reduction measures?

Jean-Pierre Clamadieu: I think we've been able to compensate for this, yes.

Chetan Udeshi: So are you saying through pricing or just normal you call excellence programs?

Jean-Pierre Clamadieu: Well first, it’s a very small part of our costs, but no, we have been able to take a number of measures both on the pricing side, but also on the operational efficiency to compensate for this. Again, for all this raw materials do not hope present a significant part of our input cost so it was not a huge challenge.

Chetan Udeshi: Okay and maybe if I can follow-up one question on pension where you are saying it will be higher. How to tie this up with the synergies that you talked about with you know €38 million last year associated with Cytec pension provisions and again €20 million additional one-off benefit? So those benefits doesn't seem to be resulting in reduction in cash if anything we are seeing an increase in pension payments so how to tie those two things together? Thanks.

Karim Hajjar: Couple of things. The cash service cost of our pension obligations essentially is pretty stable. We saw a modest increase in the US and is very much in line with let's say the actuary mutuality tables UK and US in particular. Nothing unusual here. What you do see is end of the year, our pension obligations are lower quite materially and that's been the trend in the last year or so.

And I expect that to continue to go in that direction, which actually is very positive from a credit standpoint in our balance sheet. We're at €2.6 billion I believe at year end.

Chetan Udeshi: Okay thank you.

Karim Hajjar: Thank you.

Jean-Pierre Clamadieu: So next question?

Operator: We have time for two more questions. Next question is Nathalie Debruyne, Degroof Petercam. Please go ahead.

Nathalie Debruyne: Hi, good afternoon. Two questions from my side if I may. The first one would be on the PVDF plant especially for battery materials. I'm just wondering I saw that actually the plant is going through the qualification process. When can we expect it to actually start to contribute to the volumes growth this year? And then secondly I know it is still a very small business, but what do you think the potential of it could be so in terms of percentages of specialty polymers particularly so that is the first one.

And then the second one, I would like to have some clarity on your guidance especially on the currency impact of €125 million at 1.25 exchange rate Euro/USD. Is that full translation impact or is it again like the rule of thumb you gave two-third of it is translational and one-third transactional being hedged? Thank you.

Jean-Pierre Clamadieu: Okay on the first PVDF, in fact, we are selling to different markets. We have different qualification times so we were able to receive the first qualifications during the last part of 2017 so we are starting to sell. But the most important qualification in terms of potential volume will come during the course of 2018. And yes, we think that this is an investment which is coming at a very good point in time because we see the battery market increasing tremendously.

And when I say tremendously, we could see sales from one year to the next -- increasing by 50%. So this being said and I don't want to quantify it more specifically, it's still a small business within Solvay, more meaningful in specialty polymers. And yes we have high expectation, but it's probably too early to give you the ability to measure how much it could represent, but we are today supplying all the battery markets for the local Chinese player with our new Chinese brand, but also the international players which are mostly Japanese and Korean guys.

Good news too is that we see opportunities to get more out of our current unit in Tavaux. Thanks to manufacturing excellence and the use of some digital tools, who as a whole overall very good opportunity in front of us in batteries, but a bit early to quantify what this all could present.

Karim Hajjar: So for the foreign exchange, part of your question Nathalie, I'll be very clear. This is the only one translational effect so conversion as we say. We'll give you sensitivity of 10 cents gives you €120 million. What we have done is basically said we look at the key basket of currency so mainly US dollars at the beginning of the year, but also selected some of the currencies like Japanese yen, Chinese yuan, the Brazilian real. And based on that package of currencies we've been with our indication. So if you wish to make a hypothesis that what we see beginning of the year continue this is the indication of what to integrate into your expectations, but predominantly US dollars and only conversions or translational to use your words. You know what transactional effect are ours. It's us, but it's up to the teams to fight to be competitive in the marketplace.

So, to my mind, this is absolutely a core part of doing business. We have to deliver the margins no matter what, and that's the culture. Does that help?

Nathalie Debruyne: Yeah, that's very helpful thank you.

Karim Hajjar: Thank you.

Jean-Pierre Clamadieu: Thank you very much. So maybe the last question now.

Operator: Last question is Daniel. Please go ahead.

Jean-Pierre Clamadieu: Hello Daniel.

Daniel: Hi, good afternoon. Thank you for taking my question. You successfully tendered for some of your senior bonds in 2017 and we've recently had a clarification from S&P regarding tendering and reissuing hybrid bond. Given that I'm just wondering how you're currently thinking about those bonds within your capital structure? Thank you.

Karim Hajjar: It's a very interesting and a very important question. I think we recognise as an opportunity to continue to optimise our balance sheet. There is some relaxation of rules and the guidance is quite encouraging. I think when we're ready, we will make announcements where we are looking at options to further optimise, and essentially reduce a reasonable proportion of our hybrids whilst maintaining, which is really important to us, maintaining a strong investment grade rating.

Which opportunities? And I'd say we are on the case in a matter of months certainly towards earlier next year, you'll see some progress there is my expectation.

Jean-Pierre Clamadieu: Thank you very much. This was the last question that we took so maybe just a few comments to before we conclude. The first one is that we think that in 2017, we delivered. Thanks to a strong volume growth and we delivered on all fronts when I look back at the various objectives that we've said both in terms of EBITDA growth, but also cash generation, CFROI improvement and even that point was not in our objective, but EPS growth is also quite significant which gives us confidence to raise the dividend as we decided yesterday at the board.

For 2018, growth will continue to be on the agenda. Growth will accelerate in our growth clusters. Unfortunately we have two elements that we need to take into account. One is the foreign exchange that we have discussed. The other one is the situation in soda ash. But there too I think we are coming with reassuring news the fact that we can we come with confidence telling you that the impact will be less than €50 million. It should show that indeed as we've been saying for the last quarters. We think that the situation is manageable and under a reasonable level of control.

On top of that, key priority for 2018 is to deliver this more focused, more efficient organisation. You'll see some news coming in the next few weeks on this front. And overall for us Comex, fully aligned and motivated to make 2018 a very good year for Solvay for reasons that you understood. It's very important for me to make sure that 2018 indeed is a very good year for the group.

With that, I thank you and we'll talk to each other once again on 3rd May. Probably we'll see some of you on the road in the meantime, but 3rd May is our first quarter results presentation. Thank you very much.