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Speakers: Jean-Pierre Clamadieu and Karim Hajjar

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Operator: Ladies and gentlemen, welcome to the Solvay nine-months 2018 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 half of this call, all participants will be in listen-only mode, and afterwards, there will be a question-and-answer session. Please dial zero one on your telephone keypad to enter the queue for the question and answer at any time. I now hand you over to Mr Jean-Pierre Clamadieu.

Jean-Pierre Clamadieu: Thank you very much. Hello everyone and thanks for joining us. I'm here in Brussels with Karim our CFO, and Geoffroy, and as usual, we'd like to go through our results. Same sequence as usual: I'll make a few introductory comments, turning to Karim for a more detailed presentation, and then I'll come back with a few concluding statements, and we move into the Q&A session.

I think what we've seen is that volume growth is continuing into Q3. And we get during this quarter also some support of pricing, which leads us for the first nine months of the year to an organic net sales growth of 6%, driven by volume growth in all three segments, although as you've seen, a bit of a differentiation between these three. Net pricing for the group is 2% higher despite rising raw materials costs. This clearly shows the strength of our pricing power and the quality of our portfolio.

Margins remain quite strong at 22%, which in the European environment, is a pretty good level. Going quickly on what I think are the key business events that are worth considering at the beginning of this call. Volumes sold into the oil and gas market supported our double-digit EBITDA growth in Advanced Formulations for the nine months period. So clearly, this is a segment which is showing during these first nine months of 2018 the best performance as far as growth is concerned. We saw in oil and gas a bit of stabilisation late in Q3. However, demand in other markets such as agro and coatings showed improvement, and contributed to the growth of the segment in the third quarter also. , A very strong performance, and no real worries on oil and gas: stabilisation is linked to a number of bottlenecks that have developed downstream in this very active segment, but the dynamics there is very good.

Very good dynamic also regarding the top line of composite, especially composite used in aircrafts. High-single-digit growth: main driver of the military programme, the F-35, which is indeed becoming quite successful. And commercial programs ramp up mostly at Boeing, where we have the largest exposure,

787 and 737. And we continue to see a very, very good momentum and full order books for many years going forward in these two segments, both military programs and commercial aircrafts.

Specialty Polymers delivered significant growth, namely in automotive and healthcare applications. And this overcame the anticipated reduction in smart devices. We knew, and I think it's probably overall a good thing, that smart devices will be less contributive to our growth this year. When I say it's good, it's that at the end of the day, the objective is to have a very balanced exposure into a number of different markets. And then, probably we came a couple of years ago in a situation where smart devices were contributing a little bit too much. So overall, a very good run for our Specialty Polymers business. It's a business which has significant exposure to the automotive industry, and I know that there is a number of headlines these days showing, demonstrating concerns regarding the performance of the auto sector. Just a few comments there. polymers sold in the auto remained a contributor of growth, including in the third quarter. We've seen some signs of softness in September and some reduction in our order books, and we are watching development closely. Reasons are very different. Number a regulatory and supply chain issues in Europe, a bit of a softness in the end market in China, and then we've seen people in the supply chain adjusting their level of inventories accordingly.

I remind you that in the past few years we've grown in the auto sector three times faster than the overall growth of the market because our product are very much part of the transformation of this auto segment, and we are overall quite optimistic on the fact that we are very well prepared for any changes, short term or long term, which can happen in the auto market.

Overall results to date are in line with our expectation. And I'm very confident in our ability to capture many of the significant opportunities for growth across the mid-term. We've shared with the market in London mid-September, our mid-term view for the various businesses, and what we see developing since that is very much in support of the comments we've made during this market update.

With that, Karim, can you give us some additional insights into our financial performance?

Karim Hajjar: Absolutely. Thanks, Jean-Pierre. Hello, everybody. As usual I'm going to refer to slides that you can access on our website, and the results I'm going to refer to are course on an underlying basis and they reflect the discontinuation of the polyamide activities.

I'll start with sales. On slide eight, you will see that our organic sales increased by 6% over the nine months. And volumes and mix represented 4% of that growth, the balance related to pricing.

Advanced Formulations: organic sales up 11%, driven mostly by volume, but also by some price benefits. Now, the main drivers of the growth related to this year's recovery in the oil and gas market, especially in the first seven to eight months of the year. And Jean-Pierre talked about the stabilisation since that period.

We've also seen and delivered growth in agro and in coatings. Mining chemicals is growing strongly. We're seeing additional volumes related to new mine openings indeed. And only by way of example, we secured new copper business in the Democratic Republic of Congo, in Kazakhstan and in South Africa. We also benefited from demand growth from cobalt refineries in Turkey and in China.

Advanced Materials: sales grew 4% organically, as Jean-Pierre indicated driven by the automotive market where the trend for fuel-efficient vehicles continued to support the greater use of our polymer technologies across a multitude of platforms, from hybrid, electric vehicles, etc.

Volume growth was also driven by higher composites sales to aeronautics. And indeed, we're seeing high-single-digit growth in that domain. And that's what generated most of the growth, although we also saw some positive contribution, some good growth in healthcare, where polymer use is increasing across a number of different medical applications.

But we also had a few headwinds in some of the smaller markets. As Jean-Pierre has talked about the substantial decline in sales of the smart devices relative to last year. And we've experienced a reduction in sales in insulation blowing agents, as well as in catalysts used in diesel vehicles.

Performance Chemicals: strong growth, organic sales up 6% nearly, 4% of that related to pricing, 2% volumes. The increase was attributed to both Peroxides and Soda Ash where we're benefiting from robust demand environment, strong momentum there, and our soda ash plants are operating at very high levels.

Our Coatis business also contributed to the sales growth, thanks to improved domestic demand in the Latin American region. So, all in all, good top line organic growth year to date, although, of course, we can't defy gravity, and scope and foreign exchange impact restricted the underlying sales growth to 0.5%.

Turning to EBITDA on slide nine, you will have noticed the 6% organic growth in the nine-month period, although again, scope and foreign exchange meant that EBITDA is down 0.7%. And the organic growth of 6% reflects the impact of the strong volume growth that I have referred to just now. And that alone had a 7% positive impact on our EBITDA evolution.

We've also had good pricing dynamics across many of our businesses, and that helped overcome the higher energy and raw materials costs. I wish to highlight an increase in fixed costs, and that predominantly reflects the capability that we're building to support our growth, for example, in the composites business. We're also investing in some initiatives that are focused on improving our productivity, on driving even more operating efficiencies as we prepare for the continued volume growth that we see ahead of us.

If I turn to net income on slide ten, you will notice our net income from continuing businesses is up 10% and that is despite the 0.7% reduction in reported underlying EBITDA. Why is it? Quite simple, to reflect

the benefits related to the ongoing decrease in financial charges as we deleverage, and also reduction in our underlying tax rate, which is now 25%, 2% better than last year.

These positive developments supported EPS growth, earnings per share growth, from our continuing operations, like-for-like, an increase of 11% in EPS. And that is despite scope and foreign exchange impacts.

Cash is and will always remain high on the agenda. I'm now turning to slide 11. Free cash flow from continuing operations at €275 million through the nine months is down on last year, predominantly as we built higher working capital. We built inventory, in particular, in order to meet increased demand from our customers, but also ahead of planned regular maintenance shutdowns.

As I look at free cash flow to shareholders, which I'll remind you, is after financing charges, they increased 7% to €271 million in the first nine months. Now, this reflects the profit and reduction in financial charges I have alluded to, but more importantly, continued strong performance and high cash generation from our discontinued operations in 2018 relative to the same period last year.

And with that, I hand you back to Jean-Pierre.

Jean-Pierre Clamadiou: Thank you very much, Karim. I think this presentation showed that our results are indeed in line with the expectation we set for this year. Priorities for us are very clear. Under the current market circumstances, and by the way we've not seen any real change in the first weeks of the last quarter, we expect organic EBITDA growth of around 5% to 6%, within the range provided at the start of the year. We also confirm that we'll convert the performance into strong free cash flow generation.

We know that the macroeconomic and political climate are often bringing some uncertainties. We cannot control those variables, obviously, so we are focusing on what's in our control, including focus on innovation and customers, and delivering growth and cash.

We remain focused, as I was mentioning at the end of the my introduction, on capturing opportunities into the mid-term, and we are really convinced that there is a tremendous potential that we should be able to unleash in the next few years as we have outlined during our recent Investor Update in London.

And before I start the Q&A session, I would really like to give a warm welcome to my successor, Ilham Kadri, who the board recently announced will become the CEO of the group effective March 1st, 2019. She will join us at the beginning of January and spend two months with me before taking over the role. And I'm confident that many of you are going to have the opportunity to interact with her in the first few months next year. And with that, Karim and myself are ready to take your questions.

Thank you.

Operator: Ladies and gentlemen, we will now begin our question-and-answer session. If you wish to ask a question, please dial zero one on your telephone keypad and you will enter a queue. After you're announced, please ask your question. Once again, please dial zero one on your telephone keypad to ask a question. The first question comes from Martin Roediger from Kepler Cheuvreux. Sir, please go ahead.

Martin Roediger: Hello, good morning Jean-Pierre, Karim, Geoffroy. Three questions from my side. First on Peroxides: What is your take on the announcement by Evonik today to consolidate the market with the acquisition of PeroxyChem? And did you have also look at this asset, and if so, why wasn't that appealing to you? The second question is a clarification question on your statements about the dynamics in the end market of automotive. You said that in September, there was softness and your order books show reduction. Do I understand you correctly, that October was as bad or even worse since September?

Jean-Pierre Clamadiou: We have difficulty hearing you, so if you can just rephrase.

Martin Roediger: Repeat? The second question is about the business dynamics in the automotive industry. You mentioned that there was some softness in September and you saw reduced order books. And my question is, does that mean a worsening momentum or a stabilising momentum? And the third question is on specialty chemicals. Can you talk a bit about the gradual phase-out of insulation gases and how this item will impact you? Thank you.

Jean-Pierre Clamadiou: Okay. So, in the automotive market, what I was implying is that we've seen in September some impact or some softness in our order book. And we've seen then the trend stabilising. So no further degradation, but really, this is something which happened at the end of September. And you know that it's mostly linked to a couple of different events. Disruption in the supply chain in Europe, linked mostly but not only to regulatory issues, and then some actual softness in the Chinese market, but we don't have any signs that this is degrading.

On the Special Chem business, we have a small business within Special Chem which produces the gases which are used for insulation applications, foam blowing. In application of the Montreal Protocol, these gases will be phased out over next few years. We've seen a bit of an acceleration. So nothing overall unexpected. But the situation degrades a bit faster than we were thinking and as we are very much focusing on growth, indeed. This overall small impact is visible. If we look at the performance of the Advanced Materials cluster, because Special Chem is consolidated within the advanced material cluster.

Peroxides, frankly speaking, we are very pleased with the current footprint. We are a strong and detached market leader. And no reason for us to look for pretty small acquisitions here and there.

Next question?

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

Thomas Wrigglesworth: Hi, good afternoon and thank you. Three questions if I may. Firstly, on the Composites growth that was double digit in composite materials. Is that the kind of required level of performance that you'll need to hit your advanced materials target for 2019 to 2021 at the 6% to 10%. Or is actually that running out a bit higher than the required contribution from that business?

Secondly, staying on Advanced Materials, in terms of the mix, it looks like there's been a negative mix effect in the quarter. I'm just wondering if that's because actually the loss in the smart devices margin was slightly higher than the incremental margin from the growth in composite materials. Could you help me understand that?

And then lastly on free cash flow, just by my calculations, looks like versus last year, you need to take out about another €50 million of working capital. Actually, does the slowdown in some of the end markets help you with that working capital, kind of unwind, and has your prediction there kind of increased or decreased through the quarter? Thank you.

Jean-Pierre Clamadiou: Karim, you take the free cash flow question?

Karim Hajjar: Sure. Thomas, I think the €50 million is – I think I know how you can confuse something like this. Fundamentally, we're not banking on a slowdown to deliver the cash. If you go back to each of the last three, four years' worth of Q4 cash flows, you will see that what lies ahead of us is not materially different from what we have delivered in the past. Fundamentally, I see the contribution to our cash flow to come mainly from a normal disciplined working capital management. The profits, we've explained, I'm not expecting a slowdown at all. So, it's just continued discipline. We will be seeing some reduction, for example, in some of the inventory that we've built, and the shutdowns, but nothing else of a dramatic amount.

Jean-Pierre Clamadiou: Thank you, Karim. On composites, – we've seen indeed a pretty strong top-line growth. Very, very much what we were expecting, and we are very well positioned on programmes which are at an inflection point. And moving towards very significant growth, both on the LEAP engine and the F-35, and more broadly speaking, some of the Boeing new aircrafts. So very, very good performance top-line. To be completely transparent with you, I think we still have some efforts to do to make sure that this top-line performance folds into the EBITDA line, and we still see here and there are a number of operational hiccups, operational inefficiency, or opportunities for us to be on the positive side, opportunities for us to improve the delivery. And we are working very hard on this. We are making sure that the global business unit management team is very much focused both vis-à-vis the customer, but also on the optimisation of the operations and the delivery. So probably longer term, looking at composite, I could expect, what we would need to achieve our plans, or we can achieve our plans with a little bit lower level of top-line growth, but better delivery.

On the mix effect, yes, directionally, you are right. We've lost some sales in the smart devices area. It has been compensated by areas where the margins are slightly less favourable, but frankly speaking, I

wouldn't build too much into these types of detail as this overall Advanced Materials has the ability mid-term to grow very much in line with what we presented in London. And the number of opportunities that we have there is very significant. And clearly, it's a business which has no margin issues. We are at the level of margins which indeed puts these businesses into the value creation mode, and very high in terms of return on capital. So very strong business and a very solid position. And yes, some small mix effect, if you look at the Q3 results.

Next question, please?

Operator: The next question is from Alex Stewart from Barclays. Sir, please go ahead.

Alex Stewart: Hi. Thanks for taking my questions. Firstly, you talked about building inventories ahead of the plant shutdowns. Can you just remind us which plants are going to be offline in the fourth quarter, in which divisions and how big they're how long the shutdowns will be?

And then secondly, the big cost increases you're talking about in composites which offset some of the top-line growth. Could you give us a bit more detail about where they're coming from? Is it new plants starting up, is it hiring new people? Or any information you could give would be great, thank you.

Jean-Pierre Clamadiou: I will let Karim answer the first question

Karim Hajjar: Sure, Alex. I think – I don't have a list of which plants. I do recall from earlier conversations with my business, I think Specialty Polymers has a couple of plants. Beyond that, it's – there's nothing particular; it just happens to be the phasing this time around is in Q4. Nothing more than that. And nothing unusual. It's just happened. Just normal phasing, let's put it this way.

Jean-Pierre Clamadiou: The one on composites, it's cost. I mean, an obvious and visible example is the new additives plant that we have commissioned in Wrexham. The plant has been up and running to produce qualification lot for several months now, although it's not yet commercial, because we need to wait for the homologation which will happen at the end of the year. By the way, it's a great plant, and all of the feedback we get from our customers are very supportive of what we've done there, and clearly adhesive is a small but very interesting jewel that we have within the composite materials business, and we have great expectations with this plant. But short term, it weighs in terms of fixed cost without adding the top-line contribution. You could add a couple of other programmes in which we are investing money. Thermoplastic composites is one of them, and at the end of the day, it explains why we've seen some increase in fixed costs.

Next?

Operator: The next question is from Geoffrey Haire from UBS. Sir, please go ahead.

Geoffrey Haire: Yeah, I've just got two questions. First of all, just coming back on the fixed costs for the composites business, I just wanted to check: are those fixed costs related to orders that you have received that you will hopefully fill in 2019? And also, I'm just trying to understand how you protect yourself from clearly the volatility we sometimes see in aerospace delivery programs, where, you know, platforms can shift. How do you sort of go about protecting the composites business in that?

And then, on Specialty Polymers, you obviously have the peak plant in the US. I just wondered if you could comment on how full that plant is, where are you in capacity utilisation, and equally with obviously the slowing demand in smart devices, at least my understanding was that plant was built to service the smart devices market predominantly. What are you doing to look for other ways to fill that plan? Thanks.

Jean-Pierre Clamadieu: Frankly speaking, on peak, we have a number of opportunities in front of us in terms of market, and we have to make some choices on how we prioritise. And we've made some choices in the past when the demand was very high in the smart devices market, and we are in a position to rebalance in a way which I think is overall positive, our exposure to various markets. So, I don't have any worries regarding our ability to load that plant or this plant at a level which guarantee a good level of performance.

On composites, there is no magic wand. I mean, yes, there are sometimes volatility in the management of the supply chain that we see in aerospace. Although it has not been a factor in the past month. I mean, since the beginning of the year, the overall supply chain has been working very well, but we just try to get close to the customer, and make sure that we can anticipate and manage as effectively as possible with this volatility. But when I look at all the markets that we are serving, aerospace has a lot of positives. I mean, the demand trend is extremely favourable. I mean, we are seeing multi-year growth opportunities in front of us. We have very long qualification time, which is an issue when you are not qualified, but which becomes a strong protection once you are qualified. Close relationship with the customer. So overall, that's really a market where we have significant opportunities in front of us, and the behaviour which is pretty good.

Karim Hajjar: I have to add one other comment to Jean-Pierre on the cost increase in composites. If you look back, we haven't seen high-single-digit growth, let's say in the last couple of years. We are seeing it now. Now, in the past, we variabilised the fixed costs, so now part of the ramp-up as well that Jean-Pierre described is around really gearing up to meet the volume demand. That's very much as far as I see. Bottom line accretive in many, many ways. It's an investment. Next question?

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

Patrick Lambert: Hi, good afternoon, everybody. Thanks for taking a few questions. It's mostly regarding pricing, which was pretty strong in Q3, and if you could put some granularity on both Advanced Formulations and Performance Chemicals. It seems still to come from a few businesses like Coatis and Aroma. So, I just want to have the a bit more colour on the broad-based pricing in those two divisions. Question number one.

And question number two, again, I think on Cytex, on my numbers, it looks like you get double-digit volume growth in Q3. Is that – again, I think what you see on your stability of the F-35 and Boeing, is that a sort of warranty of a high-single-digit growth for next year, of course without the potential disruption in any chain? But on your order book, it looks like that can be achieved. Thank you.

Jean-Pierre Clamadieu: Well, on pricing, it's a fairly broad base. We see an impact in almost all of the division. If I had to name one where we've seen a bit of a more significant contribution, it's probably in Novacare where we've seen a number of pricing actions, combined, by the way, with the impact of better conditions as far as raw materials are concerned. Regarding aerospace, yes, I think there is a very good runway in front of us, to use a term which is linked to the business we are talking about. Yes, F-35, LEAP engines, these programs are at a point where they are starting to reach their growth rate which are very significant. 737 is also in such a situation, plus a few military programs. So all of that gives us a good sense of what could be the top line growth in the next couple of years. And this is why I underlined the need to make sure that we transform this top-line growth into bottom-line performance, and this is the current focus of the business.

Next question?

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

Peter Clark: Yes, good afternoon. Thank you, everyone. Two questions. Oil and gas, I hear the comments, on the stabilisation on the growth year on year, etc., and all in terms of the market. But I'm just wondering on the mix effect within that business, I was just wondering, have you seen much shift towards guar? Are you expecting, with the higher oil and gas price, the guar business to be stronger into 2019? And then the second question, again, a little bit on pricing but this time with Soda Ash, obviously the negotiations are ongoing in Europe and look pretty favourable from what I can read. Would you be more confident now than potentially you were at the end of September at the investor day on where pricing might go in 2019 on soda ash? Thank you.

Jean-Pierre Clamadieu: To make a short answer on the subject, we should be cautious on our comment, the short answer is yes on your last question. Yes, indeed, the recent developments in the soda ash market are quite supportive of the messages we've shared a few months ago.

Regarding oil and gas, we are not seeing many changes in the trends that we've seen in terms of product mix or in terms of customer behaviour. The stabilisation of the market is mostly linked to some difficulties for people to ship the oil that they are producing, and there's a number of pipe issues in the US which creates the bottlenecks I was mentioning. So people are working hard to solve this situation. But I think again that we are well positioned to benefit from what we expect to be positive developments next year.

The only point I would probably underline is the fact that on the friction reducers side, we've been very successful with our innovation. We brought to the market a number of products which indeed allow us

to achieve overall cost optimisation for our customers. And these products have received strong support from our customer base.

Next question?

Operator: The next question is from Laurent Favre from Exane. Please go ahead.

Jean-Pierre Clamadiou: Hello, Laurent.

Laurent Favre: Good afternoon. Good afternoon, Jean-Pierre and Karim. I have two questions, please. The first one: can you give us a bit of an update on the execution plan for the – I guess, let's not put it cost-cutting, but for the efficiency measures? And in particular, if there is any delay on that with the transition of the new CEO.

And the second question, on Special Chem, so I think that at the CMD you talked very positively about the battery exposure. We were aware of the issues around the catalyst business and the shift in the powertrain. I think this morning you reminded us that you have a fluoro-chemical business with the phase-out on HFCs. So, I'm just wondering, can you give us a bit of a guide as to how we should think about this business on a – not on a, you know, quarterly view - but on a two- to three-year view. Is this a business which may struggle to grow overall given those challenges?

Jean-Pierre Clamadiou: Well, on the first question on our simplification and customer-focused plan, it's really going on exactly as expected. I don't know if Karim wants to give you a bit more.

Karim Hajjar: No. That's actually the case. Completely on track, marginally ahead, but not in a way that you're going to see on the bottom line, but no, no, completely on track, and absolutely no hint of any delays for any reason whatsoever.

Jean-Pierre Clamadiou: And on Special Chem, it's not a huge business, but it has a bit of complexity embedded. So we see a couple of areas where we are facing headwinds. The first one is obviously this insulation business. Again, it's a few tens of millions in terms of sales, so it's pretty small, and it's one of the reasons why we have not spent much time discussing the detail of it. We know that this business is bound to disappear at a certain period of time. The question is really the rate of decrease. And yes, we've been a bit surprised during the first months of the year by a bit of a steeper rate of decrease. The second element, which is a headwind, is the move from diesel to gasoline, because we are producing catalysts, and in terms of margins with diesel catalysts we are a bit better than the gasoline catalysts. And the move from diesel to gasoline has been a little bit faster than expected.

Now, on the positive side, we have batteries. Although most of the battery impact today is in Specialty Polymers, but Special Chem is working on some new advanced solutions regarding batteries. And the very interesting market that Special Chem is now addressing is the electronic market, with high-purity

H2O2, which is very successful. So, when we bring all of these elements together, yes, we see Special Chem contributing to the growth of the business in the next couple of years. As we speak we are just in a situation in 2018 where the negatives were a little bit more significant than we thought, or faster than we thought by growing both cases, insulation and diesel. And the positives have had some difficulties to catch up. But overall, clearly opportunities in this business, which is built around our ability to master the fluor chain.

Next question, please?

Operator: We have no further questions for the moment.

Jean-Pierre Clamadiou: Very good. So it's probably a good sign that we need to wrap up this call. So, thank you very much for your attendance. Once again, I think we've seen a quarter which is very much in the continuity of what we've seen since the beginning of 2018. A good performance in terms of volume growth over the last nine months, good pricing power, and a growth which is very much in line to continue to deliver short and medium term according to the elements that we've shared with you, both at the beginning of the year as far as the guidance for 2018 is concerned, or for the mid-term elements that we've shared back in September in London. So, I will have the opportunity to talk to you for the last time when we will present our full-year results. I will probably share the call with Ilham, and she will give you her own perspective at the time for 2019. But looking forward to meet some of you on the road in the next few months. Thank you very much. And thanks to all.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you all for your participation. You may now disconnect.