

## Solvay Full Year 2018 Earnings call

### Speakers:

Jean-Pierre Clamadiou, CEO

Dr. Ilham Kadri, new CEO

Karim Hajjar, CFO

**Geoffroy Raskin:** Good morning and welcome to Solvay's full year 2018 earnings call. I am Geoffroy Raskin from Investor Relations. And I'm in the presence of Jean-Pierre Clamadiou, our CEO, Karim Hajjar, our CFO, and I'm particularly happy to also have here Ilham Kadri, who will take over from Jean-Pierre in two days. This call will be recorded and made available on the website afterwards. For the first part of the call all participants will be in listen-only mode, followed by a Q&A session. If you are patient, you can dial 01 on your telephone keypad to enter the queue for Q&A already now. I hand over to Jean-Pierre.

**Jean-Pierre Clamadiou:** Thank you very much. It's nice to be with you today with Karim and Ilham. We follow the usual sequence with just a few adjustments given the specific nature of this call which happens a couple of days before the CEO transition. I would like to start first with a few comments regarding our first quarter performance and then we take the full-year view to try to give you as clear a view as possible regarding the dynamic of the businesses where we operate.

So for the fourth quarter, the EBITDA growth continued into Q4 was driven by volume although at a bit of a lower pace. As we've mentioned, we've seen at the very end of Q3 signs of things are getting a little bit more challenging in certain markets. Advanced Materials composites in aerospace reached record levels and contributed strongly to our results and clearly the growth in composites is clearly materialising and not just the sales but also the EBITDA performance; it was mostly driven by the growth of a number of programmes which are still in a ramp-up phase. The single aisle 737 MAX and A320neo and the Leap engine which is serving these two platforms. This F35 which is also a very important point of ramp up, but also some larger commercial aircraft like the 787.

Specialty polymer, we continue to see growth for automotive application, we are growing much faster in the automotive market. Although at the end of the quarter some signs that growth was going down. This good performance has also met headwind in smart devices, and you know that in smart devices we are very focused on one specific customer. We have been also seeing in special chem, a strong decline in some markets due to regulatory impact, I guess we'll comment about it a bit more in the Q&A part.

Advanced Formulations, a bit of a change of behaviour and pace in the unconventional oil & gas market. We have seen very strong growth in the first part of the year, rapid decline since September related to the two elements oil price. But there's also logistical issues due to the lack of pipeline capacity so markets were not able to ship the oil they produce, and this had some impact on the investment on new capacity production. Performance chemical, modest growth in the quarter and I'll come back to that when we come back to full year. For now it's just to mention the very good performance of soda ash in the context of 2018.

So if I take now the full year performance, indeed, a year of solid volume growth. We delivered organic EBITDA at 5.3%. We've seen in Advanced Material 4% organic sales growth and maintaining a very high margin. Specialty Polymer has across a wide number of markets supported significant growth, namely automotive, batteries, healthcare applications, and an expected decline in smart devices. Once again, we are very focused on one customer and very dependent on their own product cycle.

Composite for aircraft, the comments I made for Q4 was just an acceleration of what happened during the whole year. But yes indeed, we see good momentum, full order books, and a lot of visibility regarding the needs of our customers in this segment.

Special Chem, challenging year related to technology phase-out in insulation and diesel catalysts which overshadowed our solid growth in electronics. I remind you that we have a position in fluorinated gases, which are used for insulation. This product will be phased out due to the Montreal Protocol. We are expecting the phase out to be slower than what happened indeed and with Special Chem as so far from this in 2018. And diesel catalysts this is the steep reduction of the use of diesel engine in commercial engines especially in Europe.

Advanced Formulations sales grew 9% organically. Very solid growth driven by oil and gas market until the end of the year where we've seen in Q4, as I commented, significant change in price. But overall, most of the market served by our Novacare business have had very good behaviour along the year. Technology Solutions and Aroma supported also the growth throughout the year.

And Performance Chemicals a word on soda ash – some of you were expecting a very tough year in soda ash in 2018. What happened is exactly what we've mentioned a year ago, the fact that we are very well prepared to weather the new capacity coming from Turkey. And overall we've seen what I think is a very good performance from our soda ash business in this context. And we are ending the year in a situation where the market has rebalanced and all of this I think should be a very strong situation that our team has developed over the years to make sure that we could grow from this situation, and get out of it in the best possible condition.

Strong performance from peroxides and favourable market conditions in Brazil, all of these allowed our Performance Chemicals segment to grow by 6% excluding FOREX and continue to generate a very strong margin.

With that I turn to Karim, which will give you a bit more insight on our financial performance. Thank you, Karim.

**Karim Hajjar:** Thanks, Jean-Pierre. Good morning everybody. I refer to the slides that you can access on our website and, as usual, I will be referring to figures on an underlying basis.

Now Jean-Pierre has already covered the sales dynamics. I'm going to move straight to EBITDA and turn you to slide number 8 on our website. The growth that we alluded to overcame the weakness in some markets in the latter half of the year and helped us deliver the 5% organic growth, very much in line with what we indicated at the start of 2018. When we factor in foreign exchange conversion impact and some scope impact the underlying EBITDA was flat compared to last year. Obviously, the organic is up 5%. The good news is that EBITDA margins remain 22%.

Going a bit beyond that, pricing was flat overall. Price increases, price progress across many and most of our businesses and they offset the expected fully-anticipated lower pricing in soda ash and also the margin erosion we signalled earlier last year in Special Chem related to the fluorspar increases. Fixed costs were higher and that reflected a conscious decision to increase our capability, to increase our investments and the manufacturing capability to support the volume growth in composite materials particularly whilst in parallel we continue to drive cost excellence programmes that impact both fixed and variable cost.

Turning to the bottom line and to underlying profit and adjusted EBITDA on slide 9. A lot of information there, I'll highlight one or two things. First and foremost, EPS continuing businesses up 12%, and that is despite a flat EBITDA. Where does it come from? It's essentially a significant reduction in financial charges as we continue to deleverage and optimise our capital structure. So we landed where we expected to be, quite frankly.

Now the other thing we don't talk much about, but the polyamide business is doing really well whilst still in the departure lounge, let's say, waiting for the completion of the transaction later on this year. What's pleasing is in the year 2018 performance improved profits from that business and net profit basis was up more than 35% for the whole year. Now these elements mean that the total EPS progressed by 16%

including the polyamide contribution. One thing I highlight though is that all this is really showing is on a pre-IFRS 16 basis.

Now on slide 28 and on the annexe of the financial report, pages 34 to 47, we've given you a lot more supplementary information that hopefully will help you adapt your models and your expectations on Solvay. The headlines are as follows: on a proforma basis EBITDA for 2018 will be 100 on the year, depreciation up around 90, CAPEX up around 80, assets in use, mixed assets, let's say, and net financial debt would go up by €0.4 billion. The impact on return which is key, obviously, is not material. About a 7 bps, a 0.07% reduction. And as I said, you've got all the details hopefully that you will find helpful in the information that's on the website.

Turning to cash, you will see that free cash flow from continuing operations reached €830 million, up €48 million compared to the previous year. Now the fourth quarter reflected both the normal seasonality, but also a modest positive phasing in our working capital which will unwind in the first half of 2019, because working capital needs were €58 million below the previous year. But fundamentally what is also pleasing are free cash to shareholders, by which I mean, after financial charges, was up 56% at €725 million in the year. And that reflects both the lower financial payments that I referred to earlier but also high cash flow from the discontinued operations in 2018 compared to last year. Once we deduct the dividends of €372 million the fact of the matter is we delivered an operational cash flow deleveraging of €453 million.

Now many of you will recall also that Solvay has a significant pension and other obligations that needs to be serviced and it's worth noting that the pensions liabilities were also deleveraged from our cash flows by €130 million. And you will see more details about that information in slides 11 and 12.

I will also today say a few words around the outlook in view of the leadership transition that we're in. And for me there are really three messages I want to bring out. First and foremost, our fundamentals are strong; our leading positions are unchanged. We operate in markets where we see supportive growth dynamics in aero, in mining chemicals, in healthcare, in soda ash, to name but a few.

On the other side of the equation we all read the same headlines and you see that there are headwinds in auto, in electronics, in oil and gas that will moderate the growth, clearly. It's almost an inevitable outcome. That's the context. What are we doing? Well there are three things. One, we will continue to innovate with our customers. It's the only way we keep our leading positions. Innovation; customers. That's the key to our success.

In parallel we will continue to do what we've been doing for years: driving excellence. Being very disciplined about cost. And three: cash. Converting strong profits into strong cash is a key part of our recipe, let's say. And that is why what we've indicated for the outlook for this year – cash generation. And with that I turn you back to Jean-Pierre.

**Jean-Pierre Clamadiou:** Thank you very much Karim. I guess this will bring me to my last formal remark – I will answer your questions obviously in a few minutes – as I am in my final days leading Solvay. Looking back, I think that I'm very proud of the transformation we've been able to achieve regarding the portfolio. I'm very proud also of the delivery. Although I recognize that there's still a significant amount of potential that has not materialised yet due to the importance of the transformation altogether and I'm very confident that indeed Ilham and our team will be able to make the best out of what we've built in the last few years. 2018 is the last year of the three-year period for which we have announced an objective back in 2016, and I'm very pleased to see that we have indeed outperformed all of our mid-term targets that we have set back in 2015, at capital markets day.

We have delivered midterm – we have delivered EBITDA growth of 7.5% in average across this three-year period. We have generated €2.7 billion of cumulative free cash flow, in excess of the target of €2.4 billion that we set, and this despite significant number of divestments. We have achieved our CFROI target, reaching 6.9%, and we are now firmly in the value creation mode. We had also a number of extra-financial target that are very important for me and I'm even very pleased to see that in greenhouse

gas [inaudible] reduction we have also exited our target 24% over the period versus the 20% objective. And we have now 50% of our sales which qualify as sustainable solutions.

And if I look at return to shareholder, EPS grew in average 13% during the last three years and free cashflow to shareholder which is a metric that you have asked us to focus on went from 148 to 725. So indeed, we have returns. That gives us confidence – and this was a Board decision yesterday – to recommend to the shareholder meeting a dividend increase of 4.2%, at 3.75 gross dividend per share. And which reflects both our strong performance in 2018 but more importantly our confidence that indeed Solvay is on track to deliver superior value going forward. Before going into the usual Q&A session, I will be very pleased to hand over to Ilham for a few remarks. Ilham?

**Ilham Kadri:** Thank you very much, Jean Pierre. And hello everyone. First of all, I'm very excited to be here. I started in Solvay eight short weeks ago, so they have really flown by. It was an enjoyable and inspiring week and I want to thank especially Jean Pierre for your support in the first weeks. We spent many days on the road; this has taken me personally to 15 locations in four continents, visiting all of our key businesses around the world, and I have tremendously benefited from a complete download of relevant experiences and insights from Jean Pierre who has built it over the past seven years since he joined Solvay as CEO. So again, thank you very much Jean Pierre.

Now I won't take too much of your time today but I just want to say a few words before I turn it back to a listener mode rather than participant on the special earning call, which is of course for Jean Pierre and Karim to close with you. Briefly sharing some of my first impressions maybe and priorities. First of all, my first impressions of the Solvay businesses are extremely positive. The technologies – and as you know, we have a broad and rich portfolio with leading positions. And most importantly, the thousands of highly engaged people I've met either face to face, during townhalls or through an extensive, you know, virtual platforms we've initiated since my arrival in the company, to promote the dialogue allowing me to understand better our areas of strengths but also improvement areas.

So all in all positive there are good people and good businesses. I continue my diagnosis around opportunities, trends and challenges and get to the bottom of each business. Secondly, as you know, the Board have given me the privilege to serve this company and to write the chapter of Solvay's history. Clear mandate which is to build on our strengths, close our gaps, and to focus on unleashing and accelerating the value creation. And I'm truly signed up to just do that with our team. Started my time with the learning and listening tool with employees, and there's thousands of them engaging in sharing the wisdom and the ideas. I was impressed with the people of Solvay. They are passionate talented and smart, and my priorities looking forward is to complete this listening tour and continue learning as much as possible, reviewing the historical performance and current strategies of individual businesses.

So the education continues, and I will start to get to know more our investors and the analysts. So my first day is 1<sup>st</sup> March in the reality, and there is no better way to start my mandate than with the investment community and some of you. So after the baton passing early that morning on Friday in our headquarters here, I will be travelling to London meeting investors in a trip which will take me from Brussels to Boston to New York, and we are planning other places as we speak. So I would like also to step into your insight and hear your feedback. So clearly this is the beginning and I look forward to building a relationship with you.

And with that, I hand you back to Jean Pierre and Karim who will be addressing your questions. Thank you.

**Jean-Pierre Clamadieu:** Thank you very much, Ilham, and let's go to the Q&A piece of this call.

**Operator:** Ladies and gentlemen, we will now begin our question and answer session. If you wish to ask a question please press 01 on your telephone keypad and you will enter a queue. After you are announced, please ask your question. Once again, please dial 01 on your telephone keypad to ask a question. Thank you.

And we have our first question from Patrick Lambert from Mainfirst. Please go ahead.

**Patrick Lambert:** Good morning everybody. Thanks for taking –

**Jean-Pierre Clamadiou:** Hello Patrick.

**Patrick :** Good morning. Congratulations for the results. One big question around three businesses is for the outlook 2019, in particular in specialty materials, in oil and gas, in soda ash. If you could help us a bit on the existing split of exposure of specialty materials in 2018, auto versus electronics, smart devices. A bit more granularity on the split and what you see on the different applications. A bit the same thing for oil and gas. Kamira showed pretty decent numbers and growth in friction reducers. What's your outlook for at least the beginning of 2019? And soda ash, very good results. Very good stabilisation. Again, outlook 2019. And I saw that you also planning some CAPEX there, if you can help us quantify those CAPEX on soda ash and bicarbonates. Thanks.

**Jean-Pierre Clamadiou:** I won't give you the granularity that you expect. But try to help you understand the trends. Starting with soda ash, I think the situation is pretty good. We see solid demand and again a supply/demand balance which has improved very much during the year. So many people were worried about the capacity for being with new volumes coming – we are indeed a little bit pessimistic. I think we've managed it very well. You've seen the situation of prices. We have now annualised the negotiation and we are indeed pleased with the outcome of this negotiation so overall – a good year for me from – for soda ash.

And by the way the trend that we're seeing regarding Chinese volumes coming into the market where we compete, which is mostly South East Asia, all of this is good. And the CAPEX we've done – very focused CAPEX – what we want to do is to improve our competitiveness and de-bottleneck when we can do that in very constructive ways. So very focused CAPEX on this – on this business.

For oil and gas, as I've mentioned, the trend is – the trend has been a little bit volatile during last year. Very strong first nine months as expected; then we started to see some significant reduction related to two elements, oil price, but also the fact that the pipelines were not large enough to help our customers ship all the volumes they are producing. And if you look at the production in North America, it's extremely strong. What you see is a slow start to the year, but with good signs at the end of the year – at the end of the quarter, and we think that there is new pipeline capacity – we know that new pipeline capacity is being built and we expect this to help us see a better trend in the second part of the year.

Friction reducers: we have a very strong position there. So – and we are not only a strong position with existing products but we continue to innovate in friction reducer. So overall, quite positive, on what could be the development, but we've been a bit prudent on the short term. And auto, we have a situation where we have still in 2018 the growth which is significantly higher than the automotive market growth, leading to a number of new applications where we bring our product. Obviously electric or hybrid vehicles are one element of the equation but even in – even in traditional commercial engine vehicle we've seen opportunities for us to bring our most advanced polymer there.

If you look at the current situation I think the world is probably on the question mark, probably around China, where we've seen some reduction in sales, some complexity in the European supply chain, and all of this led to a bit of a reduction of the growth rate at the end of the quarter. Part of it might be on-demand reduction; part of it is in fact re-optimisation. So a pretty complex equation which explain why we are cautious on the outlook.

Karim, do you want to add something?

**Karim Hajjar:** Sure. I think you've given the key points. Maybe just to add on the auto, I'd like to remind you that the first half of last year we saw sales in auto grow 20%, whereas this year what we're seeing is an element of destocking, a lot more uncertainty on China, clearly. And that is one of the reasons that I think one has to be confident on the fundamentals but cautious on the near-term, recognising also that we tend to outperform the market because our presence is on a number of technology auto platforms as well. So we've got a good position but there are good reasons to be cautious.

Okay, next question?

**Operator:** Yes. We have another question from Natalie de Bruyne . please go ahead.

**Natalie :** Hi. Good morning. Congratulations on the results and Ilham, welcome, and Jean Pierre, good luck for the future. Actually my questions were – my questions were around oil and gas again. So I understand the visibility that you have today is quite low; there are signs of recovery because of new pipelines being built, etc. But I was actually wondering, what does that mean in terms of pricing and mix for the coming quarters, and what have you seen in the past year?

So that is the first question that – the idea of – to actually know how this is going to play out, volumes versus pricing, and in the coming quarters. And then the second one, that would be on your medium-term targets or at least potential that you presented back in September of 6 to 9% EBITDA growth by 2021. So I was wondering what the slower 2019 – how does that play out? And what is basically your expectation for the long term? Because obviously if you have very slow growth or slower growth in 2019 that needs to accelerate in 2020 and 21. And I was wondering on the back of what you could expect that for the moment. Given the visibility of the shares today of course.

**Jean-Pierre Clamadieu:** Well I make just a few more comments on oil and gas and I guess Karim will comment on the second part of your question. Oil and gas sales, we don't expect significant mix changes. We still see a tendency for some of our customers who are willing to bring a [inaudible] based solution into the picture. But today our position is really very strong on friction reducers. I think we are the clear leader of this market and we are very well positioned to benefit from the upturn that I was mentioning. Will it come at the end of Q1; will it come in Q2. Bit difficult to say as we speak but the fundamentals are good. And yes, indeed, I guess, it would be for the new – my successor to comment on this later on. But I think the challenge there now is we need to increase margin; profitability at Novecare is not at the level where it should be. And in the market which is normalising I think there will be opportunities to do so.

So Karim, what about the mid-term target and the – and how that relates to the short-term comments you've made?

**Karim Hajjar:** Absolutely. Good morning Natalie. I think fundamentally I remind you that in September what we did is to reveal the quality of the portfolio, the upgrade that it's clearly delivering, the result as Jean-Pierre clearly alluded to if you just look at the last three years. And what we were trying to do is indicate the potential for growth over the mid-term and those fundamentals are changing. The fundamental leading positions we have are still here today. We have very, very strong positions, technologies, and we will continue to work.

So we're not going to give any specific commitments or guidance at this stage; it would be premature. I think Ilham's assuming the role in a couple of days' time, clearly, once we have a conviction of exactly how it is, we're going to operate to unleash the potential which if you heard Ilham is very much her core mission. I think at that point we'll come back to the market and we'll give you more clarity as to what that growth trajectory looks like.

Short term as I've explained the outlook to my mind is reflecting the leadership position that we have – the fundamentals that we have, that recognises the inevitable impact of gravity on auto, oil and gas, etc. So to my mind, it's a strong business that will continue to deliver and improve.

Next question?

**Operator:** Yes we have another question from Geoff Haire from UBS. please go ahead.

**Geoff:** Good morning gentlemen. Thank you very much for the presentation. Just two quick questions. First of all, composites in Q4; you had a 15% sales growth. Was there any sort of one-off that got you to that 15% and how sustainable is that into 2019?

And I just wondered if you could update us on what's happening in the ag market in Novecare. thank you.

**Jean-Pierre Clamadiou:** On composites, no specific element has been said. You should not expect sales to be flat quarter after quarter. There's always adjustments in the delivery period which could explain some differences, but as I've said several times, the trend there is very solid and probably the market where we have the most visibility today into 2019 and even the following year. As you know, we have a big challenge just to deliver the incredible number of planes that have been ordered for the single aisle part of the market and the F35 is also a challenge for all these guys to produce, and our challenge is to make sure that we make the product available for them as they expect it to be available.

So, at the end the only comment I can make on Q4 is that on composite we are focusing very much on operational improvement these days. Performance was probably not perfect, especially according to service and [inaudible] and we've made huge progress there and I think there's still a lot to come in terms of optimising the overall operation, reducing weight and making sure that we see all the impact of the [inaudible] into the bottom line.

Ag, frankly speaking, no special comments. I mean, we've seen the usual seasonality of the market. In fact, it was probably a little bit less pronounced than usual, but overall, I think good development. By the way, this is proof of all the non-oil and gas market of novecare. We've commented very specifically on oil and gas because it's where we've seen a bit of volatility during the year, but home and personal care, ag, the industrial market we are serving, demonstrated very good performance. I mean, we've been growing significantly in all of these markets.

Next question.

**Operator:** Yes, we have a question from Chris Ryan from Bank of America. You have the floor, sir.

**Jean-Pierre Clamadiou:** Hello, hello Chris.

**Chris Ryan:** HI, yes good morning. Thank you for taking the questions. Just on the polyamide sale and H219, can you just give any indication of what the intended use of proceeds are? And does it make any sense to try to tender for any high-cost debt with those proceeds?

**Karim Hajjar:** I suggest Jean-Pierre takes that question. I think it's a very important question and I think you've answered it. I think essentially what we're going to be doing is to look at ways to create value by essentially de-leveraging, and what I would say, this smart way to try and further improve the efficiency of our balance sheet, but we're not going to pronounce ourselves now as to exactly what that looks like. There are a number of options that we will look at, and once we are clear and have a strong conviction of what creates the most value, we'll be very quick to advise you all. What we won't be doing is going and doing a huge acquisition because there's nothing at all. It's really around continuing the deleveraging to be clear, and we are talking about €1.1 billion of cash proceeds.

**Jean-Pierre Clamadiou:** Plus 100 million of liabilities

**Karim Hajjar:** Absolutely, so the deleveraging also includes the pension etc. So, no, it'll be very highly contributive to our returns as well. It'll be good.

**Jean-Pierre Clamadiou:** Next question.

**Operator:** Yes, we have a question from Mr Wim Host from KBC Security. Please go ahead, sir.

**Whim Host:** Yes good morning everybody. Two questions from my side. Maybe first, can you provide a CAPEX guidance for 2019, and the second question is on speciality polymers, the outlook for your smart device business. I assume the normal product cycles are about a year, which would then suggest that you have at least two more quarters of relatively weak smart device business ahead of you. Can you maybe say something about the successes of the current range of mobile phones of your key

competitor and whether you qualify it on the next generations and how much growth that can provide, and maybe in the second half of the year, any clarity on that would be helpful. Thank you.

**Jean-Pierre Clamadiou:** Again, I'll take the second question, and Karim then will go back to capex. I don't want to disappoint you, and we don't want to give you insight, especially on a business where we are very dependent on one customer, but I would like to say that over the past few years I saw a very successful development in smart devices. Our view was more to de-risk ourselves from this very important customer, and it is exactly what we are seeing today.

We are very successful on some range, on the higher range or, the higher model, I should say, within the range that this customer produces, and yes indeed, the product cycle is such that we should not expect a significant pickup in the next quarter.

This being said, we are trying to diversify also our exposure, and we are working very hard with other potential customers there. So again, de-risking both within the smart device segment. When I say de-risking, I should say spreading our positions into a larger number of customers within the smart device range one, and second, making sure that we are going very quickly on all the other markets, these are our priorities for the specialty polymer business.

CAPEX, do you want to comment Karim? This

**Karim Hajjar:** Yes, I think again, we've not changed – we gave an indication that we're going to continue our CAPEX discipline in overall terms. I don't see a case for changing the approach at this stage. What I will say though, is that there is a lot of discussion with Ilham and the executive committee around how can we create even more value with the money that we've investing, really being very, very focused, very disciplined. So, I think one can expect an evolution, but I'm not all of a sudden going to say we're going to invest dramatically more, anything like that.

Clearly, if – I'm not going to preclude any changes, but if that were to be the case, we'd very much put it in the context of a strategic conversation at the right time. But at this point, business as usual, cash discipline, cost – CAPEX discipline, but we will look to get even more value out of what we're doing. Does that help Whim? Hello?

**Whim Host:** Okay.

**Jean-Pierre Clamadiou:** So, maybe we should move to the next question.

**Operator:** Yes, we have another question from Peter Clarke from Société Générale. Please go ahead.

**Peter Clarke:** Yes, good morning everyone and welcome I guess. The first question really is just an observation. I mean, as it stands today, and you're looking at the three segments moving forward, performance chemicals to me certainly looks like it's probably got the strongest growth in 2019. Is there any reason not to suggest that, particularly with the Soda Ash pricing in there and the momentum? So, it should out-perform the growth engines as things looked today. And then the second question in advanced materials – you with the capacity that was put on the ground and getting over that over the last few years. Just your thoughts on the silica business this year and the underlying markets there. Thank you.

**Jean-Pierre Clamadiou:** It's true that the performance cluster is likely to generate solid results into 2019. Soda ash we had the hiccup linked to the arrival of the Turkish player and even if it was much less than some people expected it was material, so this is now behind us. The price campaign went very well. Today we are receiving pretty strong messages from our customers regarding their need for 2019 and in the outside, we continue to see the business looking well. We've passed a significant range of price increases during the last part of 2018, so, yes, I'm pretty optimistic regarding the behavior of this cluster.

Silica, I would be a bit prudent there. I mean we've seen prudent comments coming from some of our large customers in the tire market. It's true that the new capacity are working at a very high level of



capacity, and our team is very much focused on operational improvements short-term, innovation mid-term because we see the need for a new, more efficient tires there. So, again no surprises, but no significant improvement in the performance of silica.

**Karim Hajjar:** Maybe adding weight to Jean Pierre's comments which is this, I mean you're right in highlighting soda ash, and it's great to see that recovery, but there's a lot more to the growth that we anticipate besides strong 2018, and we see scope of progress in 2019. Then we talked about mining chemicals, technology solutions, Novecare. Significant positions and growth prospects. So again, there's a lot of strength beyond what you just referred to soda ash, where one has to be attentive, are those businesses that serve particular markets and customers. We have mentioned smart devices, auto etc., so we repeat it. But there's a lot of growth coming elsewhere. And particularly I'd like to highlight, Composite, great order book, significant visibility, and very, very confident about the road ahead of us. There's going to be quality growth, broadly speaking, but we'll have to be cautious in the near-term.

**Jean-Pierre Clamadiou:** Good, thank you very much Karim. We move to a next question.

**Operator:** Yeah, our next question is from Martin Rodiger, from Kepler Cheuvreux, please go ahead.

**Martin :** Thank you. Welcome Ilham. Good morning Jean-Pierre, Karim, Geoffroy. I have three questions. Starting with free cash flow. You guide for modest EBITDA growth in 2019, what should we expect regarding free cash flow to shareholders? Is it also going to rise modestly in 2019? Take into consideration a comparable basis. I mean, I know that the timing of the disposals in either business has an impact, but I want to understand it on a comparable basis. Either having neither business in the portfolio until the end of 2019, or excluding it from both sides of the equation.

The second question is on your pricing power. It seems that net pricing in Q4 was down by minus €23 million. My question is, is your pricing power fading? And is that mainly related to raw materials? Or to energy cost? And do you think this is just a time lag? And you can catch up soon on that? And then finally, a minor question, in the corporate and energy line, you had a relatively low loss in Q4. Is that only due to cost savings? Or are there also any profits related to the energy line? And if so, can you quantify these profits?

**Jean-Pierre Clamadiou:** Okay, I'll take the – I'll take your pricing power question. Karim, and you take the two others.

**Karim Hajjar:** Sure.

**Jean-Pierre Clamadiou:** Now – on pricing power frankly speaking, with 22% EBITDA margin, our pricing power is failing eroding. But again, when you look at a specific situation in a year, where we've seen increases in – an indication I should say, in some raw material and energy costs are having a bit of an impact. So the performance was – the pricing power performance was not great in Q4. We saw situations where as we are increasing volumes, and we see situations where we are continuing some pricing to our customer, but this is part of very long-term contract, so no surprises there. So frankly speaking, I'm very confident in both, ability to produce and manage pricing power very well. We are past that. I mean, well established ourselves. Most of the market, as we operate as strong leaders, and in most cases strong price leaders. Okay, cash flow Karim?

**Karim Hajjar:** Sure, perhaps on free cash flow is done by bringing – taking you – bring to your attention, the fact that we've got still more explicit guidance on free cash flow on page 12 of the financial report. And I think I will begin to answer some of the questions you may want clarity on. CAPEX, we seem to be broadly close to depreciation. One thing I would highlight, is that the certification programmes we're driving, that will have a cost reduction impact. We're now into full implementation mode, so the cash out and the provisions – in fact, you recall, we're talking Q1 last year, we're going to see the cash outflows happening this year. But that will have a bearing on it.

I talked about the modest favourable impact on the phasing of working capital in our fourth quarter, that will unwind a bit in this year. But overall, what I can confirm, without giving a specific number, is that

we're going to stay absolutely focused, and we expect to delever. Exactly how much, let's see. The more visibility we have as the year progresses, is more precise we can be with you. The other thing I can also confirm, is that the reduction in provisions, including pensions, one can also anticipate a continuation, what we've seen. And that's more deleveraging – strong cash flow.

On corporates and energy, I'm not sure I understand fully your question. There isn't anything of a one-off nature. There is, however, the benefit, which also is in the other line, when you look at the profitabilities. It has to do with the lower incidence of insurance claims, and that also has a beneficial impact, it doesn't happen all the time, but it clearly impacts the bottom line up or down. That's the one factor I can think of, that's probably helped in that context.

**Jean-Pierre Clamadiou:** Okay, but the disciplinary costs I mean, we say something that – on which we've been working on past year or so, and yet, people have been disciplined in a – [inaudible] find that where the good insurance performance is also a reflection of our good operation, a good control we have on our operation.

**Karim Hajjar:** Absolutely.

**Jean-Pierre Clamadiou:** Okay. And simplification is also coming in, the programme that we have officially launched at the end of 2018, we are starting to see the first [inaudible] in Q4, and it will continue to materialise into our next quarters.

**Karim Hajjar:** Indeed.

**Jean-Pierre Clamadiou:** The next question?

**Operator:** Yes, we have another question from Chetan Udeshi from JP Morgan, please go ahead.

**Chetan:** Yeah, hi. Thanks. Just following up on your previous comment on cost programme. Can you give us any sense of how to think about any contribution from the cost program in 2019 – any sort of number?

And the second question is, going back to the pricing power question. You know in the current environment when things – at least on the demand side, seems to be weakening, in – at least a few markets, how do you see that sort of playing out in terms of pricing, behaviour from you or your competitors? Or – in other words, can the margin that you have, 20% plus, be sustained in the weak-ish demand environment? Thank you.

**Jean-Pierre Clamadiou:** Well I guess, if I take your last question, I think I have this question over last maybe six or seven year. I think we've demonstrated year after year, how we did increase our return on margins. And today we have a very strong – a very high level of margin for a diversified and specialty chemicals company. And I'm very confident that it would continue. In fact, if you look at our soda ash and our peroxide business, we've passed very material price increases during the last months of 2018, and we are entering 2019 in very good condition.

In our Advanced Material business, we don't see – I shouldn't say we don't see any pressure on pricing, but we are very well positioned with that, and clearly we – even when volumes get a little bit weaker here and there, we don't see competitors fighting for prices. This is not at all the business model in which we operate. We have some situations where, as volume increases, pricing is adjusted. These are part of long-term contracts.

The area where I think we have a bit of a challenge and probably some potential for further improvement is the formulation business. There's a few segments in novacare, where I think a priority now, after a year which has been overall pretty good in terms of volume. The priority is to focus on the prices and profitability. But, this is another one. So again, another chapter. The EBITDA margin that we have generated in 2018 is a sign of strength in our position in a large amount of segments in which we operate. Karim?

**Karim Hajjar:** Let me take your first question of the cost. Fundamentally, the way I would like to describe it, is this. We are focused on the bottom line. We are focused on maintaining the excellence. And if you look at excellence, we've been doing – focused both on fixed and variable costs. What we're doing right now is ramping up, because we want to accelerate the excellence programme, under Augusto Didonfrancesco's leadership. And that's very much part of the bottom line increase we're focused on. And that stays around improving our yields, reducing our variable cost.

And even getting access to let's say – and what I would call very low-cost capacity creep, capacity extensions. You saw the announcements recently, for example on soda ash; that is coming through at a very attractive return, because we're investing in excellence, in bigger tools, to release our potential. So I'm not too – at all alarmed by the fact that we could well see fixed cost go up here and there. But what you can expect from Solvay, is to improve the bottom line EBITDA and profit improvement. One at a time. So we invest now, we will harvest let's say towards the end of the year, next year, etc.

Very much a repeat of what we started to do with composites in the middle of last year where we were really investing in capability on the manufacturing excellence survey equation, and we are already beginning to see early signs of that delivery. So fundamentally, the discipline, the excellence program is there, but sometimes you have to invest in fixed cost, but it's a great investment in its own rights, but we're not going to start giving specific numbers or anything else. It's really around delivering the value.

**Jean-Pierre Clamadiou:** Well I know we are – you are focusing and it's not surprising, and the exact prediction after the programme, but clearly the focus is not just a prediction, the focus is very much simplification, just know our focus is on where we expect to generate the most significant gains. Cost fitting is a – cost prediction is a consequence of this. But we are – the key focus again is to make sure that we have a very simple guide, focused on mitigation and without [inaudible] customer feedback that you know that we are making some progress there. Maybe you – let's go to the next question.

**Operator:** Yes, we have another question from [inaudible] from Citi, please go ahead.

**Speaker:** Hi, thank you for the presentation. Just two quick questions please. Coming back to the complex part of business, are you able to provide some clarity on the timeline of the EBITDA improvement? You talk about the drop through to the bottom line. Is it something that we are likely to see in 2019 or maybe further out, and maybe some steps needed to achieve that? And then the second question is around the CFROI return. Now given the cautious outlook for 2019, I was wondering if you could provide some comments on how you see that progressing into 2019, and whether it still goes on, it's a positive trajectory. Thank you.

**Jean-Pierre Clamadiou:** Karim?

**Karim Hajjar:** Okay, on composites, our expectation is that we will see meaningful sequential progress. We're not going to start giving numbers or indications, and this is largely because the order books are there, our customers expect us to be there delivering what they need. And as we said earlier, we're looking at improving our yields, our operating performance, our quality, and all that will have an impact on the bottom line. It doesn't happen overnight. It typically takes 12 to 18 months to really see that potential being unleashed, so I'm not going to say be patient, no, because we're not patient either, but I think, just take time, and it's important to invest correctly to drive that change.

So nothing more than that on composite, it's – and again, having visibility, and the teams and the quality of business and technology. Yep, this is a great addition to our portfolio, and it's seriously delivering now, which is great. On CFROI, we're not going to give specific guidance. If I look at what happened last year, there were two factors; we had foreign exchange in scope, that took us down 10 bps. Organic improvement that took us 10 bps, therefore we stayed flat year on year. Now, I can't indicate what's going to happen on FX etc., but I can say to you is that the focus on returns is only going to increase, that the early conversation with [inaudible], and the comments he's run, okay, how can we take things to the next level, and that's very much part of the agenda, and that's where we are looking at.

So I don't expect the valuation that we turn, because clearly we want to see it continue to go up. But remember, you're looking at €20 billion replacement costs capital base, so it's a very difficult metric, and we're talking of cash as well. But shifting the needle doesn't happen in terms of 1% movements from an organic point of view. But we're on the case.

**Jean-Pierre Clamadiou:** Thank you Karim. But maybe we'll take the last question, and then I will conclude.

**Operator:** Yes, we have another question from from Shroedders. Go ahead.

**Speaker:** Hi, it's not really a question; it's just bye-bye to Jean-Pierre, thank you for everything.

**Jean-Pierre Clamadiou:** Good.

**Speaker:** And just maybe a comment on Cytec, like would you still do it if it was around today?

**Jean-Pierre Clamadiou:** If your question is for me, the answer is yes, and we are seeing today a situation where composite brains what we would expect which is visibility. And being also a Board member of the others, I can really see that composite has a bright future in aerospace. With new platforms, we'll use more and more composite and that's good. And we should not forget that Cytec was two parts composite one part chemical, and the position we have gained surface chemistry, thanks to the Cytec acquisition is also a good one, and I think we are seeing today technology solution — we have seen today technology solution becoming a good part of our advanced formulation; hopefully when I see that where a lot more opportunities which will develop in the next year that's with business we'll be going even more global.

Well thank you very much, it's probably — so if you still have questions, because I think there's a few questions online but unfortunately we have a call at 10.30. Don't hesitate to call or drop in the IRP and they are all day waiting and willing to answer your questions.

For me it's just a great opportunity to say thank you. Thank you for your participation in our goal, thank you for all the great quality direction we had during all these years. I was trying to count last night I think this is the 27<sup>th</sup> quarterly call that I have the privilege to share, and this is just already covered for the 30 or 40 similar calls, ask for their time, and I have known companies in terms of — in times of very tedious financial stress, I think companies are focusing on both, but I enjoy it always very much the interaction with you both, during the calls and you were in the — during the road shows. I'm not one of these CEOs who thinks that financial communication is an annoying part of the CEO role. I think it's a very important part of the CEO role to have constant dialogue with shareholders and investors and the analyst community.

All of your questions brings interesting insight into the business, and interaction has been — well, I call it interaction, and having talked to Ilham I think she shares the fact that indeed this direction is important, and the fact that she is — that the first activities as the new CEO of Solvay will be meeting with analysts and shareholders at a very good time that we consider that this is strategic. So thank you very much for all the contact we've had during the past few years, and good luck to you, good luck also to Solvay and Ilham. And with that, will bring this call to an end. Thanks a lot.