Speakers:
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Ilham Kadri, CEO
Karim Hajjar, CFO

Geoffroy Raskin: Good afternoon. Welcome to our Second Quarter Call. I'm Geoff Raskin from Investor Relations and I'm here with our CEO Ilham Kadri and our CFO Karim Hajjar. Now before handing the call over to them, let me remind you that our results are compared to 2018 pro forma figures, which already include the positive IFRS 16 impact.

This makes that a corresponding 4.2% growth is excluded from the presented growth figures in H1. We have also added slides to today's broadcast, and with that, I'll turn the call over to our CEO Ilham.

Ilham Kadri: Thank you Geoff and hello everyone. Thank you for joining our call today. I will begin with the quick overview of the result.

Turning to slide three, as anticipated and discussed with you at our last results call, the macro headwind we experienced in Q1 in key end markets including automotive, electronics and oil and gas remain challenging in Q2. Against these backdrop, we executed well by focusing on actions such as cash management, cost discipline and price increases to deliver operational performance in line with our expectations.

As a result, net sales were up 2.6% in the first half, and the underlying EBITDA was -0.5% as foreign exchange compensated for organic decrease of -3%. In the second quarter, underlying EBITDA was 5% down organically including the -2% net effect from one-time element. Our diversified portfolio provided resilience for the group.

In our Advanced material segment, composites materials for aircraft shoed continued strong double digit growth in volume, while in specialty polymer despite the difficult macro environment, performed slightly better than the general auto market, as we also benefited from higher sales in hybrid and electric vehicles.

In our Advanced Formulations segment, mining, agro, coatings and personal care market were stable while oil and gas remain challenged. The Performance Chemical segment continued to deliver solid results through strong pricing in soda ash and peroxide businesses.

Last quarter, we discussed with you our mid term priority to increase focus on cost and cash, as a means to help mitigate the current challenging environment. I am pleased to report that our effective cost control is already starting to bear fruit, and that we were able to sustain a healthy EBITDA margin of 23% in the first half.

Move to cash from continuing operations, I am pleased with the improvements we delivered. Free cash flow to shareholders reached €33 million in the first half, as our delivery in the second quarter more than compensated for a negative Q1. And while I am encouraged by our early progress, there is still more work to be done in this area, and we have a clear line of sight of the opportunities ahead.

Turning to slide four, one of the first actions that I took since joining the group was to simplify and align the roles, responsibilities and structure of the executive committee. We are already seeing this realignment leading to faster decision making. This enabled swift actions to reduce inventory where needed and to focus the businesses on improving cash generation.

To complete the executive team, I am thrilled to welcome a new executive committee member in the role of Chief People Officer. Hervé Tiberghien will be joining us from PPG on September 1st. He has the right competencies and experience to become a key partner, and drive the performance culture in the company going forward.

Now, I would like to speak about what matters most, our customers. After my initial focus on meeting employees and listening to our investors, my recent focus has been on meeting customers. My takeaway from meeting more than 50 customers is that, they believe we have the right relationships, the right technologies and future breakthrough innovations to respond to their needs and their end met needs. They're relying on us to make them win and share the value created.

I am especially excited to meet with many of our key strategic customers at the Paris Air Show last month. The collaboration with our customers remain at a high level and we're accelerating the composite material breakthrough innovation both thermostat and thermoplastic for the next generation of aircraft. I would also like to congratulate Airbus for their prestigious engineering award for composite wing on the A220 aircraft that reduces the environmental footprint of commercial jet.

The wing is made using Solvay's proprietary resin transfer infusion. It's 10% lighter than metal, which reduces fuel consumption and CO2 emissions. We are very proud that our technologies help our customer achieve these awards. I'd like to celebrate another one of our innovations. In silica, it's all about clean mobility and we are very proud to have a new premium technology been adopted by one of our key customers.

The solution features 25% less rolling resistance compared with the standard tire, thereby reducing fuel consumption and CO2 emissions by 7%. While we are helping our customers achieve their sustainability goals, we are also making progress on our own sustainability goals. So let me address our key priorities around sustainability.

This is central to the way we run our operations. I know you have all seen our 2025 targets we shared last year. I'd like to update you with the preliminary figures on two of those metrics: safety and greenhouse gas emissions. On safety, our goal is to have the rate of occupational health and safety incidents. Year-to-date, we improved our accident rates by 17% from an existing very strong performance, reflecting the continued commitment to safeguarding people and the environment.

On greenhouse gas emissions in the first half of this year, we made very good progress towards our objective of 1 million tonne absolute reduction targets by 2025. We are down by 0.3 million tonne. We continue to take targeted actions such as the investments in biomass in our Rheinberg plant, which we announced earlier in the year, and which will reduce our emissions further by some 0.2 million tonne in the coming years.

Before closing the sustainability chapter, I would like to address the questions we have received related to the New Jersey directive. There are some specific concerns about two types of PFAS namely PFOA and PFNA. In the past, Solvay purchased processing aids from other companies that contained those substances, and we use these in certain manufacturing operations. Let me be clear that Solvay didn't produce or sell these processing aids.

The Environmental Protection Agency or EPA set up a voluntary programme to phase-out PFOA by 2015. Solvay joined the voluntary programme and stopped using PFNA by 2010 and PFOA by 2013 years ahead of the programme deadline. This, of course, happened in full transparency and together with the local and regional authorities.

Now, I would like to provide an update on the strategy review. As I outlined last quarter, we are conducting a comprehensive strategy review with the ultimate goal to unleash and accelerate Solvay's value creation potential. We continued to make progress and we will conclude the review in the coming months. We look forward to sharing a detailed roadmap for value creation on our third quarter results webcast on November 7th.

We then plan to conduct several roadshows in the weeks following to meet with our investors and discuss our plan for value creation. With that, I'll hand it over to Karim, who will provide more granularity on each operating segment. Karim?

Karim Hajjar: Thank you, Ilham. Good afternoon and good morning everyone. I will now provide some comments on each of the three business segments, and I will start with advanced materials on slide number seven,

In the first half, segment sales were up 1.2% on an organic basis driven mainly by price. In the second quarter, segment sales were up 2.5% organically. I will now focus my comments mainly on the second quarter results. Conditions in our largest market, transportation were mixed again. Automotive, which represents close to 30% of the advanced material sales and around 15% of group sales remained a challenging environment as vehicle production declined globally by 6% compounded again by inventory destocking.

Solvay specialty polymers business did better than that with sales around about 5% as the demand environment remains challenging, and customers of course, remain cautious. There was a modest sequential improvement over the first quarter as higher sales of products using batteries for electric, for hybrid vehicles helped us to outperform the macro trends in automotive. While visibility into the second half is somewhat limited, we are not expecting a major pickup in demand in the second half.

Turning to aerospace, which exceeds 20% of segment sales is about 10% of the group sales. We again delivered record sales in the second quarter up 12%, and that excludes the positive foreign exchange impact. Where did the improvement come from? Fundamentally, it came from the build rate increases on commercial programmes including the Boeing 787, The LEAP engine. New programmes like the Boeing 777X, the COMAC C919, and in addition to that the rising demand for Lockheed's F-35 military programme.

In addition, we benefited from growth in business jet and in rotorcrafts. Profits in composites also reached record levels in the quarter as we're starting to see the benefits from our operational focus that began last year, for example, a 20% increase, compared to a historical production on our major line at our Greenville plant in Texas. If I look at the Piedmont South Carolina plant, we also saw a significant increase in the carbon fibre units.

We're planning further improvements in these lines, and are deploying similar improving programmes at other major industrial sites in composites. Looking to the second half, growth is expected to moderate from current first half levels mainly because of the usual seasonality in destocking.

Now for the latest update on our sales to the 737 MAX programme, to date we've been operating and delivering at a rate of 52 aircraft per month. Boeing recently indicated that they will continue to operate at a 42 monthly build rate based on an assumption that regulatory approval will be forthcoming in the fourth quarter. We therefore expect orders for raw materials to moderate towards a 42 build rate by year-end. We will continue to stay in very close communication with our customers and will align according to their changing needs.

Turning to electronics, which is more than 10% of advanced material sales, 5% of Solvay group sales, the market headwinds that we experienced in Q1 continued to pressure our business. Sales to smart devices were down by double digits with reduced consumer demand and with customers impacted by the trade war. In addition, we have not seen any improvement in the semiconductor market.

Many producers continue to announce weak demand conditions and inventory corrections. In fact, we're seeing orders getting pushed from late 2019 into 2020. We therefore, are not anticipating much of an improvement in the electronics markets going to the second half.

Overall, for the advanced material segment, EBITDA was down 12% in the first half organically. If you exclude the positive one-time impact of €19 million related to pension synergies last year, the EBITDA was down 9%. Now the decrease is primarily the result of higher costs. Fixed costs were up mainly to support growth in composite materials and due to the focused reduction of inventories in specialty polymers in Q2 particularly.

Also, certain higher raw material prices could not be passed through in our special chem business. As a result, EBITDA margin in the segment were down 3.5 percentage points at 25.6% in the first half. I will now turn to the advanced formulation segment, which you can see on slide eight.

Sales in the first half were down almost 2% on an underlying basis, and organically down 5%, and that is mainly due to the lower volumes in oil and gas. In the second quarter, sales were down 6% organically. Volumes were down 8% and prices were up 2%. In the oil and gas market, which is our largest business in the segment and account for close to 20% of the sales in that segment were around 5% of group sales. Volumes were down significantly in the second quarter.

As I explained on the first quarter that although drilling and production levels have increased, there was limited activity in stimulation, and that's where we operate. This continued to impact demand levels in the quarter versus a strong comparable quarter in 2018.

The market environment is also intensifying. Customers have been very focused on managing costs, and it led by their client's attention to very lean budgets. This has created or exacerbated a technology shift, which is having a negative impact on our performance resulting in some lost business as some customers shifted to lower priced competing products. We've got to work it out to address these challenges, and it does require some time.

As we look forward, as a result of the market challenges, and despite the new pipelines in the Permian Basin that we expect to come onstream, we expect performance to weaken in the second half, and I've integrated that into a full year outlook.

The mining market account for 10% of the segment sales were just under 5% of Solvay group sales. Our sales in technology solutions grew 8% in the second quarter related to both volume and price. Growth was driven by new business wins as the team secured four new mine projects in the second quarter, clearly as customers value our innovative solutions. We expect the mining market to remain robust in the second half and we are pursuing more new business opportunities.

Turning to our Aroma Performance business, which represents 4% of group sales. It is performing well. Sales are up 2% at the second quarter driven by pricing initiatives. Demand for inhibitors used in monomers remain solid, and it was complemented by good demand for our natural vanillin ingredients which are used in flavours and fragrances. In fact, the business secured its first customer US-based customer for our natural vanillin technology, which is a good sign for more business opportunities in the region.

Overall, underlying EBITDA in the advanced formulation segment was down 5.8% in the first half organically or by 4%, if you split the one-time pension benefit of €4 million that was booked last year. The EBITDA margin remained flat at 18%.

Turning to the Performance Chemical segment, which you can see on slide nine. It delivered a 5% organic sales growth in the first half, mainly driven by price, and the second quarter sales grew 3% organically. The soda ash business continued its robust performance, with higher prices across regions in a balanced market environment. This was complemented by steady performance in the peroxide business, which served a number of markets, as well as supplying some large-scale HPPO operations. Market conditions are expected to remain healthy in both soda ash and peroxide in the second half. Performance Chemicals EBITDA in the first half was up 11%: robust demand, high prices, operational excellence all contributed to increase our margins to 30% against 20% last year. We also renegotiated an energy contract in our soda ash business and that resulted in a €12 million gain which contributed 3% to that growth. As usual, we flag such operational results whenever they are material.

I'm now turning to cash generation and to the balance sheet and I'll highlight that information on slide number ten. Total free cash flow to shareholders of €191 million was €114 million better than the first half last year with continuing businesses accounting for nearly half of that improvement. Cash generation in Q2 of €123 million overcame the weaker performance in Q1. As Ilham noted, we began to take a number of actions to improve our cash performance from the first quarter. All businesses are laser focused on cash. Teams are further incentivised by the changes that Ilham implemented to the bonus targets as one of her first actions as CEO on 1st March and we clearly see it bearing fruit but we are also mindful that we have structural opportunities in the midterm and these relate to our supply chain infrastructure to drive more sustainable improvement in our end-to-end processes, from order to cash.

Turning to slide 11, our strong free cash flow delivery in the second quarter allowed us to keep net debt stable at €5.8 billion and that is after the payment of the final dividend of €238 million on 23rd May this year. Year to date, net debt was up €0.3 billion and that reflects the usual concentration of the dividend in the first half. Our leverage ratio remained stable at 2.1 times.

Total provisions were €4 billion at the end of June, up €0.2 billion compared to the start of the year. And that reflects two key points. One, continued operational deleveraging of €45 million and a €0.2 billion increase in provisions that results directly from lower discount rates. The environmental provisions were largely stable, at €0.7 billion and for the avoidance of doubt, in relation to the PFAS matter that Ilham mentioned, based on all the information we have, we believe that we are adequately provisioned for such matters.

Looking forward, you will find our full-year outlook on slide number 12. Now, as you will appreciate, the macro environment remains dynamic. There continues to be a high degree of uncertainty across key markets. We will continue to monitor very closely these key end markets and are staying in very close touch with our customers. We will remain focused on what we can control: namely cash, costs but of course customers. As a result, we confirm our full-year 2019 EBITDA guidance of flat to modestly down although, as you'll understand, the comparison base will remain more challenged in Q3 than Q4. We also confirm our estimate for free cash to shareholders from continuing businesses of €490 million for the full year. If you included the strong contribution of the discontinued operations thus far, this will allow us to deleverage the balance sheet by at least $0.25 billion. And with that, we will now turn – I will now turn you back to Michelle, our moderator, to begin the Q&A. Michelle, over to you.

Operator: Ladies and gentlemen, we will begin our Q&A session. If you wish to ask a question, please press 01 on your telephone keypad and you will enter a queue. After you're announced please ask your question and limit yourself to two questions. Once again, please press 01 on your telephone keypad and ask your question. Thank you.

The first question comes from Wim Hoste from KBC Securities.

Wim Hoste: Yes, good afternoon. Wim Hoste for KBC Securities. I have two questions, please. First, on the corporate and business services, there was a €10 million improvement, roughly, in the second quarter this year versus second quarter last year on EBITDA level. Can you maybe provide us a new run rate going forward as it seems that your cost efficiency measures are bearing some fruit?

So that's the first question and the second question is on specialty polymers. On smart devices, revenue has been under pressure in the last couple of years. Can you maybe talk a little bit about what the prospects are for that business? Are there any new contracts or awards in the pipeline that will at some point start to turn the trend up again in that business? Any visibility on that or any clarity on that would be helpful for us. Thank you.

Karim Hajjar: Thank you Wim. Let me take the first question, to start off with, it's a very good spot. Clearly what you can see in Q2 is the impact of the cost measures that we've implemented but there is some phasing as well. There's also been a modest improvement in the contribution of our energy business. To your point around the full-year expectations, what I would say is you'll remember that our corporate and business service costs are typically second half phase anyway. What I can confirm is that we continue to focus on cost discipline. Those measures will stay in vigor. But also we're looking to invest – we are investing in matters such as digitalisation and a ramp-up in the operational improvement capabilities. And as a result what I would say is you expect the last year's outcomes on business services to be indicative of where the landing for this year will be.

On the specialty polymers, Ilham?

Ilham Kadri: Yeah, I can take it. Hi Wim. So, your question is about the semiconductors for electronics, right – I mean as we've seen semiconductors are still experiencing strong headwinds due to the slowing economy. You may have heard some of the OEMs and our clients with significant profit warnings. Some customers are now pushing some orders into 2020. Although some are speculating that the market hits bottom in H1 on semiconductors and smart devices, from where we stand the visibility remains very low. Apple was –12% on their devices yesterday. We therefore do not anticipate much of an improvement. I don't like to speculate – you will get to know me – so we don't really anticipate any improvement and that's what we factor in, in our guidance.

Wim Hoste: Okay, very clear.

Ilham Kadri: Is that clear Wim? Yeah, thank you.

Wim Hoste: Yes, thank you very much.

Operator: The next question comes from Chris Ryan from Bank of America.

Chris Ryan: Hi, yes. Good afternoon, thank you for taking my questions. My first question, just on the debt side, there's a €700 million increase in the debt when you did the hybrids and then the repay – the repayment in May should have brought that down but I see you just chose to keep liquidity. What exactly – exactly what kind of facility was drawn upon for the repayment of the hybrids, not including the hybrid issuance that was done in 2018?

Karim Hajjar: Okay. Well, Chris, I think you've partially answered the question because we anticipated the €700 million hybrid call in May and in doing so what was very, very encouraging for us is we got the support of both credit rating agencies for the reduction in the hybrid portfolio. That's why we issued €300 million in December and we tied €700 million and that will improve our free cash flow going forward. To your point, we financed the €700 million redemption with the proceeds of the €300 million issue in December – sorry, it was late November and then with our liquid resources that we already have in place. And that, to my mind, is a real example of how we're trying to really keep the efficiency and the focus on our bottom line.

Chris Ryan: Was that a sort of revolver draw or – because obviously the cash levels stayed the same.

Karim Hajjar: It's a combination of factors. Again, if you recall, our cash flow was even stronger. We have more than €3.5 billion of liquidity reserves, so we're always very cautious to redraw on what is most effective internally. So it's a combination of cash, available credit facilities and the proceeds from last November's issuance.

Chris Ryan: Okay, thank you.

Karim Hajjar: Thank you.

Operator: The next question comes from Mubasher Chaudhry from Citi.

Mubasher Chaudhry: Hi, it's Mubasher Chaudhry from Citi.

Ilham Kadri: Hi Mubasher.

Mubasher Chaudhry: Just two quick questions, please. Can you provide an update on the sale to BASF and how that's going and if it's still expected to close, then, sometime in Q3? And just on the carbon credit sales that were mentioned in the press release, could you provide some colour as to why those are being sold now, where the return is generated? Just some colour around those would be helpful. Thank you.

Karim Hajjar: So, I'll tackle both questions. No news is good news. We're on track, we're confident. We're working very closely and very constructively with BASF to get to the outcome and we stay on track towards the tail end of the second half, so I've certainly – so we're looking forward on that. To your point on the carbon credits, when preparing a business for sale, clearly we look at monetising everything that we can to extract maximum value and so given that the pricing conditions in the markets were very compelling, we didn't hesitate to monetise those credits. Now, all of that cash is excluded from our continuing businesses but it's still very welcome cash.

Mubasher Chaudhry: Sure, thank you.

Karim Hajjar: Thank you.

Operator: The next question comes from Nathalie Debruyne from Degroof Petercam.

Nathalie Debruyne: Hi, good afternoon, thank you for taking my questions. Two, actually, if I may. The first one would be on advanced formulations because, Karim, if I understand you correctly, you're saying that it's going to weaken in the second half of the year, regarding oil and gas I mean, but I see mining apparently improving and if you're lucky, you are – actually, if you do a good job, first, you can win new contracts for new mines over there. So what can we expect in terms of developments for the second part of the year for advanced formulation as a cluster, both in terms of revenues but also in terms of EBITDA margin? Is there some potential uplift that we can expect from the 18% we see today?

That would be my first question and then the next one, that will be, actually, on composite materials. You also said that H1 was particularly strong and that you do not expect such high levels to continue into H2, so perhaps you could help me understand what you mean with that? Like is it on a sequential basis or on a year-over-year basis?

Karim Hajjar: Thank you Nathalie. Let me start with the advanced formulations question. I think your question has a number of specific details that I'd rather not get into in that level of granularity but let me address and clarify one thing. When I said things were going to be tougher and deteriorate in the second half, I was really confining my commentary to oil and gas for the reasons I've explained. We're taking what I believe is a very realistic outlook. What we're saying is why the market may well – volumes may come up, we have work to do to get back to where we need to. That's really the point. But you're absolutely right, you did hear me very well, which is we have won new mines, we're very focused on repeating those successes and that really is what we're saying. Now, I'm not going to give a specific EBITDA margin or anything else for the second half but I'm sure Ilham may want to add one or two things. Ilham?

Ilham Kadri: Yeah. Well, I mean the oil and gas story, just to be clear, it's still very volatile. It represents 5% of the group sales and the volumes, as we shared with you, were down in quarter two. We see a few things. Although drilling and production levels have somewhat increased, the activity is still limited in stimulation, where we operate, as we told you in quarter one, so this is yet to come.

Second, because of pressure on margin, customers are very focused on cost and they are turning to lower – I would call them lower cost commodities, so away from high-value products as they are managing, obviously, their costs and lowering their spending. So we are staying very closely to our customers to address their needs. We will address any challenges going forward and we are looking closely at ways to do better. Mining, we are very pleased with – copper prices in Q2 at reinvestment levels supportive of production increases. We were experiencing healthy volumes in mining. Our president of technology solutions was with us yesterday. We are winning new mines. We are a technology leader in that space so we will continue keeping our leadership position, actually increasing share in the new mine space. So that's something we see, it's happening and we have been awarded, as we said, the new business – some new business in mining. So, all in all, we see the H2 extremely stable now with the company and with last year, it's true that last year was a very strong year in formulation, so the comparison is – it's probably strong and tough for this second half. However, all of this has been factored in our guidance.

Karim Hajjar: Maybe to the second point on composite materials, there is seasonality and remember the comments that I have highlighted around what we believe is an expected moderation of the build rate from 52 to 42 and you do get some seasonality in terms of inventory reductions as our customers really focus on having a more efficient balance sheet towards year end. So we are [inaudible].

Ilham Kadri: And on composites, again, 737, obviously and we knew that all of you will be interested by some feedback, so that's why we included it. But this is one of the many programmes we are serving, alright? We are very, very pleased of our double-digit sales growth in composites. Since three quarters in a row we see the leverage between the top line and the bottom line because our teams are extremely focused on fixing the waste in the supply chain and that's important. That's a big opportunity for composites. So definitely the Boeing story, we told you about that but we have many, many more opportunities. We are growing another Boeing programme and obviously the F-35 is also increasing pretty well.

Nathalie Debruyne: Alright, thank you.

Ilham Kadri: Thank you.

Karim Hajjar: Thank you.

Operator: The next question comes from Laurent Favre from Exane BNP Paribas.

Ben Savro: Yes, good afternoon. To start with, I'd like to ask about advanced materials margins and I know there are a lot of moving parts but I'm just wondering if you could help us understand, on one side, how much of the margin pressure is on mix, i.e. lower growth from the – or lower sales from the higher-margin business in polymers – against the other factor, which seems to be your management of working capital and presumably lower production rates. So that's the first question.

And then, to be greedy, I've got two quick ones. One is on soda ash. We don't have a lot of good data points but it looks like Chinese spot prices have been under pressure. Are you seeing that in the rest of the export market? And the third one, on formulations, can you tell us a little bit about volumes in the rest of Novecare? So HPC and agro and seed? Thank you.

Karim Hajjar: Good, shall I kick off, perhaps, on advanced materials, Ilham?

Ilham Kadri: Yeah, go ahead, Karim.

Karim Hajjar: Okay. So, how much of the margin compression was due to mix? I think there are three factors and I've alluded to them. One is the one-time, which is not recurring from the Cytec medical. That's about 1% in its own right. There were the fixed costs, which I would say is good, it's an investment. We see the examples of the reduction in weight and the efficiency that Ilham mentioned as well. And then finally, there is an element of mix, clearly. Small devices, etc., all of these things have an impact. So these are the main components.

So, for soda ash and China, do you want to take that or shall I do it, Ilham?

Ilham Kadri: Go ahead.

Karim Hajjar: So, on China and soda ash, the fact of the matter is this: we – let me just think about that.

Ilham Kadri: Let do it. Soda ash – I mean I'm very, very pleased with the pricing, right? I mean you've seen it. The team is leading the way, supplier demand very tight and you're right, we've seen some decrease of soda ash prices in China. It was mainly linked to some strong production over there but prices have moderated in recent years. So, although we are not directly impacted by the Chinese market, as we don't produce or sell there, historically, we have seen that some Chinese exports to the seaborne markets, which we supply, obviously, increased when Chinese domestic prices dropped, although we have seen and we were not expecting any significant impacts on the seaborne market. And as you know, in the US and Europe, the market conditions are extremely balanced in terms of supplier demand and should remain balanced throughout this second half. We have yearly pricing, so our pricing is pretty robust throughout the second half of the year. Is that clear? Yeah?

Karim Hajjar: Maybe to quickly respond to that third question, Ben, as well but formulations is doing really well, if we look at – if you look at the effect beyond oil and gas. There is strength, there is some growth in agro, in coatings, HPC is proving very resilient. We are seeing some good pricing, some good mix and strong volumes. Unfortunately, when you look at the totality and what happens with oil and gas, you don't see it come through to the bottom line.

Speaker: Okay, thank you.

Operator: Next question comes from Ben Gorman from UBS.

Ben Gorman: Hi guys, just a few quick ones from me. First of all, in terms of your exit rate from June, can you just give a bit of an idea in terms of what you're seeing there and in July as well, particularly in, obviously, autos and aerospace?

And then secondly just on the gross margin, if I'm looking at it correctly it looks like not too much of a sequential down in Q2 versus Q1, but I just wonder why that is necessarily in terms of what we've seen with aerospace still very strong, etc. and pricing still very strong. So just those two for me, thanks.

Ilham Kadri: Maybe I'll start, Karim, on this. First of all, I mean, like in Quarter 1 you've seen what happened in Quarter 2. For us growth in aerospace, mining, agro, aroma, performance specifically was offset by the headwinds in auto, electronics and oil and gas. As you know, auto, electronics and oil and gas all combined represent approximately 25% of the group sales and will remain challenging. We don't see much improvement there. Having said that, you know, for us aerospace with double-digit growth will remain very strong in Quarter 3 and is expected to moderate from the level in the first half, mainly due to seasonality and some destocking in Quarter 4, but this is again factored in our guidance. We believe that the markets, as I mentioned earlier, on soda ash but also peroxide in performance chemicals serving mainly the building and construction, which has been extremely resilient, will remain healthy with solid prices throughout the year. We are happy with the mining market. This is expected to remain robust in the second half and we are pursuing, as we shared with you, some new business opportunities.

So finally, diversified portfolio has demonstrated resilience, coupled with what I call our three Cs under focus, cost, cash and customers, pricing being part of this. Pricing doesn't mean only pricing to customers but also as you've seen, renegotiating our purchasing contracts with our suppliers wherever it makes sense, so that gives us confidence in reaching 2019 guidance. Karim?

Karim Hajjar: To the second question that Laurent asks, how come we don't see bigger variations in margins Q2 versus Q1? I mean, there are many moving parts. What I would say is that the mitigation, the way the business is adapting, has to be what it is and we see the impact of that, and that's really aggressive some of the headwinds we're seeing head on. It is worth noting that we also have, and we have mentioned it, that in Q2 there is the fixed cost impact on the targeted inventory [reductions and particularly specialty polymers.

So that's one of the ways we've really driven strong cash, but the outcome of that is you see an impact on fixed costs. You could say – I'm not going to say it's a one-off, but it has an impact that's worth taking into account. So the underlying margin in Q2 is even stronger if you took that into account. Okay?

Ben Gorman: Okay, thanks guys.

Operator: Next question comes from Multu Gundogan from ABN Amro.

Multu Gundogan: Yes, good afternoon everyone. The first question is on the outlook actually, because if I compare to Q1 and also to the beginning of the year, you sound definitely a bit more cautious on certain important end markets within advanced materials and advanced formulations, but nevertheless you reiterate your guidance. Can you tell us why that is? And just to be certain, are there any one-offs in the second half that you already know? Just to be clear about that.

And then secondly, on the earnings from associates and joint ventures, this was 23 million versus 50 million last year. You indicated in a press release that it was driven by your Russian PVC joint venture. Can you give us a little bit of background on what is driving that? Is it that structural, is this a structural uplift in earnings or more a one-time event? Thank you.

Ilham Kadri: Yes, Multu, I will take question one and Karim question two. I'm not sure if you were cautious or realistic, right? I mean, in Quarter 1 when we came in we realistically shared with you our view of 2019 developments and as I mentioned just a few minutes ago, at that time we didn't see much of the auto – any major pick up in auto, electronic and oil and gas. And fortunately it happened that we were more realistic than others. So I think that's what happened. We put the guidance there. Our quarter 2 is in line with our expectations. We did exactly what we told you we were going to do. We mobilised the time as soon as 1st March and again on the three Cs called cash, cost and customers, and pricing, and we will continue doing so because indeed there is still some volatility, uncertainty out there, and we will continue some measures. Some of them are austerity measures, others will be more structural measures, to really just raise the bar on execution, innovation, collaboration and stay closer to our customers. So we have every confidence today in reaching our 2019 guidelines.

Karim Hajjar: Absolutely. Maybe just to add we're not anticipating any significant one-offs or anything like that. This is really round mitigating an environment that we think realistically is going to be quite challenging. Your second point around the equity earnings, I think the only point to note is that RusVinyl, our joint venture in Russia on PVC, is doing really well. It's about 10 million up year on year. Majority of that is in Q2 and essentially we're benefitting from high or very favourable spreads in PVC. And that's what you get. That's it.

Ilham Kadri: And maybe to close the loop on your question, maybe on the cash guidance, because I probably gave a too high-level answer, you will notice our cashflow is always back-ended to the second half, as you know. The free cashflow guidance implies that we need to deliver a minimum of 460 million in the second half, which compares, if you remember, to 580 million in first half 2018. So we will maintain again strong discipline on resource allocation, the CAPEX allocation and on working capital, which is now centralised and in the hands of our executive committee. Though again, we also anticipate a modest rebuilding inventory to make sure we can meet our customers' needs.

Multu Gundogan: Okay, thank you very much.

Ilham Kadri: Thank you, Multu.

Operator: Next question comes from Chetan Udeshi from J.P.Morgan.

Chetan Udeshi: Hi, thanks. I have a couple of questions. Firstly on the PFAS. Have you recognised any provisions already associated with any spending that you might have to do? That's number one question.

Second question I had was just to understand the CO2 credit strategy of the company, because at the moment it seems the prices have been going up consistently over the last 18 months and maybe most companies will be wanting to preserve whatever they can preserve, just given that, you know, it seems the prices have more room to go up than come down. So in that context maybe can you discuss what is the current bank of credits that you have existing and what is the strategy on making sure you have enough flexibility in case the prices go up in the future?

Ilham Kadri: Okay, hi Chetan. So I will start and Karim will address the second question. On PFAS Karim mentioned previously we believe we have adequate provisions for existing matters related to PFAS given the information we have. Again, because we received some questions I wanted to ensure we address them. This is a highly technical and complex topic. As I said in the past, we purchased processing aids containing those two substances, we never manufactured or sold such processing aids ourselves like others in the market, and importantly we voluntarily phased out these substances ahead of the schedule, right, 2010 and 2013, before the date set by the EPA. So what I can tell you, I will leave you with, is we hold ourselves to high standards of safety and sustainability, which I care passionately about personally.

Karim, on the second question?

Karim Hajjar: Let me just add one point. Just factually you remember there are provisions at the end of last year for €691 million, now there's €707 million. So, a, we have not increased our provisions materially at all in that period. And you heard me say we are comfortable with the degree of our provisions based on everything we know today. Now, obviously I'm not going to get into the specifics of what I provide for or not but that will tell you a lot already.

So for the CO2 credit strategy, leaving aside what I've described around the polyamide business and the €30 million-odd cash, fundamentally our strategy is that we hedge. We hedge forward and we cover for our net exposures looking forward over time. And it's all around anticipating and having visibility on our landing. That's what we're talking about. Does that help Chetan?

Chetan Udeshi: Yes, maybe just follow up the sale, because I think the Q2 sale was recognised as part of the discontinued operations. Does that have any impact on the deal value with BASF at all?

Karim Hajjar: No, not at all.

Ilham Kadri: Not at all. It's from the past so not at all.

Chetan Udeshi: Okay, thank you. Understood.

Operator: Next question comes from Charlie Webb from Morgan Stanley.

Charlie Webb: Hi Ilham, hi Karim, just a few from me. Mostly quantification questions or clarification. So just on the PFOAS, have you been in discussion with the EPA ? has the EPA given any sense to you how broad this investigation is? And as you think about the provision that you've put in place, that you think are suitable, does that just relate to the plants or the sites that in theory handled or processed such materials? Is that where it's now isolated to? First question.

Second question, in terms of specialty chemicals, you talk about no improvement, as we look at the second half. Is that, given the comparison effects, does that mean we should see flattish development in the second half or are you still trending negative in especially polymers in the second half? That's number two.

And then on soda ash. I understand the kind of contract structure implies that pricing is still very robust through the second half of this year, but perhaps typically when you've seen pricing come down in the seaborne market that led to a degree of price deflation next round of contracts, if you look into 2020. Just maybe some kind of comment on that would be helpful.

Ilham Kadri: So I'll start, Charlie, with the PFAS and then Karim will address the two other questions. As I said, you know, we are working in full transparency and together first with the local and regional authorities. The EPA, the Environmental Protection Agency, has set up a voluntary programme to phase out PFOA by 2015, alright, as I mentioned, and we joined actually the voluntary programme back even before 2010 for sure, and we stopped using one substance called PFNA by 2010 and PFOA by 2013. So years ahead of the programme deadline, which was 2015. But again, I think I would like to be very clear with all of you, that Solvay didn't produce or sell these processing aids, and that's important to keep in mind. And today our provisions, as Karim said, are adequately in the books. Karim?

Karim Hajjar: The other two points, so, what can you expect in H2? Well, by definition if you know that in the first half we're down 3.1% EBITDA and we've reconfirmed our guidance, it would suggest – because we've also said 'modestly down' means up to about -3%, there or thereabouts – it kind of means flattish. But remember we've also said Q3 will be much more challenging purely because of the comp basis.

Soda ash? Fundamentally we're not seeing any disruption in the seaborne market, things are solid, and the market remains balanced. So we're very confident that we can work with our customers to get to a decent outcome and that's what our folks are working on right now.

Charlie Webb: Okay, thank you.

Ilham Kadri: Thank you, Charlie.

Operator: Next question comes from Laurence Alexander from Jeffries.

Laurence Alexander: Good morning. I guess a couple of quantifications. Can you quantify the amount of inventory drag on EBITDA this quarter and how volumes did in electronics and automotive, so we can see the impact of destocking relative to the end market trends?

And then secondly on the PFOA, PFNA, PFOS questions. Just to be clear, does Solvay have any PFAS use in products in your own processes such that if European regulations change or if there are phase-outs in the US, Solvay would need to find substitutes?

Karim Hajjar: Turning to your first question, I think the answer is inventory's down significantly. I think in the second quarter from memory we're talking €132 million and that you can see from the cash point of view. The fixed cost impact, we're getting into overly precise numbers, we're talking low double digits EBITDA impact in Q2, if I remember. That begins to compensate for the gain from having higher inventories in Q1.

So far as PFOAs are concerned –

Ilham Kadri: Yes, I'll take it. I can take it, Laurence. So as I said, PFAS are a very large family of literally probably thousands of substances that are used in wide variety of consumer products and industrial applications and have probably different physical and chemical properties and uses and that's why it's technically extremely complex. As I said, we exited PFOS, PFNA through this voluntary EPA request and to replace the processing aids containing PFOS, PFNA, we developed and produced another processing aid that are PFOA- and PFNA-free and are proprietary; these are exclusively produced for our internal use. We don't, again, sell any processing aids. These replacements are used in compliance with the existing laws and regulations. Now we are obviously continuing monitoring that and we have our own innovation, which is – I don't want to get ahead of time to explain our strategy but we will tell you more after developing our road map for the future.

Laurence Alexander: Is there any way you could quantify, just to – because at some point there is a kind of headline risk around this. Is there a way you can quantify the amount of your total sales that is touched by PFAS chemistries? Just so people can at least ring-fence it in their minds.

Karim Hajjar: That's not information I currently have at hand, Laurence. What I do know is that we've looked at that theoretical exposure and remember, we just don't sell PFAS processing aids, so use with sales it's very difficult to answer that particular question, but again, we've looked at the exposures and we're very comfortable with everything that's been done.

Ilham Kadri: And Laurence, that's important. We are not selling any of these, right. So any processing aids being used is being used internally, right? And again they are PFOA-, PFNA-free, so that's important for you to remember.

Laurence Alexander: Yes, understood.

Operator: Next question comes from Sebastian Bray from Berenberg.

Sebastian Bray: Good afternoon and thank you for taking my questions. I would have two, please. Just a quick one on this sale of the carbon credits from the business due to go to BASF, I know Chetan has asked this previously but is this is simply something not covered by the contract, that €60 million of value is taken out of that business but the purchase price remains unchanged? It just feels a bit strange.

The second question is on silica. How is pricing and how are prices and volumes developing in this division as we move into 2020? Do you see the capacity situation globally as broadly balanced? Thank you.

Karim Hajjar: Sebastian, to your first question, I think the sale of these carbon credits is historical. We've had them at a very low value, because they're free allocations of carbon credits so essentially it's not at all a feature that's unusual in its operational nature, we just happen to have had them and decide when is the right time to monetise them? With conditions in Q2 most of it, it's as simple as that. But it's not – it's something we've accumulated over a couple of years that we've not monetised. And thus had no impact on the contract.

Sebastian Bray: Would they have passed to BASF had they not been sold?

Karim Hajjar: They would have been a gift to the future acquirer– we don't do that.

Sebastian Bray: Understood.

Karim Hajjar: And they were at zero on our balance sheet, which is why they go straight to the bottom line and cash.

Ilham Kadri: Okay. So on silica, I can take it, silica sales as you know were flat with resilient demand from the fuel-efficient tyre market. Growth in specialties compensated for slightly lower price on other grades. We did better than the market. As you may know, surely you know, our silica business is about two thirds replacement tyre business, which provides resilience during these times. You may have seen recent news with some of our international customers announcing certain plant closures because they are feeling the pressure from Chinese competition in the tyre market. These announcements don't impact us, given the structure of our contract. However, it does point to the intense competitive pressures in these markets. So the way to do best is to innovate and be ahead and have the lowest total cost of ownership. So as I mentioned and I was glad to share it with you in my prepared remarks, despite the challenging environment we have been introducing our new premium technology for the tyre market. This solution features 25% less rolling resistance, thereby reducing the fuel consumption and the CO2 emission by 7%. Normally the cycle is at least five to seven years for doing that and we are launching it after 18 months. So when our customers start putting money in industrial trial with our new premium technology, it tells me that we have something there and that's a good news for us.

Sebastian Bray: Thank you.

Operator: Next question comes from Markus Meyer from Baader Helvea.

Markus Meyer: Good afternoon. Two questions from my side, Markus Meyer, Baader Helvea. Coming back to this corporate costs question, sorry for this but I'm still not absolutely clear what you meant before. You said your yearly holding cost should be flat or basically that full year holding cost last year is a good guidance, so this would mean the holding costs in the second half would be up by roughly

€18-20 million and maybe you can shed some more light on this? Where these positive effects from the cost savings are going to and how much extra costs from the digitalisation measures are landing in the second half?

That's my first question, my second question is on the peroxides business. How do you see demand evolving for the second half and also do you expect that the price increases are there to stick in the second half? Thank you.

Ilham Kadri: So Karim?

Karim Hajjar: Markus, on the corporate cost I'm not going to start giving very granular, tiny information on things like how much we're putting into digital, etc. When it is material, count on us to be very, very open saying what we're doing. What am I saying? I'm saying that if you look at the phasing last year of our corporate costs and the year before, you find that we typically have a back-ended phasing to our corporate costs. That's a fact. What I've also said is this year we expect that to be repeated. Last year corporate and business services came to just under €0.2 billion on a constant foreign exchange basis and I've also explained that I expect to land at around that level by year end. And we've integrated that. What it means is we're offsetting inflation, we're maintaining that discipline and we're choosing to reinvest for future value creation. Ilham?

Ilham Kadri: Yes. On the peroxide, as you know, peroxide is about 25% of the performance chemicals or 7% of the group sales. It continues to benefit from good momentum and a stable environment. I'm very pleased with the performance of this business. The higher price in Europe more than compensated for some decline in Asia we've seen. As you may know almost 45% of our sales are used in the pulp and paper market and building and construction markets combined, which basically have shown some resilience.

On your question on how the prices are sustainable, so far the conditions are stable, they are expected to continue, specifically in Europe and in the US. As I said, Asia is a bit more challenging as competition is putting some pressure, but we are up to it. As a reminder, as well, our HPPO supply to the mega-PO producers are protected by contract. We have guaranteed return mechanism. So we have long-term contracts with the major worldwide player and Solvay enjoys more than 70% of the worldwide capacity with guaranteed return, so it's an excellent business and we see it stable throughout the second half of the year.

Markus Meyer: Okay, thank you.

Ilham Kadri: Okay. Shall we close? Yes. Okay, thank you very much. Thank you for your questions and interest in our stock. In summary, we are taking actions to drive change and improvements across the group and we are very excited about the opportunities ahead. Our main focus remains to focus on executing on our operational and financial goals. This is even more essential in this uncertain environment. I'm asking our team to continue to raise the bar on three things: execution, innovation and collaboration. And we are also hard at work on our deep-dive of the group strategy and I look forward with Karim and the team to updating you on our third quarter conference call. So with that, I thank you all for your attention and I wish you a good summer.

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