SOLVAY

Moderator: Jean-Pierre Clamadieu
May 6, 2014
10:30 a.m. ET

Operator: Thank you for standing by, and welcome to the Q1 '14 earnings presentation to analysts and investors.

At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session, at which time if you wish to ask a question, you will need to press "star – one" on your telephone keypad. I must advise you this conference is being recorded today, Tuesday, the 6th of May, 2014. Your speakers today will be Jean-Pierre Clamadieu, CEO, and Karim Hajjar, CFO.

Speakers, when you are ready, please begin.

Jean-Pierre Clamadieu: Thank you very much. Thanks, everyone, to participate in our Q1 2014 results call. A bit of a weird timing, but there were plenty of chemical companies publishing this morning.

When we last met to present the full-year results, a couple of months ago, I shared with you the fact that I was absolutely convinced that we've done a lot at Solvay in the past 18 months to put us in a position to benefit from the expected macro improvements, and that when this improvement would come, you would be in a position to see the impact and the benefit of a transformation that we have started. And I think these results exactly demonstrate this.

We are presenting today what I think are a solid set of earnings, which is clearly an encouragement as we enter into 2014, and again demonstrating that the transformation is, indeed, at work, but also delivering for Solvay.

Looking back to the first quarter, on the upside, overall we've seen demand recovery I would probably say across the board, including in some cases some mild customer restocking, after the year-end optimization. Volumes are up 3 percent on an organic basis on what we need to add the Chemlogics sales contribution, which is consolidated for the full quarter, for the first time. We had only a couple of months in Q4 2013. This is a clear point of inflection since 2012.

In terms of geography, sales are up or stable in all regions but Latin America, have been impacted by currency devaluation. We've seen a modest, but very visible demand pickup in Europe. Growth in Asia is continuing. Underlying dynamics in the U.S. is solid, but we've been affected by extreme weather conditions, as some of our competitors, our customers have been also, and clearly the disappointment is in South America, which is below its potential.

This is also true across end markets, notably automotive and energy, against some weak comparable last year. Even construction overall – when I say even, it's because in Europe it's clearly probably one of the most challenging segments that we see – even construction is showing some sign of improvement.

Still on the upside, Chemlogics performing clearly according to expectation, very much in line with the acquisition business plan and the growth we were expecting for the first quarter, despite some challenging weather condition, which affected some of the – some of our – customers in this segment, but the conviction that Chemlogics is very well positioned to benefit in the next month and quarters from what we see as being a very, very dynamic energy market in the U.S.

And second element – and this is also very important – our self-help programs are paying off. The excellence initiatives, being commercial excellence on pricing and key account management, being manufacturing excellence, energy efficiency, logistics, purchasing. This is delivering both in terms of fixed cost control, which is probably the part where it's the most visible, but also in terms of impact on our margin and our ability to expand margins in the current business environment.

On the downside, we had to fight two main external elements. Forex: The euro today is very streng – is very strong, sorry – against all major currencies in which we operate, not only U.S. and Japanese yen – U.S. dollar and Japanese yen, but also Brazilian reais and a number of emerging economies' currencies. Total impact for the quarter is around 26 million euros. This was a significant negative. The second important negative was extreme weather condition in North America. We had also two force majeure, one in Brazil, which was linked to a severe drought, our Paulinia plant had to stop because the river, which is flowing across this plant, was dry for a couple of weeks. One significant mechanical failure, which led us to declare force majeure. But despite this negative element – and I should probably have added also the fact that CER sales are now fully phased out – despite these downsides, we were able to publish today REBITDA at 467 million euro, 11 percent year-on-year improvement. Half of it is organic; half of it is linked to external growth, I mean Chemlogics.

If we correct for the exceptional items and the adverse forex, we see an underlying profit growth of 20 percent: 17 percent organic, 4 percent due to Chemlogics. And we think that this demonstrates the dynamic that we've been able to realize within Solvay, again, based both on market opportunities and on our ability to deliver on the excellence program that we have launched and which are a very important part of our transformation strategy looking forward.

In terms of transformation, we are continuing to make progress on the various strategic portfolio changes that we have started. You've seen that we have signed a very important agreement with Invista to renew our joint venture. Some of you know that we've been having some discussion – to say things mildly – within this time the past years. We brought this discussion or this lawsuit into an end. We have renewed our joint venture for 99 years. We've made the decision to bring our most advanced technology into Chalampé, to help improve competitiveness of what is now the largest butadiene-based ADN plant in the world. This will allow us to increase the competitiveness of the plant, but this also will create an environment which will allow us to work even more effectively on the improvement of the performance of a business and will also enhance our flexibility midterm for this business in which we still have a number of challenges.

On the chlorovinyls front, we expect in the next few days or few weeks the E.U. clearance, but this is – first, the decision is not yet written or taken, so I have to be prudent, but we are very optimistic that the decision will come – this is not the end of the game. We still have a lot of work to do to bring this project into completion.

On the downstream PVC, we have announced the divestiture of our PVC compound activity. We expect to – this is a rather simple deal – we expect to have it completed / to complete it by the end of the first half of 2014 and, in Brazil, the antitrust clearing progress is progressing with the local antitrust authorities, and we are moving towards the closing of a divestiture of our Indupa business to Braskem.

We have announced a couple of months ago that we are exploring strategic options for Eco Services. Indeed, there's a number of options or possibilities we have. We are moving into this process, and we think that this will help us continue the transformation of the group towards a less cyclical and higher cash return group. So, again, a lot of activities on both fronts, supporting solid results presented this morning.

Karim, can you give a bit more color on these results?

Karim Hajjar: I will do that. Thank you, Jean-Pierre.

What I'd like to do is go through some of the elements, particularly the underlying growth that Jean-Pierre alluded to, before I turn to some of the other bottom-line factors and one or two balance sheet features.

The facts are that we've grown our REBITDA year on year by 45 million, or 11 percent, as Jean-Pierre described. The underlying profit expansion is on the order of 20 percent. Now, where does that come from? Half of it comes from Chemlogics. That's 23 million. The remaining growth was achieved despite the headwinds that Jean-Pierre alluded to, not just FOREX, which is 26 million, but also the force majeure in Brazil and the U.S., and the CER income of 14 million [in Q1 2013]. The real growth was very much driven by broad-based volume growth, very importantly was underpinned by a real focus on delivery, delivery of our excellence programs, as well as being very conscious and proactive in pushing back certain activities and spent in corporate – very, very mindful of the importance to do that. These factors alone more than compensated for inflation of 22 million and to also overcome the FOREX headwinds that are referred to of 26 million.

Innovation and commercial excellence are beginning to really show themselves on the bottom line and help to contribute to the profit expansion that we all see. Looking ahead, we are not making predictions on future foreign exchange rates. We see what it's done to us in the first quarter.

What I can advise you and indicate is, if the current exchange rates we've seen in the first quarter prevail for the rest of the year, it would have in its own right a negative impact of 65 million euros full year. We have incorporated this in our outlook guidance and obviously, as you'll expect, have not factored in or assumed either any improvement or a worsening. And just to finish on the FOREX point, there's two things. One, the 26 million has two components. There's a conversion effect impact of 15 [euro million] in the first quarter, and you will see that in the REBITDA bridge. Six of that comes from the U.S., the Brazilian reais is another aspect, as well as the Thai baht. The transaction effects impact is another 11 [euro million], and that's again mainly U.S. and Japanese yen, broadly in equal measure.

The businesses are delivering. And as I said earlier, it is pretty broad-based. Advanced formulation had benefited from Chemlogics' solid performance, but this was not enough to overcome the Forex and certain one-offs, which meant that REBITDA was lower at 9 percent compared to last year. The weather had a major impact, impacting, for example, Novecare and Agro and Oil & Gas, and also more fundamentally, much broadly in our logistics operations in the U.S. The industrial outage at a major Aroma manufacturing site in the U.S. That took us off for six weeks: nearly a million tons of production – very, very costly. The water shortage, that we – you – are aware of in Brazil, also impacted our Coatis business.

Turning the page to Advanced Materials, a record. REBITDA 175 million, 13 percent up year on year, and we're seeing strong indications of demand pickup across most end markets: oil and gas, photovoltaic, automotive, smart devices, health care, and this continues. Importantly, the REBITA margin was up to 27 percent on net sales from a 24 percent at the same quarter last year.

Performance Chemicals, 188 million of REBITDA, up 14 percent. The margin also improving by 300 basis points to 24 percent. This has been supported principally by good pricing power and the benefits from the breakthrough excellence programs, pretty much across the board in that portfolio of businesses.

Functional Polymers, 19 percent up year on year, 14 million REBITDA. Manufacturing excellence, strong yield, and the competitivity initiatives we've taken. It doesn't include Benvic, which is reported here, but it does make a modest contribution. And to close off, the discontinued European chlorovinyls activities have posted 28 million in REBITDA and 10 million at a net income level, in line with last year.

Corporate & Business Services show a net cost of 39 million, down 16 percent year on year. There are two main components. Solvay Energy Services delivered 10 million compared to 11 million last year, despite not having the benefit of the CER income, which it had in Q1 last year, which is almost 14 [euro million]. Where is that strength coming from? Pretty broad-based operation delivery, the Solwatt program, CO-2 management services, as well as our baggase cogen plant in Brazil, also showing through performance into the bottom line. Our other corporate and business services expenses were 49 million, 8 million below last year, and that very much is a reflection of the cost discipline, the real willingness to time and phase our activities, but very much focused on driving value. The guidance we gave late last year, in respect to late last year stand, 250-ish [euro million], clearly having had the benefit of foreign exchange impact in Q1, as well, on the cost, means you can't bank on that. And we do say that the phasing of these activities means that we are not refining or changing our guidance, not to mean we will not look for opportunities to overachieve.

Turning to other matters below EBITDA, you will see that non-recurring charges are lower by 10 million, also with reduced restructuring costs of 5 million. You will also notice that the 8 percent devaluation of the Russian ruble has caused us to take a 12 million free operation loss at Rusvinyl, and that is very much related to the euro-denominated debt we have in that project, and just to remind you that we anticipate commissioning and start-up towards the end of Q3 of this year.

Turning to financial charges, there are three main factors I'd like to highlight. One, the net charges on our net debt has fallen by 12 million to 30, although there was also an adverse one-off 19 million impact that related to the settlement of interest rate swaps that we took out a year ago. This is because we've taken steps to fundamentally reduce our – to pay back – our high-yield bonds, and you'll have noticed we've made announcements to retire 500 million of 7 percent high-yield Rhodia bonds and also the $400 million U.S. at 6.895 percent. These steps will help reduce the average cost of our debt by 40 basis points to about 4.85 percent, 4.9 percent. And importantly, it absolutely means that we are well on track towards delivering our commitment to drive more value from our balance sheet, which really means halving our negative carry. This is something we anticipate to have achieved by 2016, and we are well on track. The final element to highlight into the financial charters is the impact of a lower – of a modest – reduction in discount rate in the eurozone has increased provisions by 5 million. The overall discounting cost both for HSE and pensions was 43 million in the quarter.

Tax charges are very much in line with our expectations and with the guidance that we gave you. The underlying tax rate is 33 percent, which is both in line with mid to low 30s we guided you on, and as a matter of fact, is lower than the 36 percent reported for the full year of 2013.

Turning to cash flow, on a seasonal basis, our cash flow is broadly in line with our expectations and really reflects a few components. Principally, I would say, a normal working capital built, needed as demand picks up. And you can see that in our results. But there's also a modest element of inventory rebuilt, as well as one or two elements of phasing, for example, a 40 million VAT deferral of a matter of days, that we've recovered in Q2. So these are the factors. What we're very pleased about is that the discipline and the attention in working capital intensity is maintained and has improved by 10 basis points when you compare our performance year on year. So we're at 15 percent compared to 15.1 percent, not to say that we can't do better, not to say that we're targeting more, and we do see an opportunity to improve over time, as well.

CapEx came in at 166 million. As I look forward, we anticipate our full-year CapEx to be at, or a little higher even potentially of the – than – the 700 to 800 midterm guidance that we gave you, and that is not least because of the phasing impacts of the low CapEx that you saw in 2013.

Net debt of 1.46 billion was higher than last year, driven by both working capital that I mentioned, the interim dividend of 112 million interest payments, and so on. The final dividend that is payable is scheduled for payment on the 20th of May. And that will be taking place upon approval by the general shareholders meeting on the 13th of May at a cost of 160 million euros. And just to remind you, the interim dividend that was paid in January 2014 resulted in a total dividend of 3.2 euros gross, 2.4 euros net, relative to 2013.

With this, I will hand you back to Jean-Pierre.

Jean-Pierre Clamadieu: Thank you. Thank you very much, Karim.

So just a few comments before opening the Q&A. So going forward, our priority for 2014 remains the same – continuing the transformation of Solvay, completing the various portfolio projects that we have initiated, a sustained focus on excellence. Clearly, this quarter demonstrates the strength and the significance of the self-help measures that we are putting in place. It's very important that we develop these projects into their full potential.

Grow with our customers, we've seen volume growth, as I was mentioning, in most markets, we see also our customers regaining a bit of confidence and some projects which were put on hold in the past 12 to 18 months are restarting – and this is good news – and clearly deliver profit and value growth.

Regarding the outlook, we are cautiously optimistic for 2014, probably a bit more reason to be optimistic than cautious when the last time I used these two words, but this is clearly an encouraging start of the year. We are confident in our ability to have a good operating performance for the rest of the year. We think that some segments, like Advanced Formulations, which have not performed very well in Q1, will demonstrate the full – their full – potential as soon as Q2.

Regarding the overall performance, our view today is that we will be able to generate, in the current perimeter and with prevailing currency rates, high-single-digit REBITDA growth. This means, obviously, in terms of portfolio, including Chemlogics and Eco Services, whatever happens for the latter as results of what we are currently doing in terms of strategic options studies, and assuming the current FOREX rates. I remind you that we estimate that this will represent a 65 million euro negative impact on a full-year basis at current rates. And just to make sure that we understand each other well, when we say high-single-digit REBITDA growth, the base is 1,704 million. If you correct for FOREX and carbon credit impact, it means that the underlying [organic] REBITDA growth will be, indeed, clearly in the double-digit region.

So with that, I would like to open for questions. And, please, Karim and myself will be very happy to try to answer your questions. Operators, can we start the Q&A session?

Operator: Absolutely. As a reminder, if you'd like to ask a question, please press “star – one” on your telephone keypad and wait for your name to be announced. If you need to cancel your request, you can press the “hash” or “pound” key. So that's “star and one” to ask a question.

Our first question comes from the line of ANALYST. Please ask your question.

ANALYST: Hello, good afternoon.

Jean-Pierre Clamadieu: Hello.

ANALYST: Hi, I just – I've got three questions. Just again going sort of back to the Corporate & Energy line, just if you could just reiterate the guidance that you've given. I know you mentioned 250 just a moment ago. And then just also to try and understand the contribution from – well, you've got the bagasse project – and essentially why maybe we had seen a little bit of lumpiness or whatever we've seen in the first quarter on that number.

And then just on the Advanced Formulations, if you're able to give a number as to what the one-off impacts were there for the hydroquinone and some of the drought impacts that impacted that business unit?

And then, finally, with the Functional Polymers, obviously impressive improvement there. And I was just wondering how much of that is also down to the energy project and the cost improvement project that you've been doing there. Thank you.

Jean-Pierre Clamadieu: I will let Karim answer on Corporate, and I will take the two business questions. Karim?

Karim Hajjar: OK. Good afternoon. Two real aspects to Corporate & Energy Services, the Energy Services, there's no particular lumpiness, other than we are focused on operational delivery, using the expertise that we have, so the 10 million that we've seen delivered in this quarter I see as a good indicator of what we're certainly targeting within this business, give or take 5 or 10? There's quite a bit of factors that influence that performance.

I think the more important aspect is the guidance that we gave you late last year in respect of – it's actually indicated that the Q4 last year was a good indicator of the run rate. If you said that's 250 [euro million], you can do the sums that we did 49 [euro million] this year. Two factors to really – to note of. Foreign exchange has helped. And the help has been of the order of 5 million. I will not speculate that we'll benefit from that kind of tailwind looking forward. That's an important factor.

The other aspect is, we are taking steps to create value with Solvay business services that requires an investments, for example, to centralize some of the back offices from two, three different countries into one bigger region. In the

Iberian peninsula, is one example where that is planned to start, in fact, as we speak. That will have a phasing impact. We view that as a good cost, as a value-creating cost, and that is why we are sticking to our guidance. But obviously, if we can do better than that – leave aside FOREX – we absolutely will.

Jean-Pierre Clamadieu: So maybe on the two business questions, Advanced Formulations, the impact of the one-offs, which are the Force Majeure that we have announced, plus some of the weather impact on our North American activities, represent a few tens of millions of euros in terms of EBITDA.

Why are we optimistic for the following quarters? Because one of our most important segments – customer segments – today is the oil and gas market, and we see a very, very strong dynamic there. Some of you might have heard the announcement of Halliburton fracking activities is going very well in the U.S. It started slow due to weather conditions, but it seems to continue in very, very good condition.

I think that with Chemlogics' rheology modifier we are very well positioned to benefit from this very dynamic environment. And on guar derivative too, we are seeing today a very, very strong level of demand. So this gives us good feelings for the next quarters.

Functional Polymers, there's a bit of both, a bit of excellence initiatives impact, being on the ability to produce more debottlenecking at marginal cost, being on the cost of production itself, but also clearly the markets are being more dynamic, and this is very true for the energy markets, both on photovoltaics and oil and gas again. And that creates this positive environment for this business.

The Specialty Polymers business performed very well last year in terms of margin, but it was lacking growth. We are seeing today growth coming and margins continuing to be at a very high level.

So next question, please?

Operator: Thank you. Your next question comes from the line of ANALYST. Please ask your question.

ANALYST: Yes, good afternoon. Three questions. The first on volumes. I see that these were up 3 percent year on year, and you mentioned that there was some benefit of restocking. Can you indicate how big that was and whether that has continued in the second quarter?

The second quarter is – the second question is, apologies a bit of a tedious question, but in the nonrecurring items, there's a 25 million negative provision. Can you tell us what is behind that?

And then, thirdly, the sale of Indupa to Braskem, I see in this slide pack – and you mentioned it – that you're awaiting approval before year end. That looks quite far away, if I take the real year end. So is there a reason? Is there – is it taking longer than expected? Those are the questions. Thanks.

Jean-Pierre Clamadieu: OK, I'll take the last and the first one, and Karim will take the middle one. Bon, we might have been a little bit prudent. We know that antitrust decisions takes always longer than expected, but you're right that year end, if it means December, is a little bit far away. We could probably expect to be able to complete this deal before this. So maybe we've been a little bit too prudent in the presentation. We've mentioned slight restocking behavior from our customers, but it's really something which in our view is a second-order reason. Yes, I mean, when we see like in the automotive industry, for example, the European supply chain starting to grow again, there is a need for people to bring their inventory level to a level which allows for reliable supply of their end customers.

But we are seeing everyone – and the vast, vast majority of our customers are large blue-chip companies – we see everyone very cautious on not building unnecessary inventories, so I don't have the feeling that this is the reason why we are seeing volume growth. The reality is that the end market – and we can see that today if we look at automotive or even if we look at construction figures in Europe – I think the end markets are showing some actual signs of growth, moderate, but real, and this is creating, again, this effect or this impact that we have seen.

Karim, on the second ...

Karim Hajjar: Yes, regarding your question on the non-recurring, you basically got three components. One is I would say the normal restructuring costs, which is half what it was this time last year at 5 [euro million], and you also have HSE, legal and contingencies – very much to do with the past portfolio. And that's the remainder of about 18 [euro million], I believe thereabout.

ANALYST: OK, thank you very much.

Jean-Pierre Clamadieu: Next question?

Operator: Thank you. Our next question comes from the line of ANALYST. Please ask your question.

ANALYST: Yes, good afternoon. Thank you. It's drilling down into a transformulations on the price shift, obviously, the end of last year, you were under severe price pressure in some of the businesses. I think hydroquinone was mentioned, ethyl vanillin. You're minus 5 percent for the division or for the segment. Then you're plus two. Obviously, guar is probably a bit better. Coatis you've got some forex-inflated price effects, as well, I suspect, just to get flavor for what's going on there, and perhaps a comment on ethyl vanillin, as well, which you mentioned for the first time, I think, in Q4.

And then just on Eco Services, I hear your comments, but just wondering when we might expect news on that, because it's quite a nice discrete unit, and I would have thought, you know, that's the sort of thing where hopefully some news would be sooner, rather than later. Thank you.

Jean-Pierre Clamadieu: Well, in Eco Services I think it's probably during the summer that we should see some news. We want to run a very effective process, so there is no reason to worry. I think the objective is really to find the best possible option.

On Advanced Formulations, I mean, you've got – you gave the answer within your question. It's really guar which explains this movement. We think that pricing power is satisfactory today in this business. And – but you know that in guar, if we look at the sequence 2012, '13, and now beginning of '14, there was a lot of ups and downs which are linked to this bubble. And indeed, last year, we had significant negative impact linked to guar, in terms of pricing power. We think that we are today in a – clearly – in a better position.

ANALYST: OK. And can I just follow up on guar? I mean, presumably – I mean, reading between the lines, you've become increasingly confident about the prospects for the business going through this year on the energy dynamics you're talking about in the market. I mean, am I right in assuming that – I mean, this is a business area that strikes me that could surprise on the upside in the recovery, basically. And I'm just wondering how you're confidence is on the guar business looking ahead.

Jean-Pierre Clamadieu: No, it's good. No, I mean, again, you can read the announcement that some service companies have made in the U.S. when they are presenting their Q1 results. It's true that people see – people expect significant increase in activities. I think the technical challenges are more and more important. I think we have today the right offer of products to bring to our customers what they need to face these challenges.

And we see both on guar derivatives, and what's very interesting is that we've seen people moving from – I would say – generic guar to guar derivatives, which is obviously something very interesting for us, so both on guar derivatives, but also on the Chemlogics product tranche, we are seeing –we are seeing very good prospect and opportunities.

ANALYST: Thank you.

Operator: Our next question comes from the line of ANALYST. Please ask your question.

ANALYST: Good afternoon. Two questions, please. First, regarding the soon-to-be-announced Ineos deal, just to clarify, is there any impact on the upfront payment that you're expecting? I know it's ahead of EU but if EU accepts it, can we pencil in the same amount you mentioned at the beginning of project? That's question number one.

And question number two, regarding the strong margins, very strong margins in Advanced Materials, how sustainable are those? I think clearly Silica has done pretty well the past few quarters, Specialty Polymers must have done very well. I'm just rare earth prices are still down sharply. Is that potentially another source of margin expansion or – I think basically the dynamics of a different business unit impact on margins? Thanks.

Jean-Pierre Clamadieu: You are challenging me at every presentation on the sustainability of margins. I think that we have demonstrated that even in an environment where we are not growing that much last year, that we can continue with what I think are very solid margins, this quarter we are seeing a significant volume growth, and we continue to benefit from a very solid level of margins. And this is true for Specialty Polymers. This is true for Silica. We are seeing some improvement on Rare Earths. It's probably the segment which is the most challenged within this cluster. So overall, I think the dynamic looks positive on margins, although the priority of a business is certainly growth. When we look at the balance between growth and margin, I think we are at the level of margin which allows us to earn significantly more than our cost of capital, and the priorities that we are giving to our businesses is really to focus on growth opportunities. And, by the way, growth are usually made on products which carries significant margins, because growth in this business is very much – I’m referring to Specialty Polymers – is very much based on innovation. And on Silica, we have a mechanism of long-term contracts, which allow us to protect our margins.

On Ineos I've made the comment that we think that the current step which was the E.U. clearance is probably coming very close to its conclusion. I've also made it clear that we have significant work to do to bring this deal to a conclusion, so I won't speculate on one element or the other. I just think that once we've passed one milestone, we have to work to make sure that we make progress towards the next one, so that's a long and painful process. But we are making progress.

(Next) next question?

Operator: Our next question comes from the line of ANALYST. Please ask your question.

ANALYST: Hey, good afternoon. First of all, congrats to this good result. Four questions, but smaller questions, if I may. First of all, again, on the weather affecting Advanced Formulations, is this business just delayed then into Q2? Or is this business then lost due to the weather?

And then secondly, on Rare Earths, you mentioned the prices are flat versus Q4, versus December. As volumes are quite good, do you expect prices to recover than here in this business soon? And then on Performance Chemicals, this March improvement, you saw there, was also quite good. Is this solely coming from cost savings, or is it also a leverage effect in there, as well?

And then the last question on the Emerging Biochemicals. Is this business underperforming since quite a while? How often are you doing your impairment for this unit? And this risk that we see here an impairment for this business unit?

Jean-Pierre Clamadieu: Sorry. I didn't hear clearly your last comments or questions on Emerging Biochemicals.

ANALYST: How often are you reviewing or how often are you doing your impairment test for business units, as this business is now underperforming for quite a while and assume there's still quite high goodwill numbers in the balance sheet, is there risk of an impairment if this business is not recovering soon?

Jean-Pierre Clamadieu: OK. On weather, it's a little bit difficult to answer your question. I think that probably part of a volume that we are not able to deliver to customers, that will be lost, and part of it that can be recovered in the next quarter, but it's a little bit difficult to quantify this.

Just to give you an example, in the agro business, for example, I think it's mostly deferred sales, as the season seems to be a little bit late. In – if I think, for example, of Chemlogics, and Chemlogics was impacted in part of its activities, especially the one where we are delivering to third-tier or second-tier operators – it's fracking did not take place, and it will be very difficult to recover volumes.

And in some cases, we've just lost volume out of the mechanical breakdown that I was mentioning. So part of it will be recovered. There might be a mild defect in Q2, but part of it is just lost because the whole supply chain was stopped due to weather conditions.

Rare Earths. We have a very different situation in the two main segments that we serve. I mean, electronics, which is mostly lighting, has been very, very weak for quite some time and continues to be weak. On the contrary, automotive catalysts is doing reasonably well. It's a business where we have a strong leadership position. We continue to enjoy it both in terms of volume and also margins, so I don't want to make more specific comments on that, but this gives – I think there is a very contrasted picture in this – in the two segments.

Karim, you want to take the last two questions?

Karim Hajjar: Yes. Let me certainly take the comment around the impairment and the goodwill. I think there are two responses. One is, of course, we comply with the IFRS, which requires the minimum of an annual test. That's a given. Clearly, if there are particular events that trigger review, we will, of course, do so, as well.

If I take a step back from that, I think one also has to look around us and say whenever there is a major portfolio change, it is very often the case to get an accounting impact, (and that can) both positive or negative. So if you look at Solvay’s history beyond last year, to the year before and before that, we see quite a few positives, few negatives, from an accounting point of view, and I do not wish to speculate as to what may or may not happen going forward in this respect.

Could I ask you to remind me of what the final question was to make sure we address it?

ANALYST: Yes, the final question was on the March improvement in Performance Chemicals, if this improvement was solely coming from cost savings or also a leverage impact?

Karim Hajjar: I'd say there was a very strong underpin by the self-help excellence programs and this in the context of flat volumes, which is pretty good in the environment we're in, and some pretty good pricing power, as well. So I think that combination is what drove the results, it’s pretty broad-based.

ANALYST: OK. OK. Perfect, thanks.

Karim Hajjar: Thank you.

Jean-Pierre Clamadieu: Next question?

Operator: Your next question comes from the line of ANALYST. Please ask your question.

ANALYST: Yes, hi there. Thanks for taking my two questions. Firstly, just looking at the revenue growth in Specialty Polymers, 11 percent, would you say that's the market growth rate, or are you taking some share there? And what do you see – foresee for the rest of the year in that segment?

And then, secondly, can I ask for a quick comment on how you see the environment for acquisitions currently? Thanks.

Jean-Pierre Clamadieu: Well, on the first point, we have to be careful when we make assumptions on market share in a business like Specialty Polymers. I mean, progress are made on top of a number of projects, where we tend to be differentiated from our competitors. So overall, we are probably taking some – a little bit – of market share, but I think a better way to do that is that we are able in a number of cases to come up to our customers with a right solution. And as I was mentioning, we are seeing both some markets restarting. Photovoltaics is a good example, but the oil and gas is also, with the riser application is another one. But we see also a number of very specific projects which we have put on hold for some time who are restarting in a better environment. So I would say probably some slight increase in market share, but the objective, once again, is not so much to compete head on head with competitors based on the same product, but to make sure that we bring the right answers (to our) to our customers.

Second point was … yes M&A. How do I see the M&A environment. No, I mean, I see it like you. I see a lot of movements happening here and there. Does it give us a lot of good ideas? We are working on a couple of projects today, which are mid-sized, even compared to what we did last year. None of them is at a point where I think it could be deciding within the next few weeks, and it's really add-on acquisitions much more than big moves. And frankly speaking, I think for 2014, this is what we should be looking at, at Solvay. So a couple of interesting projects. Clearly, people want to refocus their portfolio on what they think of their core priorities, which could leave us with some interesting opportunities. And when we identified such opportunities, we are studying them very carefully.

ANALYST: Thanks very much.

Operator: Our next question comes from the line of ANALYST. Please ask your question.

ANALYST: Thank you. First of all, to start with, on your guidance, just want to understand, because last year you had a pretty nice exit rate in terms of margins in H2 around sort of 17 percent. And you've started the year, obviously, very strongly. So just want to understand, how should we think about the year ahead? I mean, given the fact that you have clearly built momentum now for three quarters in a row, and as we progress in the year, the FX headwinds should year on year reduce, and also some of these one-offs should go away, that's the first question.

The second question, then, is relating to your CapEx. You have given some overview of key projects for '14 and '15. Could you give us some color, at least, on what sort of sales or – that they will contribute and – you know, it will be great if also EBITDA, but, you know, some quantitative aspect on sales or how much of this is as a total of the growth CapEx at least, that would help.

And then the third question is really on your legacy Novecare business. If I read basically, you've always mentioned a strong position in oil and gas, in agro, but if you sort of strip those two aside, what are you really trying to do to improve your positioning in home and personal care and industrial and markets? I.e., when can we actually see margins going beyond sort of, you know, 15-16 percent in those sub-segments? Thank you.

Jean-Pierre Clamadieu: OK, lots of good questions regarding the way we see the year developing.

As Karim was mentioning, we started the year very well in the Corporate and Energy segment, because we were very cost-focused and cost-conscious. It's likely that we'll see – that we'll be able to keep some of the progress that we've made, but it's also likely that we will start some project which are, in our view, investments for the future. On the business side, the big change we could expect is meaningful improvement in Advanced Formulations. And with that, you probably have the two components which leads us to our full-year guidance. On the foreign exchange, we have to be careful. We told you what would be the impact full-year if exchange rate stays where they are, 65 million, so it's an area where it's very difficult for us to make forecasts. Otherwise, we'd be doing a different job. So we are just telling you that if foreign exchange stays where they are, we expect to be able to deliver high-single-digit growth on the same perimeter versus what we did in 2013.

CapEx, that's a challenging question, and it's a little bit difficult to give you a lot of color on what sales we should derive from this. I mean, in some markets, you can – in some businesses, sorry – like Silica, you see that you can probably have a view on what volume expansion the Polish project represents. In other businesses it’s probably a little bit more difficult. And, again, adding all of that into a sales growth number might not help you very much figure what the impact in 2014. I don't know if you want to add something on this, Karim.

Karim Hajjar: No, I'd just reaffirm that these projects are very much within the expectation that we had in developing our 2016 commitments. I'm selling the obvious, I know that. Let me two points to make, in addition to what Jean-Pierre has said. One is that we are absolutely committed to doing value, and that means absolutely for a 15 percent IRR plus. That is a key component what we're trying to do. And as you'll recognize, particularly in our industry, paybacks are not immediate. And for a number of these projects, the full profit maturity will be visible in fact 2016, 2017, and beyond, and that is normal.

Jean-Pierre Clamadieu: Then your last point (is a) is a good one. On Novecare, what's the situation? I mean, we are serving four different markets, Ag, Oil & Gas – if I rank them by size – Oil & Gas, Ag, what we call Industrial, and Personal Care.

We've made a major investment in Oil & Gas, and we are a clear – we are a very strong player, and I would probably say a clear leader in this segment. We're also a clearly leader in Ag, and we are seeing very good development and the dynamic that we expect on the Oil & Gas market in 2014 is quite positive, quite favorable, and as I was saying, I think we are well positioned to benefit from this.

Industrial overall doing very well. It's a mixture of a lot of different segments, and it's true that we have a challenge on Personal Care. What we are doing to improve our position there is clearly it's to develop more innovation, knowing that we don't have active ingredients, and when we compare ourselves with other players – an obvious comparison is Croda – we have to realize that we can't achieve the margin that Croda achieved, just because our portfolio is different. We don't have the active ingredients which calls for very, very high multi-tens of percentage points of margins.

This being said, I'm not at all disappointed by the situation. I think we have to make clear choices, and the choice we've made regarding Novecare in the past couple of years, and Chemlogics was a good example of consequences of the strategic choices is to focus in markets where I think we have differentiation. We have differentiation in Ag, because we have a lot of formulation knowhow and I think we are clearly the innovation leaders in this segment. We are not linked, which is not the case for some of our competitors, to an Ag company, which means that we are in a position to serve everyone.

Oil and gas, again, very strong position, and I think the ability to be a differentiated player, overall I think it's good to have priorities. And in terms of margin, I'm not at all disappointed, because if this business is a low asset intensive business, and with the current level of margin, we are in a position to earn our cost of capital. And in terms of return on capital, Advanced Formulations and Advanced Materials are playing in the same league with different models: higher capital needs and higher margins for one segment versus the other, but overall I think a good, very good position for Novecare with some opportunities to improve in the personal care segment, as you rightly suggested.

ANALYST: OK, thank you so much. Very clear. Thank you.

Operator: Thank you. Our final...

Jean-Pierre Clamadieu: We have time for one more question.

Operator: Yes. Our final question comes from the line of ANALYST. Please ask your question.

ANALYST: Yes, good afternoon. It's going to be a very short one, on Russia and Rusvinyl. Can you confirm that the majority of tonnage of this business is supposed to be for the domestic needs of Russia and that there's no impact from the, you know, the current disputes and potential sanctions? Thank you.

Jean-Pierre Clamadieu: The answer is yes. I mean, the objective is to supply the Russian market. Frankly speaking, no impact of the short term – no short-term impact of the sanctions. We are focused on starting up the plant. This should happen in the next month. It's probably all what I can say at this point of time (on this) on this project.

ANALYST: And then impact on your Sibur relationship?

Jean-Pierre Clamadieu: No, no, I mean, no impact, no impact with Sibur. We avoid to discuss political issues at board meetings, but, no, I think we have a very good relationship. The Sibur management is very professional. I mean, these guys are talking the same language as we are, and I think we are – we have really aligned interests to be able to start Rusvinyl as quickly as, and as effectively as possible. So, frankly speaking, the first challenges on Rusvinyl today are technical challenges.

ANALYST : OK.

Jean-Pierre Clamadieu: Thank you very much. So thanks, everyone. Once again, if I may allow for just a couple of closing remarks, I think in Q1 we've delivered on wide range of levers, organic growth, external growth, obviously, with Chemlogics, and excellence initiatives. I know that some of you were probably wondering a few months or quarters ago what we mean by excellence. I think it's showing today that even in an environment where we see volume growth, but modest volume growth, we are able to take advantage of this situation.

We are continuing to focus our thoughts on the execution of the strategic roadmap, which calls for the transformation of Solvay, strategic portfolio management, developing the excellence initiatives to their fullest extent, and continuing to respond to our customers – to our customer needs.

This quite encouraging start of the year make us cautiously confident regarding the performance of the rest of 2014. We don't want to sound bullish, but we see, again, some good signs. We expect growth in the – REBITDA growth – in the high-single-digit range for the full year. Once again, if you take into account some of the headwinds, like just forex and carbon credits, you see that this means clearly double-digit underlying [organic] growth. And I think this is very much in line with our 2016 targets.

And, again, the transformation of a group towards higher growth, less cyclical and more value-creating chemical company is ongoing at Solvay. And I hope that this quarter results are one step in the right direction. Thank you very much for your time.

Operator: That does conclude our conference for today. You may all now disconnect.

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