

SOLVAY – Q1 2015 Conference call transcription

**Moderator: Jean-Pierre Clamadieu
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Operator:

This is Conference # 952637

Thank you for standing by and welcome to the Solvay Q1 2015 Earnings Conference Call 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'll need to press star one on your telephone.

I must advise you this conference is being recorded today, Wednesday, the 6th of May 2015. I would now hand the conference over to your speaker today, Jean-Pierre Clamadieu, CEO and Karim Hajjar, CFO. Please go ahead, gentlemen.

Jean-Pierre Clamadieu:

Thank you very much. Hello everyone. I am here in Brussels with Karim and Maria and we would like to share with you the key elements of our Q1 2015 results.

I mean the headline is very simple. We reported a very good performance during this quarter; solid growth in REBITDA at 12 percent; 24 percent increase in operating profit; 50 percent increase in net income and EPS.

By the way, this is the fifth quarter in a row where we deliver double-digit REBITDA growth; very much in line with our strategy and very much in line with our mid-term objectives.

Tailwinds for us this quarter are usually foreign exchange substantial impact, coupled with innovation and excellence which continue to deliver very strongly. And headwinds with significant adjustment in some specific markets and probably not very surprising for you.

One is in the acetate cable business where we continue to suffer from destocking. A second specific market where we are seeing some impact is in oil and gas activities where we serve especially the North American shale and tight oil producers where we have seen some significant adjustment.

But this was more than compensated by the delivery of our excellence initiatives. Going into the financial headlines, net sales we are up 6 percent at €2.6 b.

Price is stable which, in a declining raw materials and energy environment, means that we've been able to expand our margin. Forex had a strong impact, 8 percent and overall volume -1.7 percent but very much linked to the two elements I have just mentioned.

REBITDA up 12 percent €502 m. 19 percent EBITDA margin, 100 bp of improvement versus last year.

And now drivers: innovation, excellence initiatives continue indeed to deliver. On the raw materials side we have mixed effects. We have an immediate negative which is linked to inventory adjustments mostly impacting Coatis in the Advanced Formulations cluster and Functional Polymers P&I.

But we think that this deflationary raw materials and energy environment clearly gives us room for some lasting margin expansion in a number of our businesses.

And we continue to deliver strongly on the excellence initiatives. Pricing power is indeed very strong within the group and this is clearly the result of some significant efforts that we've done in pricing, both on high-tech and innovative products, but also on large volumes products. And we were able to do very well in terms of pricing, especially in the Performance materials cluster.

Going into the end market, just a few comments to deliver a little bit what I was saying.

Challenging and markets was clearly tight oil and shale gas in North America. I remind you that tight oil which has been impacted by the strong decline in oil price represents today 5 percent of the group's sales. So, limited exposure.

Last year it was a very significant source of growth but this year since the end of January, we've seen some significant reduction in volumes.

As you know, activity levels in drilling, cementing and stimulation are down 30 to 40 percent. Although production activity continues to be significant and chemicals demand remain solid.

We are reacting in this environment. First, we are working on some cost reduction initiatives to make sure that we adjust our workforce to the actual needs of the market and fortunately we are in the U.S. in an environment where cost reduction could be implemented very quickly.

We are seeing a situation where the supply chain for the tight oil segment is changing very significantly. You've seen some movement in the service companies.

We are seeing that this could open up some opportunities for us, both to bring more innovative products which could help our customers improve their competitiveness.

But there's also a situation where being a reasonably strong player we can see opportunities to benefit from the redeployment and the reorganization of this supply chain.

And then, some of the resources that are now available are used to speed up our development outside of North America and we continue to see in a number of regions significant interests for tight oil and especially shale gas development.

In Acetate tow . We've seen since mid-2014 a significant destocking mostly coming from a situation that we've seen in China. So we are starting the year very slow in terms of volume.

But since January, which was really a low point, we have seen some improvements over 12 months which gives us confidence that the situation should normalize probably sometime around mid-2015.

This being said, that's a business where pricing is still favorable. I mean we have an issue of volume today but we don't have an issue with prices.

And we are pleased to see that the industry is rationalizing. We've seen announcements from Celanese, from Eastman but also from Solvay.

Regarding capacity adjustments here and there I think that there is clearly willingness to make sure that we keep this market well balanced.

On the positive side, in terms of markets, Automotive is very strong. It's not just strong because we are in a competitive market showing some growth at the global level but clearly we are gaining market share with new and innovative solutions both regarding weight-lightening and some changes in design (smaller engines operating at higher temperatures).

This creates opportunities for our Specialty polymers and some of our Polyamide applications and this allows us to continue to benefit from very significant growth in this segment.

Electronics also is a market where we see a lot of good developments. Smart devices segment is the one in which we've made a breakthrough last year and we expect to continue to have a very strong performance into 2015.

Regarding our portfolio we are continuing to work on upgrading it. The integration Ryton and Flux are doing very well. We are seeing these two additions helping our position. Both of them are in the automotive industry with different types of technology.

We expect that the Inovyn JV is very close now to being implemented. We expect the final decision regarding the divestiture of the remedy from the EU in the next few weeks.

And this should allow us to close the transaction as soon as possible after this final clearance. In dupa we have re-launched the divestiture process after the negative answer of the Brazilian anti-trust Authorities. And on another front, we have completed the sale of our refrigerant business which is good because it really reduces our exposure to a segment where we are facing some challenges.

And by the way, regarding the organization with -- when I say by the way, it's because it relates to the same activities but we have decided to bring together our Rare Earth and Special chemicals businesses to create a larger GBU.

And to make sure that we can generate some optimization in terms of structure and cost but also to make us stronger and more focused and giving us the ability to leverage our technologies in two segments which are key for this business which are Automotive and Electronics segments.

So this new GBU that we will call Special Chem, which by the way will take also the Aroma fluorine business, will have €850 m of sales and a bit more than 3,000 people which means that we are also ready to adjust our organization when seeing there are opportunities to make it more efficient.

With this, I turn to Karim to go into a bit more into the details of our numbers and our performance.

Karim Hajjar:

Thank you Jean-Pierre. Good morning and good afternoon. I will now build on what Jean-Pierre said and give you more color as well on the key bottom line and cash flow elements.

And to facilitate this, I invite you to look at the website and turn to certain slides starting with slide number 5.

Our net sales grew by 6.4 percent year-on-year to €2.6 b. This was entirely driven by foreign exchange. There's no surprise as we see the sharp appreciation of the dollar against the euro. That is the most important factor in our results.

And just to give you some facts, the average exchange rate in this quarter stood at 1.13 to the dollar compared with 1.37 last year representing an 18 percent appreciation of the dollar.

Net volume fell 2 percent in net terms due to the significant reduction that we alluded to in terms of oil and gas and the destocking the Acetate tow market. No surprise there.

What was pleasing to see though there was good demand growth in many of our other activities and stable pricing as well?

Turning to the right-hand side of that chart and EBITDA clearly is up 12 percent; 10 percent of which comes through from foreign exchange.

The net volume drop that I referred to was offset by strong pricing power which was underpinned by operational excellence programs where the momentum is really continuing and good progress is really being made there.

And this \$34 million of net pricing was despite and €18 m one off negative impact from inventory reevaluation linked to the decrease in all material prices or oil related costs which we see in Coatis, Noveare and Polyamides intermediates mainly.

Our results also reflect €30 m positive contribution from a favorable evolution, a refinement, in our U.S. post retirement Medicare insurance arrangements. That's the overview.

And I invite you to turn to page 6, slide 6 where I would like to give you some insights on each of our key businesses and also the Advanced Formulations here. As you can see, REBITDA decreased by 2.5 percent and our margins fell by 200 bp to 13 Percent. There are some positives despite the

figure that you see. One, we had favorable forex effect but fundamentally also strong recovery in Aroma performance. But you recall that last year it had been impacted by production issues in its Baton Rouge plant. Now this is all behind us. And that helped to compensate to partially offset the profit growth in Novecare's oil and gas businesses in particular as well as the one off inventory impact I referred to previously which was Coatis and Novecare for about €10 m.

Jean-Pierre has mentioned the impact of oil and gas and I won't dwell on that too long but just highlight two things. One, production demand is holding up well and we see that resilience and appreciate it. And clearly, aside from responding with a cost program, we're absolutely intent on emerging as an even stronger leader when oil and gas prices recover.

Advanced Materials set a new record; REBITDA of €203 m, 19 percent up from last year, volumes up 7 percent up. Clearly with the forex tailwinds but fundamentally also with strong demand, innovation is really coming through.

Specialty polymers volumes alone up 11 percent. We also saw strong volumes in Silica and Special chemicals, little more subdued in Rare Earth.

As a result, our REBITDA margin was 25 percent. Now, that is 1 percent lower than last year but it is wholly attributed to the inclusion of Ryton PPS which we acquired last year where there's a value to impact in short-term but the good news is that the integration is running very smoothly and it's already delivering synergies above our expectations which are quite ambitious expectations. So we're very pleased so far.

Performance chemicals, another record; €195 m REBITDA; 14 percent up from last year and three factors to highlight.

Foreign exchange tailwinds, yes. Pricing power and excellence programs, really underpinning our margin and expansion which you can see climbed 200bp up to 26 percent.

Market conditions were favorable in Soda Ash and Peroxides and we can see the impact both of rising prices and growing volumes. Now that achievement,

that progress more than offset the anticipated volume drop in Acetow which as I've already said, are very much an industry feature, that we started seeing from the third quarter of last year.

Functional Polymers, a little more mixed; 100 bp down in REBITDA margins; €9 million down in REBITDA terms. Two things to highlight really.

One is Polyamides where we had the weighing impact on inventory devaluation and some modest production issues in our French plant for Polyamide Intermediates.

This was counterbalanced by favorable pricing of foreign exchange and engineering plastics with a strong momentum. There was also scope effect in terms of the sales of the Benvic company activities that we saw last year and a modest loss in Rusvinyls totally consistent and in line with our expectations in the start-up phase. Together those two is about €4 to 5 m of impact.

Finally I turn to corporate and business services where the net cost is down to €21 m but that is obviously impacted by the benefits of the optimization I referred to earlier on U.S. post retirement Medicare insurance.

If I leave that aside, our corporate costs were €53 m; €4 m of that was an adverse impact by foreign exchange and that is completely in line with our annual run rate.

There's one thing I would like to note and that is that corporate costs were very much back ended whereas now they're much smoother. So you see today they're actually in line with our annual expectations, our run rate expectations.

The contribution of energy services was marginally lower than last year and that's primarily linked to fewer arbitrage opportunities in the energy and carbon markets in what was a mild winter with a low spread environment.

If we turn to slide 12, I look at the elements below the REBITDA line, the main message from us today is that there's very little surprise, no new news, but good progress. Non-recurring costs of € 10m, a lot lower than last year. Underlying taxes at 39 percent.

It's very much in line with our guidance and we're looking to maintain that quality of performance. Discontinued operations clearly still have an impact and there are maybe a couple of messages.

A little mixed. European Chlorovinyls business is moving forward. Profits are up against last year but there were offset by more challenging environments for Indupa and Latin America. Net net flat essentially against last year.

And finally, I will highlight that net financial charges are lower than last year for reasons that I set out on the chart. But we are seeing the benefit of a reduction and the negative carry as well on an underlying sustainable basis.

Cash. Cash is a big topic and I invite you to turn to page 13.

Very few things I'd like to highlight. One, the free cash flow as a matter of fact was €344 m which is €250 m approximately more than last year.

There's clearly a seasonable pattern in there.

Our continuing businesses and reflect an outflow of €269m, €100 m below last year. Two reasons. The phasing of our CapEx this year is more front end loaded. Last year it was more backend loaded. So that's CapEx and that's about €73 m.

And we also have a build in, in our working capital which was attributed to the outflow. This is one area where I think we can look at it and say, this is probably about €20 m or so more than we were anticipating.

We do believe we can do slightly better. So this is something where we're maintaining the momentum we saw last year but can optimize further and that remains on the radar screen.

Discontinued operations. There's a turnaround, a reversal of the €143 m. Again, in line with what we expected because we no longer have the benefit of the milestone payments resulting from the sale of the farm activity.

The last payment was €100 m in January of last year. We also have some seasonal build in working capital in Indupa. As a result of all of the above, net debt was up at €1.4 b and that includes the payment of taxes on the sale of Eco Services of €220 m.

With that, I hand you back to Jean-Pierre.

Jean-Pierre Clamadieu:

Thank you very much Karim. Just a few word regarding the outlook before going into the Q&A. We are very confident with this first quarter to be in a position to generate solid REBITDA growth in 2015. Very much in line with the momentum that we've seen during 2014 and we are clearly on track to meet our 2016 ambition. I think we are well-positioned to capture growth. Thanks to our ability to bring to our customers the solution that they expect. I think that we'll see some of the issues that we've been facing during the first quarter; especially the acetate tow destocking will see this coming to an end and the situation normalizing later on during 2015.

And regarding the oil price, we know that within Novecare there will be a need for some adjustment which will primarily keep us busy during 2015.

But overall, probably also an opportunity to see us positioning ourselves better to take advantage of what I think will be a rebound in tight oil production in North America.

And overall, the oil price situation today has a balanced effect on the group which means that the positives and the negatives are balancing each other.

So clearly, we are continuing our progress to transform Solvay into a higher growth, more valuable and less cyclical group and there is clearly willingness from myself and my colleagues at the Comex to maintain and probably accelerate the momentum.

Thank you very much for listening to this introduction and we are ready now to take your questions.

Operator:

Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your question, please press the hash key.

Investor A:

Yes, good afternoon, I guess. Three questions on my side, hello.

I guess the first one somebody will be asking so it might as well be me.

What's the definition of robust or solid; you just used the word solid in the Solvay bearing in mind that I don't think you've ever used those words and does that include or exclude the 30 million related to Medicare.

Then the second question is really around new projects. Could you remind us when we should be expecting contribution from the Soda Ash plant in Green River, the debottlenecking; same thing about bicarbonates in Thailand and same thing about Silica in Poland.

And then the third question is on Ryton. In the text you mentioned that the cost synergies are ahead of expectations. My understanding was that the main issue was actually on the operational side and that's the reason why you were not thinking it could achieve a lot of EBITDA contribution from Ryton in this year. Has that changed? Thank you.

Jean-Pierre Clamadieu: Thank you. On the first question I think I'll to be a little more specific in my comments saying that we expect to see the momentum we've built in 2014 continuing. The question of whether we include or not the €30 m one-off I think is a bit of a refinement. But clearly we are heading in the direction of 2016 objectives and yes, I mean Q1 gives us confidence that we are in the right direction.

On the second question, this plant, these new capacities, will be online between for most of them between June and September. So probably we could expect them to contribute in our last quarter results.

I think we have to be prudent via the speed at which we load this unit is a little bit different from when to the other but the reason why our CapEx profile is front loaded is because we are finishing up most of these units during the first half.

So again, start up around mid-year and contribution probably during the last quarter.

On Ryton, there are two different elements. One is that indeed the cost synergies after the carve out is more significant than what we thought. And it gives us a bit of a more optimistic view regarding the contribution of Ryton in our REBITDA short term.

In the context of Specialty polymers, I'm not sure this is such a meaningful event but again, we are ahead of our expectations. We have started working on the operational issues which you mentioned which are complex chemical process issues.

But we have good level of confidence that indeed we'll be able to solve them. But I would say, overall, that the Ryton integration is a little bit ahead of our expectations and that's good news.

And from a market standpoint, it's really something which sustains my comment regarding our position in Automotive. Ryton has a very strong edge in the Automotive segment and adding this product to our portfolio is really something which is helping us penetrating this segment which I think for us is clearly a segment that will support our growth over the next few years.

Investor A : Thank you.

Jean-Pierre Clamadieu: Next question.

Investor B : Thanks very much. Afternoon Jean-Pierre, Karim, thanks for taking my two questions. I wondered if I could just check. I think the hope this year was that you guys would take out sufficient cost to be able to offset fixed cost inflation but I sort of noticed an EBITDA bridge that fixed cost was still a bit of a drag in Q1. And given the product rams later in the year just checking

that your cost savings will fully mitigate fixed cost inflation. That was the first question and my second question was really around operational gearing.

From the volume declines that you're reported, the EBITDA impact seems to imply a drop through of about 65 percent in the first quarter which seems very high. So I was just wondering if you could make any comments on that please.

I'm sorry, third question. I know I said it was going to be two but it's a very short one. On Acetow it looks to me like year-on-year sales were down about 22 percent. Can you sir just let me know if that's broadly accurate and I suspect all of that is volume.

That was not me playing music by the way.

Jean-Pierre Clamadieu: Starting on your last question and Karim will take the first two I think broadly your comment on Acetow is correct reflexion of reality. We don't want to be that specific but I think you're there. Karim, first one.

Karim Hajjar: A couple of things. One is you're right that over time we full anticipate to mitigate the inflation effect on fixed cost. In any one quarter, there'd be also the factors up and down.

The mitigation in this quarter was less than the inflation but I think that's something which is on the radar screen and particularly over the year we anticipate.

The other reason for that I'd say very better quarter-to-quarter is that we do make conscious investments to invest in capability; good fixed costs and especially with some value creation later on.

And there's the instance of plants coming on stream which will have an impact. But over time, absolutely expect to mitigate the inflationary effect.

You question on operation gearing and impact of 65 percent I wasn't too clear on. Can you clarify what you mean there?

Investor B: Yes, of course, Karim. So if I just look at slide 5, it looks to me like net sales were down €43 m year-on-year because of the volume decline of 2 percent.

And in the EBITDA bridge, it looks like volume knocked off €28 m from EBITDA so I mean there may be something wrong, but the 28 on the 43 implies that every percentage point of volume is dropping through at an EBITDA margin of 65 percent.

It just seems high, the amount of EBITDA you've lost from the top line.

Karim Hajjar: No, I hear you. I think it's very, very difficult to make generalizations of this nature when you've got significant mix effects.

Let me give you an example. I talked about volumes being in net decline of 2 percent. That really reflects a couple of things. You've got business like Specialty *polymers* as I mentioned was up 7 percent. You've got Soda Ash which was up near 4 percent. You've got quite a lot of strength continuing with different margin impacts. We also have a decline in again different levels of profitability around Acetow volume decline, Oil and Gas, Novacare.

So I think one cannot and should not attempt to let's say, overly simplicity extrapolate those numbers because there's a very significant mix impact of products and businesses with different profitability.

Investor B : OK, got it, thank you very much.

Karim Hajjar: Thanks.

Jean-Pierre Clamadieu: Next question.

Investor C : Yes, good afternoon, I have two questions, please. First on Novacare dynamics outside of the oil and gas segments. I think you mentioned in the press release that home and personal care has seen good improvements helped by pricing. Is that also including some adjustments to your product range for example? And then could you also shed a bit of light of some of the other products in that segment coating and agro.

And then second question on Soda Ash, could you maybe clarify a little bit the market dynamics in the various regions. I note that you mentioned in the press release that Southern Europe is seeming to bounce back pretty well. But how about the rest of Europe and then yes, North American and overseas? Thank you.

Jean-Pierre Clamadieu: OK, so on Novecare yes, I think personal care we are making progress which is good because it's clearly within the four segments that we serve one where we are in a position which was not up to our expectations.

We are currently working on a number of projects on home and personal care which gives us I would say a reasonable expectation that we can see some significant improvement but much more at the end of this year or beginning of next.

Agro and Coating we are doing well as expected. So it's I would say clearly the Oil and Gas segments where we are having some challenges.

Soda Ash overall is in a good situation in most of the regions where operate. You've seen –that we've been able to significantly improve our pricing in this segment.

We are seeing a very good dynamic in Southern Europe, also in the Seaborne market. But overall again, a good situation for most of the markets that we serve. We are seeing some volume improvements. But again, very good performance in terms of pricing.

Investor C : OK, thank you.

Jean-Pierre Clamadieu: Next question.

Investor D : Yes, good afternoon everybody. I've got three questions if I can, please. Firstly, I wonder if you could talk about the dynamics in Silica. And particularly, you talked about some softening activity in Europe and Asia so I wonder if you could give us some color on that, please.

Secondly, on the Specialty polymers business, I think you said Jean-Pierre that volumes grew there by 7 percent in the first quarter. I wonder if you could also give us the currency and price effect there and as a slight adjunct to that, touching on Laurent's question about the Ryton impact. I think you said the margin pressure in Advanced Materials was entirely due to Ryton. Was that just the consolidation of you know the lower margin business or is it actually you're selling revalued inventory on the IFRS as well, please.

And the final question is just on Polyamides. We've seen some fairly consistent commentary from peers in similar markets talking about a slow start to this year and business accelerating as the year is progressed.

You know you can comment on the profile during the quarter of Polyamides, please. Thanks.

Jean-Pierre Clamadieu: Well, Polyamides, I'll just confirm what you've just said. Yes, indeed we are seeing some slow start and volumes building up a bit.

Specialty polymers I'm not sure I understand the detail of your question because for me Ryton has a minimal impact on our EBITDA. Maybe a small dilution impact on the margin but again, it's really a business which is operating at very high margin. And with a very good volumes dynamics. An acquisition like that has very small impact in terms of reducing our REBITDA margin.

As we've said that it would be REBITDA generation in absolute terms would be smooth this year. In terms of Silica's performance, North America did very well in terms of volume growth double digit.

I would say very significant in the double digit space as far as volume growth is concerned. Europe, our understanding is that the tire makers, have seen poor replacement market. So this has reflected a little bit in our volumes.

And Asia a bit soft but overall, very reasonable performance for silica so we tend to comment on trend but in this case, I don't see this telling us that we will have a very different behavior for this market during 2015.

We still have volumes up around 6 percent year-on-year for the whole of the Silica business. We know our view for 2015 will be again a year of growth for this segment and we are again very well placed being focused on the high energy performance tires which is where tire makers see some growth.

So these are the comments I can give you on the three markets that you have asked me about.

Investor D : Thank you. If I could just come back, sorry on the Specialty polymers business. I must have misheard. I thought there was the small decrease in margin you mentioned in Advanced Materials. I thought had been ascribed to the acquisition in that business. Maybe I misheard that. But I wonder if you could give us the split of that Specialty polymers topline growth, please; the 30 percent I think you reported.

Jean-Pierre Clamadieu: Karim?

Karim Hajjar: The best way I can describe it is the impact of Ryton which is still, let's say we're working hard on optimizing it. It has the capacity to grow more but the impact is an 80bp dilution if you want to call it that of our REBITDA margin.

So it's no more than a mix effect on our businesses of integrating and ramping up in a way that's very much with our expectations. There's absolutely nothing there of any concern. Our huge successes if I'm going to highlight at this point other than completely expected as an integrated business.

Jean-Pierre Clamadieu: And if I may just make a comment I mean 2015 will be another very good for Specialty polymers. I mean we continue to see a strong performance in the Smart devices segment. In Automotive again very good, very significant increase in penetration. Batteries, we have some real expectations there due to various projects that the end customers are launching. So clearly 2015 will be a year for growth of our Advanced Materials cluster.

Investor D : Thanks very much.

Jean-Pierre Clamadieu: Next question.

Investor E : Yes, good morning everyone; good afternoon. I've got two questions left. First of all, can you quantify the impact on REBITDA of destocking in Acetow and also the weak Oil and Gas business in Novecare?

And then secondly, you talk about the cost savings program that you're working on Novecare. Are you able to provide some details on this program; what kind of savings are you thinking about and by when? Thank you.

Jean-Pierre Clamadieu: Novecare, I think probably the best information that I can give you is that we see Novercare in 2015 being flattish. When I take into account the disruption that we are seeing on the Oil and Gas market, the dynamic of the overall market and various external factors, the bottom line is this is probably the best way I can help you understand what would be Novecare performance. Again, we would expect then into 2016 growth to restart and probably significantly at Novecare due to Oil and Gas market stabilized.

But also due to some improvements that we expect to be able to deliver in some of the other markets. Karim, on this talking on Acetow, what can we say?

Karim Hajjar: I think and I'll give you some orders of magnitude. Oil and gas has two components. One is the one off impact of the order of €20 million on inventories which I highlighted.

There's also an impact of margin compression and Novecare but also we see margin expansion elsewhere. Net net flat at this stage in general terms. That's one impact.

As far as Acetow is concerned we're seeing broadly I'd say 28 to 30 m impact in general terms at this point in time. But we do feel as well that given the announcement of the industry we're somewhat more confident that the worse is behind us.

Now we're poised for an eventual recovery along with others.

Investor E : OK, thank you very much.

Jean-Pierre Clamadieu: Next question.

Investor F : Thanks. Maybe just to start with oil and gas. If I just take the comments you made you know at Q4 results, the commentary in your release today, around growth based on performance of Aroma chemicals, it seems to me that oil and gas topline or volumes rather were down 25 percent to get to the minus 7 percent divisional number.

And I go back to the original commentary made at Q4 where January was rather stablish tells me that your trend really worsened.

Can you just give us a little bit more information around if this is the case and are you looking at sort of you know sales growth in oil and gas in line with sort of the recount data that we are seeing and if trends are improving at all or are you seeing further decrease there.

And this follow-up year is also on the pricing side if you can give us some comments around the pricing in Novecare. And the second question is really just on the cash flow and working capital.

Can you give us some information about the businesses where you have seen the inventory increase? Is it just across the board or is it particularly to a specific business.

And the second question on cash flow is I struggle to reconcile how the €502 m that you report ties in with the 268 which is in the free cash flow bridge in REBITDA.

If you can help me reconcile that please. Thank you.

Jean-Pierre Clamadieu: Now, just on Novecare, I would say that you should probably not try to analyze the impact of oil and gas. Really the best guidance I can give you is just to reiterate the comment I was making that we expect Novecare to be flattish during the year.

We are seeing some reduction in volumes in the oil and gas segments a significant reduction in volumes. Not so much issues today on margins

because we have a product where we see the most significant impact in volumes are not the one where we have the most significant margins. Mitigation again is multifold. Cost reduction changing a little bit our position in the supply chain which is moving very quickly in this segment.

And then I remind you that Novecare is not just oil and gas. I mean we have a number of businesses around. And again, our best view today is to expect Novecare to continue to deliver a stable performance, a flattish performance in 2015 versus 2014 while we adjust to these more challenging conditions.

That being said, when you look at the performance of the Advanced Formulations segment, don't forget also that Coatis is part of this and Coatis was impacted by the inventory reevaluation that we've mentioned and Coatis is also operating in a Brazil in an environment which is very challenging which means that Novecare is not the only issue that we have in this segment. But again, for us 2015 is clearly a year where Novecare won't deliver growth but we don't expect Novecare to go backwards if I may say so in 2015.

We expect Novecare to organize itself to make sure that we can again put ourselves back on the growth track next year.

Karim Hajjar: So further, there are two aspects of your question. A couple of things. One is inventory and the inventory build diluted to one. Let me just give you one or two stats as we put these into context.

Our working capital stands at 16.5 percent which is about 1 percent more than we anticipated at this point. When you've got 1.6 billion of inventories, 1.4 billion of receivables, 1.5 of payables, that kind of magnitude is not huge.

But nevertheless, to the inventory point, the fundamental answer is pretty well based. There's not a single business where we're looking at it with a huge inventory build. It's pretty much broad based.

There's also something here around the foreign exchange impact into U.S. inventories there as well but I think, broadly speaking, that's really the main point.

The second point is how did you get from 502 to the 268. 502 is the REBITDA. You've got three main components. You've got non-industrial working capital where's there's an outflow of 91 million.

Now nonindustrial is what? I think like VAT, duties, customs as well as for example, the payment of bonuses for ourselves reflecting the successes of last year. That's one impact. Taxes, €41 million. Cash out movements and our provisions is another €80 m or so, € 886 m I believe. So these are the main elements that take you to from the 502 to the 268.

Investor F : OK, very clear, thank you.

Karim Hajjar: Thank you, next question.

Investor G : Hello, good afternoon. Thank you for taking my questions. Actually I have additional questions on Novecare. You mentioned cost reduction.

How quick are you expecting to deliver on that? I mean you mentioned some stable performance of Novecare over the year. Does that already include the cost reduction or did it actually already start? That's my question.

And you mentioned that you were actually well-positioned to benefit from a recovery in the oil price or at least a position in the industry.

Do you expect to see growth coming with a delay once the situation normalizes somewhat? So that's my first question.

And the second one is actually regarding Indupa. It is now classified as discontinued. But if you are not able actually to divest the business this year, I would expect it to be reclassified as from Q2 or Q3, no? Am I right on that?

Jean-Pierre Clamadieu: You're right on the first question on Novecare. The cost reduction already happened. I mean in the U.S. we are in an environment where you go very quickly from the decision to the implementation. So adjustment will be immediate in some parts of our activities. Again, it's not a major element; it's not a major component of the performance of Novecare.

But clearly the willingness to take into account what's happening in this supply chain. Why do I think that we can benefit from an improvement in the situation?

Well, oil is back at 60 as far as the WTI is concerned. We are starting to see a comments coming from the industry that at 65 or 70 the guys have already drilled some holes but have not started the actual production might move quickly to benefit from an improvement in oil price. So that's something which again we are looking at with great interest.

And second, we are seeing the supply chain transforming itself in the U.S. Strong focus on competitiveness. Some of our products like friction reducers, a product which helps reduce production costs. And we think that with this focus on optimization in production costs what we can bring to our customers in terms of innovation, in terms of product which could help them with this challenge would be very welcomed.

So it's why I think that after some necessary time for adjustment, we could see again some opportunities regarding growth.

My overall comment for the full year is a more on the prudent side. When I say that Novacare should be flattish in 2015, I am not taking into account the significant rebound in oil and gas.

I'm taking into account all the efforts we are making to adjust to this situation. Now, regarding Indupa don't worry, we are not planning to reconsolidate this business. Our focus is really to bring the divestment project to its conclusion and the IFRS are such that we are confident that we will be able to divest the business in a certain timeframe. We can keep it where it is which is in businesses for sale. And this is exactly what this is. I mean we are really focusing on divesting the business and this is our priority.

Investor G : All right, I was just wondering legally speaking or based on IFRS rules, you said that if you argue then you will be able to divest the business you can keep it in discontinued but isn't it that after a while you have to reconsolidate ?

Jean-Pierre Clamadieu: Karim, can you reassure ?

Karim Hajjar: I think this is a very good question. It's an important question. One that we address with the Audit committee and the board.

IFRS does allow us latitude as it's forward-looking test and typically what do we look for? We look for well-founded and reasonable grounds for an expectation with divestment typically within than 12 months.

And so the substance here is exactly as Jean-Pierre said, we are taking concrete steps. You had advisors; information memoranda are out.

We've talked to prospective buyers and we have very well-founded reasons for our conviction and we'll make substantial progress between now and year end.

These are the elements that will raise the guns of our threat which does allow for some latitude where we're absolutely clear showing that this is the right thing to do.

Investor G : OK, all right, because I had in mind the 12 months --

Karim Hajjar: You're right.

Investor G : And that's the reason for my question.

Karim Hajjar: No, it's an important question, thank you.

Investor G : All right, thank you.

Karim Hajjar: Next question:

Investor H : Good afternoon, I have three questions basically. The first is on the outflow for the businesses to be divested which is probably mostly the working capital outflow for the PVC business in Europe.

Is it just bad luck that you closed the deal in some weeks or are you in any sense reimbursed for these outflow you have when the joint venture is starting. That's the first question.

Then the second is on Rare Earth. You mentioned that the volume is down. Could you say something about the yearnings trend? Is it also going down or do you have some improvement here?

And last but not least on Acetow basically everyone expects that the destocking comes to an end by mid-year. Mid-year is not too far away.

Do you have any hard facts or indications that that really is going to happen or can it also last for the full second half? Thank you.

Jean-Pierre Clamadieu: Well, Acetow I mean the hard fact is just following monthly shipment and here's the trend that we see and tend to sustain our view. But again, we have to wait whether this materializes or not but the performance has improved month after month. Volumes have improved month after month since the beginning of the year. And on top of that I think the announcement that you've seen coming from most of the players in the industry are really demonstrating our willingness to make sure that medium term in this market is balanced.

On the Rare Earth, yes volumes are coming down as we were mentioning. REBITDA is going down also by a few millions. We can't be more specific but it's really something which is mostly due to a decrease in the lightning market where I would say no news in terms of positioning. The automotive catalysts business is doing very well. The lightning business has been disappointing for the past few years and we continue with this situation.

So no big changes in terms of EBITDA but a few million less. Karim on PVC Europe?

Karim Hajjar: On PVC Europe, I would not use the word you've used around bad luck. I think there's absolutely strong management of cash and it's a seasonal impact in the build of inventories.

To the second part of your question, absolutely. When we sell, or when we constitute the joint venture there is a normalization to normal working capital levels.

So if working capital is too high compared to the norm, we get the cash back. If it's too low, we readjust it. That is very much normal practice.

So, in essence, from a cash flow point of view, we are neutral in terms of the cash performance in terms of what ultimately ends up in Solvay's bank accounts.

Jean-Pierre Clamadieu: Right and it might end up in a different part of our cash flow bridge.

Karim Hajjar: Exactly.

Jean-Pierre Clamadieu: Exactly.

Investor H : But effectively, it means what you have shown as €75 m outflow in the free cash flow bridge even if you allocate this then to the financial -- to the investment cash flow as is income from disposal.

But it is something which is really temporary and flows back if the deal is closed.

Karim Hajjar: Correct as far as Chlorovinyles Europe is concerned. Different depending on how we sell Indupa. So yes, the objective is to maximize cash.

Investor H : Good, thanks.

Jean-Pierre Clamadieu: OK, our next question or probably coming to the end of this call but we can probably take a couple more questions.

Investor I : OK, two questions if I may, thank you. I had a few technical difficulties so if one of the questions has already been asked, please forgive me.

First of all, with regards to the pricing power. You had a significant positive impact from actually falling variable cost which I presume are largely raw material prices and positive pricing.

Is that individual strength by Solvay or is that part of that the effect that usually downstream prices only react with a bit of a time lag and could that

could that in Q2 maybe from a gross margin perspective, compress again as some downstream prices also come down following the reduction in energy and raw material prices. First part of it.

Second part with regard to your pension provisions. You had a bit of a reduction in discount rates but you were able to offset that with increased returns by your plan assets. How do you expect given an unchanged interest rate scenario to have to do further reduction of discount rates going forward over the next three to four quarters or should that be it for the time being? Thank you.

Jean-Pierre Clamadieu: So, on pricing, I think there are a number of businesses where we have made significant specific efforts and in businesses where we have leadership positions or in businesses where we have had for the past few years a strong focus on price and the policy which is very often price before volume.

So I mean in some of these segments, we are operating with yearly contracts. So all of this gives me strong confidence that we'll continue to benefit from significant pricing power in the next quarters.

I don't see a situation where our margin would be eroded because it just takes time for the price reduction to flow through the PnL. I mean in markets where customers are in a position to ask for price reduction is probably already done.

So overall, a good I think a very good performance regarding pricing in Q1. I mean I made the comment on Acetow which is the business where due to the volumes situation, you could have expected also a price issue. We don't see that at all. On the contrary. Today we have very strong unit margin on this business. So I'm confident that pricing power will continue to be part of an ingredient in our reserves for the next quarters.

Pensions provisions, Karim?

Karim Hajjar: Stefan, perhaps turn to page 24 to illustrate what I'm about to say and that is that Eurozone discount rates went down by 25 basis points from 1.75 to 1.5.

That alone would have hurt us by about €73 m in the quarter. Where we had the benefit though in strong asset performance which more than offset that because that came in just over €90 m.

So net net we don't see any detrimental effect from that reduction. The other aspect of your question is more forward-looking.

I think it's very, very difficult and speculative to predict what might happen to discount rates but certainly there is an impact as to the liability aspects of our balance sheet if discount rates fall further.

We recognize and remember however this does not in any way translate into short term cash outs. So purely is a balance sheet movement.

And we believe we are like everybody else, many others, where in a particularly low interest rate environment.

Investor I : OK, very clear. Thank you very much.

Jean-Pierre Clamadieu: Next question which will be the last one.

Investor J : Thank you so much. Just really a question on your comment about making Solvay over years less cyclical. And I mean apologies for this now asking like this way but I mean, since you know you've taken over Solvay/Rhodia combination, every year there has been one or two headwinds that have affected you.

So I mean over fundamentally, how do you see this panning out. I mean I'm referring to Guar headwinds –bubble in 2011 and 2012. And then, you know this year we are doing Acetow and oil and gas. So I just want to understand you know when you say you're making Solvay resilient, less cyclical, how should we interpret that long term?

Jean-Pierre Clamadieu: Very simple. I mean look at the EBITDA, the overall EBITDA performance of Solvay. I mean we are in a chemical industry that is a very complex industry and yes indeed we have every year a couple of issues that we have to face.

But what we want to do is to be in a situation where due to the quality of our portfolio, due to the self-help efforts that we are putting in place, the excellence initiatives that we are mentioning, we are able despite these headwinds, to deliver growth.

I told you that this is the fifth quarter in a row that we delivered double-digit REBITDA growth. I think that's a good illustration of what we want to do.

Now if you expect a company, a chemical company, where every segment is doing very well every quarter, it's probably a bit of an illusion.

What's very important is that we have a quality of a portfolio which allows us to compensate what's happening in one business by the performance of the others.

And again, I think that these results once again demonstrate that we are moving in the right direction. And more practically speaking, what we are trying is to protect ourselves to reduce our exposure to businesses like PVC where we could see massive ups or downs which can be compensated by other businesses.

We have some issues in Novecare today but the magnitude of this issue is such that it can be easily compensated by a very good performance and Specialty polymers.

We have some issues on Acetow but there too, the magnitude of this issue is such that it can be compensated by the overall good performance of the rest of the businesses and the excellence initiative efforts.

So this is where we want to make Solvay a much less cyclical company and when I said that we expect and I'm starting to go in the closing of this call.

But when I'm telling you that we expect to deliver on a strong growth, strong performance, a solid growth for 2015, when I'm saying that we're in line for the 2016 objectives, I think I'm pointing to a situation where indeed Solvay is less cyclical than it used to be.

So maybe just to conclude, I would say that this is a very good start of the year despite some issues in some markets and thanks to supportive foreign exchange.

But clearly, the self-measures that we are putting in place, the excellence initiatives as we call them, are continuing to help us and frankly speaking, and we'll share this in more details with you during the Capital Markets Day in June.

We expect more and more coming from our excellence initiatives. I think our business organization is reacting very well to this challenging environment where we see all sorts of opportunities and I think we are getting very good at seizing these opportunities.

As you've said, and I'll move very quickly on this, but we are ready to adjust our organization when we see opportunities to be more effective.

The Special Chemicals and Rare Earth reorganization. We are continuing to work on improving the quality of our portfolio and clearly all our teams are motivated to transform Solvay into a higher growth less cyclical and higher return group.

We have maybe just one last point to remind you that next week we have our shareholder meeting on May 12th which will decide on our dividend.

We have a dividend as you know proposed at 3.40 which is a 6.3 percent increase; again a sign of confidence very much in line with our dividend policy.

Our final payment will take place on May 19, 2015 and then an important element of agenda for this year is our Capital Markets Day on June 10, 2015 in Italy.

We've decided to organize it in Bolate next to the Headquarters of our Specialty polymers business. It will be a great opportunity for you to see face-to-face if I may say so what Specialty polymers is about and what we can bring in terms of innovation to the market.

So I hope that we'll be able to see a lot of you during this meeting on June 10th and with this, I think we end this first quarterly review of 2015. Thank you very much.

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

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