SOLVAY

Moderator: Jean-Pierre Clamadieu
May 3, 2016
7:00 a.m. ET

Operator: This is Conference #: 958025

Operator: Thank you for standing by and welcome to the Q1 2016 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 will need to press star one on your telephone. I must advise you that this conference is being recorded today, Tuesday the 3rd of May, 2016.

I would now like to hand the conference over to your speakers today, Jean Pierre Clamadieu and Karim Hajjar. Please go ahead.

Jean Pierre Clamadieu: Thank you very much. Hello everyone. We are pleased to see you for our quarterly rendezvous. I'm here with Karim and Maria in Brussels. And we would like with Karim to walk you through the highlights of these Q1 2016 Results.

In my view, good results. We are able to generate growth against a Q1 2015, which was a changing reference, and despite a couple of issues or challenges that we have pointed out in past presentations. I think the important elements in these results are the fact that we've generated record margins: 21% (EBITDA) margin, which for a diversified chemical company is indeed a good developed margin, and strong cash generation, which is a firm illustration of our renewed focus on the free cash flow generation.

Regarding volumes, overall stable, but this is the result of very different behavior in different clusters: Advanced Materials and Functional Polymers indeed generated volume growth, significant volume growth for Functional Polymers. Advanced Formulations sales declined as we continued to face significant headwinds in oil and gas. I remind that in Q1 2015 we've seen a high level of activity, in fact, with the decline in oil and gas in North America, for us, starting at the end of Q1. So, the comparable is still very challenging. And then, we had flat volume growth in our performance chemical businesses. So, overall EBITDA at €602m, a modest 2% growth. But I remind you that last year we had an exceptional one-time event, which had a € 30 million positive impact on our results, which was linked to some U.S. Medicare post retirements optimization. If we correct for this, EBITDA growth would have been around 7%, so very much in line with the high single digit that we have signaled as being our view for the full year. Profitability grew in three out of four operating segments. Record margin, I mentioned it, to 21%, a 150 basis points improvement, and margin up or stable across segments.

If we go into each of our segments. Advanced Materials was up 1.4%; modest, but we are facing significant stock adjustments and the impact of product cycle in smart devices. You know the headlines in this very specific segment. And despite the significant impact we've seen in smart devices, we've been able to demonstrate this, our ability to grow, thanks to a development in healthcare, consumer goods, clean mobility, both in diesel catalysts, but also lithium-ion batteries, which are doing well, especially in China. We've seen reduced volumes in industrial composites: tooling, supercars, where we are in the low cycle of a period. But overall, a good performance in our composite business, and margins up 24 to 25%. Advanced Formulations, I mentioned it, down 10%. Oil and gas weaker versus Q1 2015. This is the strong comparable I was referring to. Growth in HPC, agro, coatings, and margins stable at 18%. Performance Chemicals up 7%. We continued to benefit from a number of cost efficiency action plans, mostly in soda ash. Acetate cable is recovering and our bicarbonate plant in Thailand is ramping up. And there, too, margin up 28% from 25. Functional Polymers, which could be the star of these results in terms of REBITDA growth. We benefited from two factors. Demand is increasing. We are seeing automotive, especially in Europe, doing well in terms of growth. And this has a positive impact in our engineering plastic business. And then we continue to benefit from a good pricing power in this business, which is still underperforming when we look at that just as the rest of the portfolio. And it will remain with the same type of strategic questions that we had on the business. But it's clearly very good news that its profitability increased significantly.

Market challenges that we've mentioned. That will remain, as we go into the second quarter. We expect to see persistent headwinds related to oil and gas. The oil price is stabilizing, but we still have to see how this will impact the development of the North American shale oil supply chain. Not very clear as we speak, and we are continuing to expect a low volume of activities. Volumes are low in the industrial composite as I was mentioning, and we expect this to continue. In aerospace, we are very confident on the development of this market, but we are seeing a bit of a transition. You've seen also the news coming from our key customers. The transition from legacy models into newer platforms like the A350, and the A320NEO, and the 787, but there are some issues here and there, which in some cases lead to some slight adjustments in the production program of these new airplanes. We think that for the next couple of years, we'll see some of these some of these glitches as we go into the development of these new airplanes, which once again are all good news for us because their composite content is much higher than the previous generation.

Maybe just one element on the EBITDA margin that I would like to comment: the impact of pricing power. Once again – and when I say once again, it means that this is the case for the ninth consecutive quarter – we've been able to generate pricing power across all business segments; which means that, indeed, the focus on margin, the focus on prices either in an inflationary or deflationary business environment, is becoming a key element in our culture.

Cash, I mentioned it. We have said when we presented our full year results that we will focus probably more. We have been focusing on cash, but we think that it's important that we focus more, even further, on free cash generation, with a view to reduce the volatility of our free cash generation. And indeed during this quarter, thanks to a strong focus on working capital and on capex, we've been able to generate flat free cash flow – almost zero free cash flow – compared to a negative free cash of € 350 million in Q1. So, overall, a good performance to be able to not to consume cash during the first quarter of the year. And this demonstrates that we are indeed committed to generate the amount of cash that we have given as a guidance for the full year.

So, regarding our portfolio transformation, the portfolio upgrade continues. The Cytec integration is going very well. We are on track regarding synergies and delivery: cost synergies delivery, € 10 million already in our Q1 2016 books. That's good. Businesses today are fully integrated into the Solvay business model; teams are working according to our processes; we are sharing best practices; and the momentum that we see here regarding this integration is very strong. We are now working on topline synergies, and we are starting to see a number of news coming from our customers, which are good: the contract extension with Boeing for aerospace composites, which deals both with legacy program like the 737, the 747, the 777, but also we support growth in newer programs: the 787, the 737MAX, and the 777X. Airbus qualified our PPSU foam, which are used in A350 interiors. We think that there's a lot of potential in this types of application, and we are pleased to have been able to make this first step. Moving into – I would say – rolling equipment: BMW. We have been selected for the production of the M4GTS passenger hood. That is a very small volume vehicle as you imagine, but a very good sign that indeed composites are making their way into the automotive. And we knew that it would start with very specific high-tech applications, but we are confident that this is a great demonstration of our capabilities in this segment.

Continuing on portfolio grades, you've heard last night that we are divesting our Indupa PVC business in Latin America. That is indeed something we've been working on for more than a couple of years now. So we were pleased that, after the disappointment leading to the rejection of a Braskem deal by the Brazilian Antitrust Authority, we are pleased to be able to negotiate a divestiture agreement with a Brazilian player, without any antitrust issue expected. And you've heard a few weeks ago that we have accelerated our exit from our Inovyn JV because the first months of operation where we are doing very well. And we said that it was a great opportunity for us to speed up our exit. So, all of this shows that, indeed, we are very much focused on continuing to upgrade our business profile.

And with this, Karim, the floor is yours to cover our financial details of these results.

Karim Hajjar: Thank you Jean Pierre. Good morning, everybody and good afternoon. Just before I start to look at some of the information I want to share, I would like to highlight that I'm going to compare our results with the underlying pro forma results in 2015 on the basis that includes Cytec as if it had been acquired on the first of January last year.

And I'll start with the topline and the sales. On slide 10, on the web – I'll be referring to these slides which are available on the web, as usual. Our sales are down 6%. Now, if you look at the scope impact, a small 1.2%, that's mainly small businesses we've divested: refrigerants, PCC at Special Chem last year. Prices were down within a low material pricing environment, and so, that is not at all a surprise. But there is ongoing price pressure in oil and gas activities. Foreign exchange conspired against our progress in this quarter primarily as the euro appreciated against some other emerging currencies, principally the BRL versus which the euro appreciated by 34 percent. So, 3.22 last year versus 4.30 this year; that has a dent. But the most important factor to note is that despite the headwinds that we referred to, for example, oil and gas and the inventory adjustments in Advanced Materials, despite that, we have managed to maintain stable volumes overall. And that speaks to the quality and the diversity of our business and our products.

What about the EBITDA? On slide 11, you have the overview of the key movers from one year to the next. It is worth noting the fact that Cytec has contributed to the baseline (competitive) standalone by just over € 90 million last year. So, we won't lose sight of that. Jean Pierre has already spoken about the record margin of 21% that we're really proud of. Now, it is worth noting that a number of factors have contributed to the progress this quarter. Jean Pierre has given some color in the key business drivers, and I'll amplify that. But before doing that, I'll highlight the fact that volume mix was a negative impact, but far more than offset by strong and broad-based pricing of

€ 62 million. Two main factors: clearly we've had the benefit of positive transactional foreign exchange impact of € 47 million in this quarter, but fundamentally, strong continued efficiency improvements, very much driven by the excellence program that are looking to utilize our assets, and making them more effective, and more efficient. So, cost reductions and excellence programs contributed to the success. Going against that, we had the negative foreign exchange conversion impact, which clearly is not hedged. Fixed costs are stable. Two things conspire against that. Inflation clearly has an impact. But also, we have some new facilities that we started up last year, and that contributed to higher fixed costs. The reason that we see essentially flat fixed costs is because of two things: synergies on Cytec delivering and excellence programs containing our fixed costs. There is strong discipline on that item of our P&L. Remember as well, as Jean Pierre mentioned, the fact that last year we had a € 30 million one-off positive impact on the U.S. post-retirement and medical insurance costs. So, it was quite a tough comp as well.

So, that's the overview. Jean Pierre has already given indication of the key drivers from a business standpoint. I'm looking at page 12 now. So, there's not much else that I will say other than to highlight some of the things that are contributing to the performance. Specialty Polymers, we're clearly aware of ongoing destocking in smart devices, but we look at the fact that we're progressing in healthcare, consumer goods, mobility rated items like diesel catalysts, auto batteries in China, hybrid electric vehicles, all of that is compensating, and it's helping to widen our margin from 24 to 25%. Composite Materials and the fact that we're going through this transition from older legacy aircraft like the Boeing 747-8 towards the higher composites aircraft is another factor that is contributing to that performance. Industrial materials, clearly we were looking at phasing issues in terms of tooling markets and continued challenges from ERP issues. That was signaled well before we bought the business in the middle of last year.

Advanced Formulations, yes of course, we take note of the ongoing impact of oil and gas. We're not all surprised, very much what we expected. We're not banking or expecting a dramatic recovery, clearly. But we do like the fact that we managed to maintain our margin stable at 18 percent. Technology Solutions' sales volumes were essentially flat year on year. Not a surprise because we have always believed and still believe that volumes and demand are very resilient. And we see that. What we do see is continued deferrals of new projects and new starts of mines. It's not at all a surprise in the current commodity price environment for mining, particularly in copper or in aluminum.

Performance Chemicals, it has improved. Soda ash: slightly lower volumes but improved EBITDA as it continues to benefit from lower energy costs and excellence programs. We're really pleased to see the sequential improvement in Acetow. We believe there's more to come over time, a gradual steady growth. So, we look at this business with confidence.

Functional Polymers, well over 50% improvement, a fantastic performance. Worth highlighting that this time last year our Russian PVC plant was still in the start-up phase. It is today contributing very strongly. It's taken its place in the market.

Corporate costs, the headlines might cause alarms when you see € 61 million net costs compared to € 35 million last year. But when you factor in the € 30 million one-off benefit last year, it's quite a significant improvement. And there again, synergies, cost disciplines, and this is just the way we want to do things.

Moving to items below the EBITDA, and I'll turn to page 13. A couple of things: underlying net income of € 192 million this quarter was lower than the € 202 million last year. If you recognize that this time last year, we had the benefit of € 25 million profits from the European Cholrovinyls businesses that we then constituted into the Inovyn JV, you can understand that the intrinsic improvement is clearly stronger than the headlines.

Now, it may be confusing as we look at IFRS and underlying, why are they different. What are the facts? IFRS net income € 15 million, underlying I mentioned 192. The easiest way to understand that is portfolio actions creates distortion. But I want to highlight. You’ll expect the PPA. We intend to exit early from Inovyn; that crystallizes a gain of € 77 million. We take action to improve the competivity of our business in the lower scales: Soda ash in

Egypt, for example. All of these things have portfolio impacts. So, portfolio action is a key driver of that difference. Secondly, we have also recognized that we're treating the hybrid component as financial charges in our P&L, rather than as dividends for IFRS. We believe that from an economic standpoint that is a helpful representation of the results. What you won't see here is a big impact on the divestment that we announced of Indupa, largely because the valuation we had at the end of December 2015, we believe, fairly reflects the value we expect to crystallize. And to give a bit more color, the enterprise value was just over $ 202 million. And that represents a multiple of five times the average profit in the last five years, EBITDA in the last five years. Hopefully that color helps you to appreciate the quality of the delivery in Q1. The only other thing I will highlight is the fact that our underlying tax rate is at a low point of 29%. We look at that with a sense of satisfaction. And so 29% is clearly one of the contributing factors as well to the strong cash flow in the quarter. It's a couple of points below last year.

Now, I've started to talk about cash here. So, let me take you quickly to page 15, which is on the web. We've spoken about the record EBITDA margin. We've spoken about the strong repeated pricing power. The cash flow in Q1 is, certainly in my recent memory, a strong performance. It is a record in many ways, particularly when you compare it to this time last year just for continuing businesses: a € 300 million improvement quarter on quarter and year on year. Two factors: capex lower by over € 50 million. You shouldn't be surprised. We already indicated that 2015 would be a peak. We already indicated that we would be reducing our capital intensity. And we're doing that. So, working capital, Jean Pierre has mentioned. There is significant discipline, diligence, and we're focused on delivery. The metrics underpinning that performance, for example, the DSO, the days sales outstanding, they are one day better than last year; our overdues. The customers don't always respect the contractual terms. So overdues are part of normal business. We have achieved new records there. So, a combination of those factors has really helped to drive this as well as our intentions to moderate the big swing that we've historically seen from quarter to quarter. There will always be seasonality. But we want to have more predictability of cash flows.

That performance has helped to basically deliver a level of net indebtedness which is higher than what we anticipated to the point but very much in line, because we have things like dividends and other financial pay-outs that contribute to the € 0.2 billion increasing underlying net debt. Remembering that in the same way we look at hybrid coupon charges as financial charges, we incorporated them in debt rather than equity, which is what IFRS would have you do.

Total net debt, and finally perhaps just to conclude it on page 16. You can see the various metrics. What are the points to highlight? One, that we have liquidity reserves that enable us to make our balance sheet even more efficient. We have retired 300 million of an EIB loan in January, and we have announced our intention to exercise the first call on the hybrid, which costs 6.375 percent presently. This is a source of value. Our liquidity reserves exceed € 3.5 billion. Our commitment to investment grade is there, and it remains: managing for cash and managing our balance sheet, and it really is that blend of conservatism and caution. But an efficient balance sheet is really the final of the levers that we believe will create a strong successful value creating company.

With that, I'll hand it back Jean Pierre.

Jean Pierre Clamadieu: Thank you very much Karim. And just a few comments looking forward before we open for the Q&A. First, we'll continue to focus during the course of 2016, on the portfolio. The most important subject is obviously the integration of Cytec. As I've said, very much in line. In fact, we are going faster than what we expected, both in terms of delivery of cost synergies, I will remind you we have increased our target to € 100 million by 2018, but also focusing now very much on delivering topline growth synergies. And again, the momentum between our teams is very good. We'll continue to look at other opportunities to upgrade the quality of our portfolio. We are very pleased with the Indupa announcement. And we know that there's still a number of important projects on which we are working.

During this year, we will continue with the implementation of our excellence program. We are probably insisting less on these because they are really becoming a permanent feature of the way we do business at Solvay. But we can confirm that our € 800 million target will be in this delivery. And we are challenging ourselves to make sure that we can continue with this momentum. And by the way, this first exercise is to look at the opportunity to implement this excellence program within Cytec. We are delivering already a number of very good ideas that we are turning into action plans.

Regarding the overall performance for the year, we expect to see progressive improvements in underlying operating profit for the following quarters. Modest sequential growth in Q2, and more substantial in Q3 and Q4. And we reaffirm our outlook for the full year with an EBITDA growth of high single digit. And then, you should expect us to continue to focus on cash generation. And we are very confident that we can exceed our target of € 650 million, which would represent more than 30 percent improvement year on year pro forma versus the 2015 performance.

With that, – before opening the Q&A – I will just mention that we are very excited about the prospect for new business within our Advanced Materials platform. In aerospace, we are seeing a news flow, which indeed reinforced our confidence on the fact that planes will have more and more composites as part of the materials that they are using. And we are seeing a number of interesting news. You might have heard about the significant Delta and Air Canada orders for the C-series from Bombardier. This is a plane where Solvay is supplying the primary structure of composite materials. This is clearly something which will represent an opportunity for us to continue to grow. I could mention also the strong commercial success of the Safran LEAP engine where we are the sole supplier of resin for the cold part of the engine, both the blades and the carters. And the F35, the jet from Lockheed Martin, is also in a significant ramp-up part of the program. And all of this gives us, again, a lot of confidence. I could mention also automotive, although it's a bit longer term, but we are seeing the focus of OEMs on composite opportunities increasing significantly, and we are very committed to be part of the of the leading players in the field.

And with that, I'll turn to you for the Q&A session.

Operator: Thank you. We'll now begin the question and answer session. 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 request, please press the hash key. Once again, that's star and one, if you would to ask a question on the phone line. Your first question comes from the line of Analyst A. Please go ahead.

Analyst A: Well thanks and good afternoon everybody. Three questions, if I can, please. Firstly in Performance Materials, obviously we saw a big step up in the margin there. You were talking about retained lower energy costs. I'm just wondering why business was slow in January and Feb, particularly you know, with the big Chinese outage. And I wonder if you could just talk a little bit about, you know, how business looked in March, and how things are likely to be in the second quarter. I mean, are you expecting a more normalized volume environment in the second quarter? And if so, do you see higher EBITDA in Q2 than Q1? Or, should we just think of it more as a consistent absolute quarterly EBITDA contribution again?

The second question on Silica. You made a comment in the statement about new market entrants in Asia. And you obviously saw an 11% sales decline, I think in the first quarter. You know, could you just talk about the competitive environment in the Silica business, please?

And finally, Jean Pierre, just to pick up. I think I heard you say € 10 million of Cytec savings in the first quarter. Given that you removed € 20 million from day one on January the first, I'm assuming we're talking about, you know, an annualized run rate of € 40 million in the first quarter. Is that correct? And you know, does that sort of give you confidence that you actually might be able to achieve your € 100 million of cost savings rather sooner than 2018, as you had previously indicated? Thanks very much.

Jean Pierre Clamadieu: Well, we'll take them in reverse order, your questions in reverse order, thank you. Well, on Cytec, yes, I mean, the synergies that we've seen for the quarter are synergies, which will continue to flow into our P&L for the full year. So, your simple calculation is probably giving an idea of where we should be at least for the full year. And yes, we indeed expect to see cost synergies flowing fast into our P&L. So, as usual, the last bit might be the longest one to come into. But I think that probably by the end of 2017, we would have realized a very large part of the total amount that we would like to achieve. So, again things are moving very quickly and very effectively.

Analyst A: I was just going to say would it be right to think about a run rate at the end of the first quarter of, you know, possibly as much as € 60 million? So, you know, running into the 70s?

Jean Pierre Clamadieu: I don't want to go too much into the guess game. But again, it's going well. And yes, I think the we will have realized a very large part of the total demand that we've shared with you by the end of next year. And it's not a back end loaded process. On the contrary, it's really a front end loaded process.

Silica, frankly speaking, I don't see a lot of changes in the way the market is operating as usual when we focus on one quarter, we could see things going in one direction or way than the other, but clearly no trend. We continue to enjoy a very strong position on the more technology advanced part of the market, a good dynamic with our customers and a very significant innovation in our labs, if we want to look at the midterm opportunities. And with that, we have new capacity available in Poland, which is very useful. We are finishing up the build up of our new plant in Korea, which will help supply the Asian markets. So overall, I would say a very satisfactory situation in this – in this market.

On Functional Polymers, I mean, we've seen in the past weeks, Cyclohexane going down, butadiene flat. So, overall, good growth opportunities in the market, volumes are up 4%. So, probably overall a good year for Functional Polymers.

Analyst A: I'm sorry. I may have misspoken, but I was trying to understand about, in Performance Chemicals, the effect of the soda ash business. Apologies,

Jean Pierre Clamadieu: You want to comment, Karim, on soda ash?

Karim Hajjar: Yes sure, of course, Peter. On soda ash, essentially this time last year there was a particularly strong market dynamic, that was very conducive. We've seen a moderation of volumes, but more or less led by excellence and the impact of lower energy prices where we managed to expand our margins slightly. So, if I look at the EBITDA of that business, it's progressing, or rather that, in that context, we look at it with a sense of genuine satisfaction. But the market dynamic is slightly less conducive today than it was a year ago.

Analyst A: Thank you.

Karim Hajjar: Thank you. The next question?

Operator: Your next question comes from the line of Analyst B. Please go ahead.

Analyst B: Good afternoon gentlemen, and thanks for taking my two questions: two fairly straightforward ones. On my calculations, it looks like the difference between your pricing and raw materials on variable costs, as you put them in the bridge, since the third quarter of 2014, it's added something like € 323 million to EBITDA. So, as you say, your pricing power has been proving to be very strong. I guess the question is you talk about the growth year on year being back end loaded. But do you get to a point sequentially where oil is now up, and if you see it follow through some of the raw materials? But actually that delta on the EBITDA bridge, it actually gets less as we go through this year, because it's more than a 100% of year-over-year EBITDA. So, help on that would be appreciated.

The second one and just a simple one on Cytec. Obviously, in the first quarter, the volumes are negative for the reasons that you articulated. Was that expected more or less, Jean Pierre, i.e., had you baked that into your thinking?

Jean Pierre Clamadieu: I didn't hear your comment on Cytec. And then your questions again …

Analyst B: Just on the Composite Materials business, I think volumes were negative in the first quarter – correct me, if I'm wrong – or certainly slower. I just wanted to know if that was in your thinking and in your business plan when you bought the business at the end of last year? That you were aware that we were going to get – I don't know how long the phase of lower growth is. Because I see it's a much a higher growth aspiration for that business. So, just trying to marry the sort of short-term headwinds with the longer term growth opportunities.

Jean Pierre Clamadieu: OK, on your first question, it's true that our pricing power performance is quite impressive. Be careful when you add up all the numbers, because there were some portfolio movements in the period, which would make the analysis a little bit more complex. There are also some mix effects. It’s true that as we are moving into a higher technology and higher margin product, this plays a role in the pricing power, as you see it in the bridge. When I look at the remaining of the year, I expect to continue to benefit from pricing power. I don't want to make a comment on whether the rate should reduce or not. It’s true that the rate the first quarter was especially high. Clearly, what will allow us to build up speed as we go into 2016, is really the volume, especially on Advanced Materials and the smart devices. It's really a segment, which this year will offer growth opportunities, which will be very much back-end loaded. We expect the second half of the year to be much higher than the first one. And this is probably a key element, which would help us build up the growth rate as we go from one quarter to the next.

On Cytec, we don't want to give a specific volume measurement by business. But it's not negative. I mean, it's slightly positive. There we have two factors. In fact, we are selling to two very different segments. Aerospace, where we continue to see growth. Even when we take into account the hiccups in production rate that we see in some of the larger airlines. But in the industrial materials, it's a business where we knew and we can confirm that there is a need to take some actions. And by the way, we have put in place a strong team that's mostly made of former Cytec top leaders. But we are accelerating the integration of this business. You know, industrial materials is a result of an acquisition. It was probably true that Cytec has not focused as much as it could have on the actual integration. So, we are seeing a number of situations that we need to deal with. Some of them are linked to programs, which had not the right level of profitability. Others are linked to ERP, the SAP implementation, which was not going as planned. On top of that, a bit of a cycle where we see a number of supercar programs coming to an end. This requires some action. So the action is granted and taken. Carmelo LoFaro, who used to be a Cytec CTO, is now in charge of his business, and he's doing a very good job putting the business back on a much more solid foundation. And it's one of the reasons in this transition why we are seeing a lower volume growth than some people could have expected in our composite business. But frankly speaking, all of this is good news medium term, because we can free up resources to focus on better programs. And once again, in industrial materials, the key issue is automotive, and we are really making sure that we can enter into what we think will be the next very significant growth opportunity for composites, which is the introduction in not just supercars, but in larger vehicle programs.

Analyst B: OK, brilliant, thank you.

Jean Pierre Clamadieu: No surprises, but clearly, the need – and it's probably the only part of Cytec business which needed some – I would say – immediate and urgent action. But clearly, the need to make sure that industrial materials becomes once again a solid core platform for the composite business on the side of aerospace.

Analyst B: So, just to be clear on the first question. You're expecting volumes to take over to some extent from the pricing power piece of the EBITDA bridge in the second half.

Jean Pierre Clamadieu: I would expect a stronger composition of volumes as we go into the second half of 2016, yes.

Analyst B: OK, thanks a lot, guys, thank you.

Operator: Thank you. And your next question comes from the line of Analyst C. Please go ahead.

Analyst C: Yes sir, good afternoon. I have two questions from me, please. First, regarding the inventory adjustments in smart devices. Can you maybe shed the light about how long you expect that to continue? And also, how balanced your portfolio in smart devices now is? How much are you tied for example to Apple? That's the first question.

The second one is on the guidance. It is still based, the full year guidance on the oil price of $30 per barrel, and U.S. dollar euro rate of 1.10. Can you maybe elaborate, yes, about the sensitivity of your guidance to some of these elements, and overall, maybe also to the general (FX entity) – sensitivity and hedges that are in place? Thank you.

Jean Pierre Clamadieu: OK, I'll take the first question. And I'll turn to Karim for the second one. Well, inventory and smart devices, I don't want to be too specific. It's a market with not very many customers. We don't have a balance exposure. We are more exposed to the guys who have the largest use of high-tech materials. I won't give names. But I guess you understand what I'm saying. As far as the inventory adjustment and the product cycle, we think it will continue to impact us in Q2. And then we expect a much stronger demand behavior in the second half of the year for the reasons that I mentioned: the product cycle and inventory reduction.

Karim, on the sensitivity?

Karim Hajjar: (On the second point), yes. There is no simple way to, say), extrapolate from oil price at $/€ 30, 35, 45 into the results. It's a broad macro indicator that influences our perspective. So, there is no sensitivity I can offer you. I can absolutely do that on the exchange rate. And in fact, if you look at the website on page 32, on slide 32, you see exactly the answer to your question with a sensitivity to the dollar. And clearly, with Cytec, we'll have a much bigger U.S. dollar profit pool. A $ 10 cents variation is a € 120 million EBITDA for the year. Clearly you will have seen, and I will have seen we're at $/€ 1.15 today. So, if your hypothesis is that we'll continue for the rest of the year, you can quite quickly come up with your own variation on the theme as to what you expect. So that hopefully is quite helpful to you.

Analyst C: OK, absolutely and thank you very much.

Karim Hajjar: Thank you.

Operator: Your next question comes from the line of Analyst D. Please go ahead.

Jean Pierre Clamadieu: Hello

Analyst D: Hey and good afternoon. Three questions, if I can, all three on the cash flow. The first one on the better phasing through the year, through the quarters. Karim, can you maybe tell us a few examples of what actions you're taking, and to what extent the better Q1 conversion is related to phasing, i.e., you know, cash outflow that should have been in Q1 is going to be in Q2 and Q3? That we are not surprised when it comes in Q2 or Q3.

The second question on Indupa. If we go back to the first release on the first deal. You were very kind to provide us with some numbers around cash components for the proceeds. Will you be able to do that for us now? And also, at the time, you had flagged that the debt within Indupa was not consolidated, i.e., you know, that the deal was not getting debt down, you know. Would you be so kind to do the same thing for us today?

And then, the last one on the Inovyn exit, the € 335 million inflow for the second half. That I get. What I didn't quite get was the € (80) million that you're now flagging of final payment from you to INEOS for next year. Can you tell us what that is about? Thank you.

Karim Hajjar: Thank you. Three clear questions, I'll take them in order. So, cash and better phasing: part of what we're doing is recognizing, and you will recall that in December of '14, we had almost overperformed and overachieved. And that's one of the reasons we started off, last year, with a very negative phasing effect on the cash flow. So, what we're trying to do is to be very very diligent and be systematic in terms of making sure folks deliver the cash flow that they're committing to in all business, and remembering that we embed cash generation into the reward mechanism, so bonuses only get earned if the cash is there with the profits. In 2014, there was overachievement. So, we kind of paid the price of that with 2015. So, it's about being more systematic, and having better visibility. And it's going down to the basics, and looking for example, at (DSOs) by businesses. And typically, what we find is if you can measure it, you can manage it By putting a spotlight, people always want to improve. And we're seeing a very, I think, virtuous dynamic of wanting to improve that. That's at one level. At another level, we do have the flexibility to decide when we initiate certain actions and when we make certain investments. So again, the phasing of some of the decisions, we can actually manage, and there's quite a lot of discretion and the timing. That really is a combination. It's very operational. It's business by business. But the collective is the kind of performance you've seen.

Turning to the two topics Indupa and Inovyn. Indupa has quite a lot of leverage. When you – and that's debt – when you take into account pensions, environmental liabilities, etcetera, and you look at our balance sheet. You will find that with the fair value of that asset held for sale is negative. It's about € (50) or (60) million from memory. So, to the extent that we anticipate crystallizing the value in our balance sheet, you can expect a cash-out of the order of that amount. That is our expectation and totally what we had anticipated. There are a couple of but's. It depends on the operational cash flow between now and when we complete. Working capital adjustments are very customary. We have a target in the range of working capital if we've outperformed – Folks are really focused on cash. There is an adjustment on completion and that is normal. So, that's the sort of thing we need to watch out plus foreign exchange driven volatility. So, that to my mind is the only thing I can highlight. What I can say to you is in our expectations and our expressions of confidence on the € 650 million. We've taken account of what we believe is a cautiously based expectation with respect to Indupa.

Inovyn, similar in nature, yes, we've negotiated an outcome that we believe works for Solvay, and clearly works for INEOS as well, whereby we get the € 335 million this year. And the adjustments we referred to are similar in nature: you've got liabilities, you've got working capital adjustments, and we've negotiated that in the contract. We will receive cash this year and we'll settle the rest next year. It's very much part of, I would say, normal business of liquidity management. So, I would say very typical M&A type of closing adjustments. We just had the opportunity to negotiate something that works for us both.

Analyst D: Can I just clarify on Indupa? Are you saying that there will be an incremental cash outflow this year to crystallize that fair value? Or, that you know, that is already in the accounts? In discontinued operations, it's already in there?

Karim Hajjar: Definitely in the accounts. Yes, there may be small balancing adjustments on completion but totally material from our point of view.

Analyst D: Thank you. Thanks, that's very clear.

Karim Hajjar: Thank you.

Operator: Your next question comes from Analyst E. Please go ahead.

Analyst E: Good afternoon, a few questions – the first one focused on restructuring costs. I think you mentioned on the P&L about € (61) million. Could you do the same thing for the cash flow statement? I think it's a bit higher than that. But if you can confirm that? And also, how much is related to Cytec? I think you have mentioned at the point that it was about € (75) million integration costs. If you could put that into perspective with the Q1 outflow. That would be good.

The second question regards Cytec EBITDA. I think Jean Pierre you said that, or Karim said that, the EBITDA Cytec that you don't provide for Q1. And I understand why. It was basically growing. It has grown year on year. Could you confirm that? And how do you see the movement between a bit slower composite market versus the saving synergies? In one word, how do you see the outperformance of EBITDA on Cytec versus the € 381 million last year moving during the year? We should see clearly the synergies but off by some volumes. If you could comment on that, it would be nice to get the profile of EBITDA from Cytec?

The third one very quickly. The PPS Ryton, could you comment on where you are in terms of getting the margins back to sort of Specialty Polymers average?

And finally, Soda Ash, could you comment on the impact on the EBITDA and on the Egypt shutdown? Is there anything to expect from the measures you're taking there in terms of cash flow generation? Thanks.

Jean Pierre Clamadieu: I'll take the last three questions and Karim will comment on restructuring. So, on – and I will take them in reverse order – Soda ash Egypt, the reason why we shut down the production in Egypt is clearly the competivity was not there. We think that we have the ability to serve a number of our customers, if not all from our current operations in Europe. So, particularly, the impact is positive, but not something that is so visible that it would change your model. But we are dealing with what was our weak point in our set up in – I would say – in Europe and the neighboring countries. And I will put Egypt in this situation. By the way, this is in the context of some capacity probably available at the end of 2017 in Turkey. So, it makes a lot of sense to do this.

Analyst E: So, do you think it's temporary? Or, it could last a bit longer than expected?

Jean Pierre Clamadieu: We said mothballing, but I think we would need to see very different conditions to be able to restart this plan. So, I don't think it's something which could happen sooner.

Analyst E: OK.

Jean Pierre Clamadieu: So, you should probably expect that in the next few years, there won't be any production in this plant. Again, one not a very pleasant thing to do, but it's something we have to do to make sure that we could maintain our current position in this part of the world.

PPS is going very well. I mean, both in terms of margin and in terms of volumes. We have not fully solved the production issues that Chevron Phillips had, but we are making a very significant progress. And clearly, this is improving our position in the automotive sector. So, the acquisition overall is very far ahead of the business plan that we had. And, the question in terms of margin is probably not anymore the key one. I mean, we have a profitability which is good. And again, we've been able to produce more and the market is ready to take more. So, that's good.

On Cytec, your question was a little bit complex because we have not set very specific expectations on Cytec per se, which by the way does not make a lot of sense today for us, because Cytec is a combination of two GBUs plus functional and shared service costs. But if I can try to reassure you, and again, if I'm not giving you the reference, I'm not sure it's that useful, but yes, we think that the strong dynamic we see on synergy delivery is probably stronger than the smaller issues we could be facing in terms of actual volume growth in some segments. So, the dynamic is very good, and as far as I'm concerned, I expect to end 2016 a little bit higher than the business plan we had in mind when we decided to move on this target. Restructuring costs and cash costs, Karim?

Karim Hajjar: I'll do that. Fundamentally, P&L and cash track one another pretty close on the restructuring line. So, I don't anticipate huge movements from one quarter to another or differences. And I'll start where Jean Pierre left off, which is Cytec restructuring costs. You recall that we completed – we closed the deal in the last December, and we took very prompt action. So, let me start by reminding you that last year we had restructuring costs in relation to Cytec of about € (12) million from memory. This quarter there's again roughly the same amount. We also have part of the € (61) million referred to, some pretty big actions we've taken on our shared services, on the restructuring, because clearly, when we go through portfolio actions, particularly divestment, you end up with stranded costs. It's very important for us to remain competitive. So, that's again – Let's say that the tail end of portfolio evolution is to take action on the corporate and shared services. That number was nearly € (40) million in this quarter as well separately from Cytec. So, that will hopefully give you some color and some flavor of the sort of actions we're taking.

Analyst E: Yes, and for the following quarters, is that the same ramp up in terms of Cytec, do you think?

Karim Hajjar: I don't think it would be wise for us to comment. Because clearly we will deliver the € 100 million. Let me start there. If we find ways of doing it even quicker, whatever, we're not going to hesitate. So, what I would say is we're not varying the € (75) million guidance done previously. If we can get there for less costs, of course, we will. If we're to invest more and to deliver more, we also will. But for now, we raised the bar to the 100 million. But we're not raising the cost of restructuring. But you can expect the bulk of the costs to go down this year with a residual for next year as well.

Analyst E: OK.

Karim Hajjar: Next year is about how we're thinking in the full run rate into our bottom line.

Analyst E: Thanks Karim.

Jean Pierre Clamadieu: The next question?

Operator: Your next question comes from Analyst F. Please go ahead.

Jean Pierre Clamadieu: Hey.

Analyst F: Hello and good morning. I'm sorry to insist, actually, I have one additional question. I'm sorry to insist on cash. But I wanted to...

Jean Pierre Clamadieu: It’s good. I mean, we are very much focused on cash flow, Nathalie.

Analyst F: I know, but one more question, actually – I'm just trying to adjust the sustainability of the positive cash in Q1. I agree that Q4 '14 was an overachievement, and as such, Q1 '15 was actually kind of an easy comp, but when you look at working capital, that's still a reduction of 50% working capital investment compared to last year the same period. So, I was wondering by what business unit was this driven? And how sustainable is that one?

Karim Hajjar: Sure, I think it's a very important question Nathalie. But let me describe it this way. We've reaffirmed our confidence. We'll get to the € 650 million. We're trying to reduce the seasonal big fluctuations seen in the past. So, some of the actions that we've taken in Q1 will possibly have a bit of an impact on Q2 as well. What I can expect is the cash flow profile of Solvay will also be second half rated; which again is normal, seasonal trading factored in. What we're trying to avoid is the major fluctuations we've seen in the first and second quarter of the year. And it goes beyond one or two GBUs. Generally, the progress that I see is very broad-based. I've talked about receivables. I'm seeing a very strong progress on our payables. Inventory is very tough to move and really impact, but there are small opportunities that are evident, and people are progressing. But no one business stands out as an outlier of, let's say, stellar performance. It's broad-based. To our view it’s absolutely sustainable.

Analyst F: All right, so if I could just state it differently. We can expect then a higher cash offering in Q2 then. So, it's going to be more or less regular over the years?

Karim Hajjar: I would say the first half should be better than the first half last year. I have a slight hesitation. We need to really understand what the two legacy Cytec business, Composite Materials and Technology Solutions, will need, because our goal is to make sure that they have the resources to achieve the earnings growth. And if, let's say, investing a bit more inventory, or whatever way they want to do that, that's exactly what we'll do, provided we have our, you know, our capacity to deliver the € 650 million. So, broadly speaking, yes, the first half will be better year on year. But it will still be back ended, which is normal actually.

Analyst F: All right, and it will be the same for cash, of course?

Karim Hajjar: Yes, of course.

Analyst F: OK, great, and thank you.

Karim Hajjar: Q4 will always be very strong.

Operator: Your next question comes from Analyst G. Please go ahead.

Analyst G : Thank you very much just one question at this point. I just wanted to get a bit more detail. Jean Pierre, you said the mix effects. I'm sorry to paraphrase. But I just wanted your words. But you said the mix effects would be a bit more balanced maybe for a couple of years. I was wondering in the aerospace business, obviously formerly of Cytec. You know, is there a point? Could you – could you clarify that?

I was hoping that the mix effects, i.e. although, the the aerospace build out might be a bit weaker. But the increased value of new components, you know, it would be that much stronger that we'd already be seeing in 2016 a much more compelling kind of value opportunity for the aerospace business. Could you just clarify, how that pipeline is going to progress in your mind's eye? Thank you.

Jean Pierre Clamadieu: Maybe I was not clear enough. I mean, what I'm talking about are really small hiccups which create a bit of volatility in the growth expectation.

I mean, you've seen and you've heard Airbus a few days ago making a comment on the fact that they had to reduce a bit the production rate of the Airbus 320neo because of some issues with some engines.

We knew that Boeing had made some plans that sales of the 777 are a little bit slow because they are about to launch 777X so they are all hiccups that we see.

But again, we expect solid growth in this segment. And we think that this will be visible, and this will be visible in the next few years without any question.

Again, don't expect the quarter-on-quarter very regular volume growth, because there are some adjustments. I think that Airbus made the overall comment that their own growth will be back end loaded in 2016.

So, we are not in a situation where everything is quite that simple. We think that the opportunities are very significant.

But yes, there are some hiccups especially as new planes are being built and as airline – or commercial jet users need to put the new supply chain fully in place.

Analyst G : So this business should deliver the kind of EBITDA expansion in line with the overall group outlook for 2016?

Jean Pierre Clamadieu: That's our expectation, yes. Karim, do you want to add something?

Karim Hajjar: Yes, and let's go back to the previous questions on cash and just maybe referring to page 27 and just say one comment. Our working capital as a proportion of a sales was 17.5 percent at the end of the quarter.

If you take it out the impact of the Inovyn receivable, we have 14.5 percent. So, if your question is, do we believe 14.5 percent is at sustainable level of working capital intensity? Our answer is yes.

When I look at our past, absolutely, it's the right level. And it's manageable.

Jean Pierre Clamadieu: So, thank you Karim for that explanation. I think we'll take the next two questions and then we'll have to stop.

Operator: Thank you. The next question comes from Analyst H. Please go ahead.

Analyst H : Yes thanks, I also have a few questions. The tax rating we saw down to 29 percent from 31 percent. Your guidance is for the low 30s going forward. What is the reason for that rising tax rate? Is it a mix effect that you expect?

A recent shift of earnings in the second half or more earnings coming from the U.S.? That will be our first one.

The second is on potential restocking. You mentioned soda ash, a strong business in March. Was there other restocking in performance chemicals, excluding soda ash as well as also in functional polymers in March?

And did that restocking momentum continue in April? That's my second. And the third one, just a clarification question on Cytec. If you exclude Euro ten million synergies the first quarter, did EBITDA of Cytec go up? Or, it was flat? Or, it went down?

Jean Pierre Clamadieu: On your last question, to give you a simple answer. Soda ash restocking I think it's a bit of an exaggeration.

The year started slowly. But March was a good quarter. By the way this is more or less what we see every year. For various reasons, March is always the strong month of the first quarter.

And yes, today, we see a satisfactory momentum in the two businesses, or the segments that you've mentioned. And peroxide or or Acetow, I don't see.

I just see business developing from a strong position in peroxide from a situation where we were facing some challenges in Acetow. But again, no reason to think that March was an exceptionally good month.

It was again the strongest month of the first quarter. But that's more or less a permanent feature. Our view regarding the beginning of Q2 is the continuation of a rather positive trend on these two segments.

Karim Hajjar: To your first question, Martin, on tax; and maybe just start with reminding you that the mid to low 30s guidance we first gave in November 2013. The portfolio, it was different at that time.

Month in and month out, we trended and tracked below at the lower end of that guidance. This is the first quarter we're in the high twenties. We’re at 29%.

So the real question for me, it becomes less around the way you framed it. But more is it 29 percent sustainable? And I would say too soon to tell.

Mid to low 30’s now looks pretty conservative. I want to see and study this a little more carefully because we come back in September with a clearer view largely because we acquired the U.S. set of profit pools. And as you know, the U.S. profits are taxed in the 30’s.

So, if you look at the combination of impact, and look at all of the risks, all of the legacy opportunities; and then, come back with a view. I do feel that low 30’s will prove to be conservative. But let's take a few more months before we can confirm that and give you something more definitive.

Analyst H : Thank you.

Jean Pierre Clamadieu: Maybe we'll take the last question now?

Operator: Your next question comes from Analyst I. Please go ahead.

Analyst I: Yes, hi there, and good afternoon, and just one left. Could you explain the effect of inventory revaluations on your adjustment on the gross cost line, please?

I think there's around EUR82 million of adjustments made relating to an inventory step up. I understand that's a result of different treatments of inventory under US GAAP, and IFRS.

But given that Cytec reported first in and first out accounting already, I was just wondering why that effect is so large? And how should we think about that effect going forward? Thank you.

Jean Pierre Clamadieu: Well, that's a question for Karim, obviously.

Karim Hajjar: It is. Accounting regulations require you to fair value the assets of the business you acquire when you acquire them. That requires us to recognize the fair value of the stocks and the inventories that came with the Cytec businesses.

If one did not make a PPA adjustment, you would basically be trading those inventories at zero profit or loss, by definition. That would create a distortion.

So, to avoid that distortion of zero profit, one has that PPA adjustment from the inventories. Absolutely common practice in all of the examples that I have ever seen in M&A.

The question then becomes what do we expect going forward? I think clearly as these inventory levels get worked through the system, the impact on the inventory related PPA adjustment will absolutely diminish over time. During the course of this year you'll see that become pretty modest.

Jean Pierre Clamadieu: Thank you very much, Karim. This was the last question. Just a couple of words to conclude with this call.

Again, for me, a good set of results for this first quarter of 2016. Record margins, and profit growth, better cash, and this despite a couple of challenges involving mostly smart devices, and still oil and gas.

Overall, very much in line with the expectations that we've shared with you some months ago. Cytec integration, which is clearly our top priority, not the only, but our top priority here, integration is going very well, and much faster than we expected. Business is already integrated.

Corporate is being taken care of. We are delivering on our synergies. And we have increased our synergy targets. So now the challenge is both on some shared service integration but also with topline growth, where we are – we have high ambition and we want to make sure that we deliver on this ambition. And overall, we reconfirm our profit growth guidance and cash generation improvement for the full year.

So, with that, I'll just remind you that we have our shareholder meeting next week on May 10th. And we'll talk to each other again on July 29th – on our Q2 Results call. Thank you very much for your participation.

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

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