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Speakers: Jean-Pierre Clamadieu and Karim Hajjar

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Operator: Ladies and gentlemen, welcome to Solvay's third quarter 2016 earnings conference call for analysts and investors. I am pleased to present Mr Jean-Pierre Clamadieu, CEO, and Mr Karim Hajjar, CFO. For the first part of this call, let me remind you that all participants will be in a listen-only mode, and afterwards there will be a question and answer session. Gentlemen, please begin.

Jean-Pierre Clamadieu: Hello, everyone. Thank you for joining our Q3 2016 results call. I'm here also with Karim Hajjar and Kimberly, who is joining us for the first time. Welcome, Kimberly. As usual, I will cover in a few minutes what I think are the key highlights regarding our performance, and then turn to Karim and come back with a conclusion. We'll try to make it as effective as possible to leave as much time as possible for questions.

So, we think that we've been able to produce once again a solid set of results, despite the fact that some of our markets are seeing some headwinds, as you all know. I think we are very much delivering as planned and very much within the framework of what we covered during our capital markets day some weeks ago. 6% EBITDA growth. A record margin of 23%, which looks reasonably strong in comparison with the other players in the chemical space. This is due to the ongoing success of our excellence programme. We are, throughout the company, continuing to focus very much on identifying and putting in place action plans leading to improvement. Pricing power: it's the 11th consecutive quarter in which we've been able to achieve a positive balance between the impact of our selling prices and the impact of our raw material and energy costs. I think it's something which clearly shows the strength of our market position, and the fact that our teams, either in an inflationary or deflationary environment, are indeed focusing on pricing power. And this has a strong contribution to our margins.

Focus also on synergies delivery: €21 million in Q3. This is linked to the Cytec integration. €45 million year-to-date, so very much in line with what we shared at the capital markets day, and one of the reasons why we are confident that we will exceed significantly the amount of synergies that we have announced when we announced the transaction back in July 2015.

Good cash generation; we had set the bar pretty high for 2016, as far as cash generation is concerned. €280 million of free cash flow in Q3. Significant improvement versus last year, and cumulated indeed a very good performance, very much in line with full-year guidance. And looking forward, we think that we are indeed well positioned to deliver double-digit EBITDA growth in Q4, leading to a 7 to 8% EBITDA growth for the whole year.

If we look at various markets, probably little surprises, but let me just cover with you some of what we've been seeing. Some headwinds; first one on smart devices. So, the market is up sequentially significantly. This is linked to new product launches. But not at the level that we've seen last year; what we are seeing in this market is a change of behaviour in our customers. We used to see a situation where people were building up very significant inventories ahead of the launch of a new product; what we are seeing today is a much more regular production rate. Overall, I don't expect to see significant differences, but it's true that the sequence is a bit different. We don't have this big bump in Q3. But we expect to see continuing strength in this segment for the next quarters.

Speciality polymers was able to deliver significant growth in other markets, which means that overall this business was significantly up. Healthcare, consumer goods are doing very well; automotive market; and once again, battery, which is turning into a very significant growth driver for our advanced materials business.

Composites: we have seen growth in new aircraft, but not yet offsetting the decline in legacy civil aircraft. This is the challenging transition that our customers are facing from the A320, Boeing 737 to the new versions, neo and MAX. We are also seeing some decline in the 777, as customers are waiting for the new planes, the 777X. So, mid-term, good news for us, because these new planes have much more composite content than the previous versions, but again a transition which is probably a little bit more difficult than some people were expecting. And we are continuing to see the start-up, and hopefully the beginning of a significant success story, both on the LEAP engine and the F35 US jet fighter. But we are just at the beginning of a significant ramp-up in production schedules.

Oil and gas remains weak, although the situation is a little bit different if you look at it sequentially or if you look at it compared to the same quarter of last year. We are significantly below Q3 2015 level, but we are seeing the market strengthening from one quarter to the next. The rig count in North America is increasing. We see more and more activities on the ground, and this gives us confidence that we have seen the worst in this market and that we should expect a slow recovery looking forward. Other markets in our formulations business are indeed growing, although compared to the same quarter the oil and gas impact is significant.

Mining remains resilient, with a very good performance. We've seen a modest growth overall, but at a very high level of performance in our phosphorus and phosphine business. Good demand for soda ash, double-digit growth in bicarbonate, mostly linked to the fact that our new plant in Thailand is now operating at a high rate. And the other businesses: peroxides, Acetow stable; polyamide showing some improvement.

Against this changing backdrop, we've delivered earning growth, and Karim will share the key highlights in a minute. Just maybe a couple more words to highlight the fact that we are continuing to work on portfolio transformation; probably not much specific news that we can share with you at this point in time, but clearly improving the quality of our portfolio is very high on my agenda, and it's a subject on which our teams are continuing to work very actively.

In terms of new capacity start-ups: our hydrogen peroxide capacity in China is now operational within the conditions that we were expecting. I was just in Korea last week to inaugurate a new highly dispersible silica plant; a very nice plant, probably state of the art, and it will soon become a benchmark for us. But we are in the part of the process where our customers are approving our products. We will take some months to benefit from the new capacity that this plant will bring.

In Germany, we have also expanded production for the LEAP engine. This is composite. There too we need to have customer approval, and it will take some months before the plant is indeed able to deliver on production product for our customers.

And regarding the very large H_2O_2 plant in Sadara: the Sadara project is completed in terms of construction and mechanical completion. So, now we are starting to see the beginning of the start-up of this very, very large complex. And we expect to see the benefit of our operations there in 2017.

Well, in a nutshell, I guess we are really delivering according to the strategy that we've shared with you during our capital markets day, and I would like to turn to Karim to give you a bit more colour on these results.

Karim Hajjar: Okay, thank you. As usual, the numbers I am going to discuss are on an underlying basis, and I am going to refer to certain slides that are available on our website. And let me start with the top line. If you turn to slide 9 and look at our sales, Jean-Pierre's given you the context, and I'd just like to summarise the key points. Volumes are down 3%; that is a fact. You are aware – Jean-Pierre's highlighted the impact of smart devices, oil and gas. And also, the aerospace, this transition we're experiencing in civil large commercial transport; that's on the weighing side. On the plus side – which doesn't do enough to compensate – we're seeing growth in a number of markets. Automotive, where we've seen good demand for our products that are using lithium-ion batteries, catalysts for emission controls, agro, home and personal care, industrial, healthcare. So, strong growth as well in many other markets, but not enough to overcome the headwinds that Jean-Pierre alluded to.

Prices are down 3%. Not a surprise, as you know well that in a deflationary environment we do have a pass-through to certain key customers, and we see that in particular in polyamides and Coatis, as well as some aspects in oil and gas as well.

Now, if we turn to the EBITDA, and I will give a bit more colour as well on page 10. The key headlines, you're familiar with: record margin, 6% up. What has driven it? Let me start with advanced materials. Speciality polymers saw double-digit growth in healthcare and consumer goods, and in batteries for auto. But as I said before, that hasn't been enough to offset the very significant sales decline in smart devices. Remember, this was against last year's record sales. And all we need to do is look at the some of the key players in the market to see what they're saying as well. So, that shouldn't be a surprise, but that has had quite a significant impact.

Composites has delivered sales growth of composite materials into the new aircraft, but that growth has not been at the level to offset the declines of the legacy wide-body civil aircraft. To give you examples: generally, you need to note that the aerospace supply chain tends to anticipate announcement by manufacturers well before they're publicly announced. We've seen a continued decline in the wide-body civil aircraft: the Boeing 747-8, the 777, the A380, even the A330. That hasn't compensated for the growth in the single-aisle: the A320, the 737; or the growth in the LEAP engine, or the ramp-up in the Joint Strike Fighter. So, we are in a period of transition. One thing I'd like to highlight is we are maintaining our leading position. There has been no share loss in Solvay's positions, and that is important. And we are positioned to respond to our customers' needs, as ramp-up rates pick up.

Advanced formulations are down 12%. We are very pleased that we managed to maintain our EBITDA margins stable at 18%. Oil and gas, you won't be surprised. It's pleasing to see the rig count in North America go up from a low point of about 480 in May to just over 680 at the end of October. But that hasn't yet translated into a marked increase in demand. What I will say, though, is against last year that has weighed on our results, and it masks high-single-digit growth in agro, HPC and in other industrial end markets. Mining: Jean-Pierre has highlighted the sales growth in phosphorous and phosphine chemistries. The underlying business is stable; it is resilient.

Turning to performance chemicals: what do we see? We see margin expansion to 29%, with EBITDA up 4%. Bicarbonate did perform well, and one of the factors there absolutely is the ramp-up of the new plant in Thailand. It's good to see that the investments we're making are beginning to contribute to our bottom line. Operational excellence is another factor that has really contributed to the improvement there, as it has in functional polymers. That has seen a 25% EBITDA improvement and a margin expansion to 17%.

Corporate costs have reduced significantly, and what does that reflect? It reflects synergies, excellence, and some phasing where we've essentially deferred and delayed some of the programmes to next year. To make it easy, to give you an indication, the annual future run rate based on our current portfolio is of the order of €220 million a year. That represents about 15% less than the equivalent run rate in 2015. And that's where the synergies and the excellence really kicks in.

How has that profit generation converted into cash? So, if we turn to page 14, you'll see that we have improved our cash conversion to 66% so far this year. That is a strong performance. And that has also translated with working capital discipline to strong cash flow, that you can see highlighted on page 15.

So, what are the key points? One, as Jean-Pierre mentioned: €280 million represents the cash flow we generated this year, which was €35 million higher than last year. That doesn't really tell you the full story. If you look at it on a cumulative basis, you will note two things: cumulative cash flow €464 million, which is €380 million higher than the same period last year. That is the performance that has given us the conviction, the confidence that we can absolutely up our minimum target from €650 million to more than €700 million this year.

As a result of the strong cash flow – if you turn to slide 15, our net debt – our net debt has fallen by €500 million in the quarter. Part of it comes from the strong cash flow. The other part, as you know, is the proceeds from the accelerated exit on INOVYN. So, in short: strong performance, strong profit growth, very strong cash conversion, and we now see the impact and the benefit of that on our indebtedness.

Now, just one other comment before I hand you back to Jean-Pierre. I would like to remind you that certain key non-financial indicators are really worth taking into account when one assesses performance and real sustainable value creation. Looking forward we will, as appropriate, include and discuss such indicators with you when we publish future results as well.

I now turn you back to Jean-Pierre for a few remarks before we go on to the Q&A.

Jean-Pierre Clamadieu: Thank you very much, Karim. So, I think overall we've delivered good results in a challenging market environment. I think this illustrates the diversity and the quality of our portfolio, and the fact that, indeed, our teams have been focusing very much on excellence initiatives and cost and synergies and delivery. We expect additional synergies coming from the integration of Cytec, the continuation of our excellence programme and new capacity addition that supports our volume growth.

Combined with what we've achieved in the first nine months of the year, our expectation is to generate, overall, 7–8% EBITDA growth for the full year 2016, which is within the range of our prior guidance. And once again, no reason to make any further comment on the mid-term objective that we have shared with you in September. Obviously, we are very confident that we'll be able to deliver on these objectives.

And with that, I would like to open the Q&A session.

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

The first question is coming from Thomas Wrigglesworth, Citi. Sir, please go ahead.

Thomas Wrigglesworth: Good morning, Thomas Wrigglesworth from Citi. Two questions if I may.

Jean-Pierre Clamadieu: Hello, Thomas.

Thomas Wrigglesworth: The first question is with regards to the advanced materials business: can you give us some idea of the kind of visibility that you have in the order books? And specifically, how much contribution was there in the third quarter from the LEAP engine from the new US PEEK plant, and how do you see that evolving through 2017?

And the second question, if I may: fixed costs reduction jumped in the third quarter to €38 million according to your EBITDA bridge. How does that split across the divisions, or is that all in the other division? And is this the synergies of the €50 million of synergies targeted for 2016 from Cytec coming through? How much of that €38 million is from that target synergies? Thank you.

Jean-Pierre Clamadieu: Thank you. I will let Karim answer the second question. On the first one, visibility is – I mean, first, our performance is really linked to specific programmes at our customers. This is true for smart devices, this is true, obviously, for our aerospace programme. Overall, I would say our visibility or forecast accuracy of our customers gives us, I would say, a few months – probably a couple of quarters of visibility.

Regarding the LEAP engine: today it's still at the very beginning of its production, so I would say it's not material when I look at the cluster. And US PEEK plant is just starting the qualification batches, so don't expect any meaningful contribution from this plant before 2017.

Karim Hajjar: And Thomas, turning to your question on the fixed cost reduction €38 million: you see it in two places. We see it in advanced materials, predominantly, and in corporate in equal measure. And the other point to your questions on the synergies: yes, essentially the synergies this quarter are €20 million. The cumulative synergies from Cytec so far this year are €45 million. That is predominantly fixed, but there are some variable cost improvements as well there.

Thomas Wrigglesworth: Okay, brilliant. Thank you both very much.

Operator: Thank you. The next question is coming from Peter Mackey, Exane BNP Paribas. Please go ahead, sir.

Peter Mackey: Afternoon, all. Three questions, if I can, please. Firstly, just to follow up on Tom's question there, regarding the composites business: when are you expecting the inflection point to kick in? When do you think that LEAP, the Joint Strike Fighter and so on, are going to start to accelerate and begin to offset the issues in commercial aerospace, please?

Secondly, on performance chemicals: just from the divisional perspective in total, what was the source of the negative pricing in the third quarter? Down 4%. That seemed to – certainly surprised me.

And then finally, in functional polymers, I guess a two-part question. Are the electricity outages at Vinythai – were they a one-off effect, or were they an ongoing issue? And the step-up in margin that we saw in functional polymers, is that partly a mix effect relating to Vinythai, or is it just that a balance of pricing and input costs in polyamide? Thanks very much.

Jean-Pierre Clamadieu: Thank you. I'll take the first question, and Karim will answer on the performance and functional. Regarding composite, we have a bit of a complex equation with a number of moving parts. First, in terms of large commercial aircraft, single aisle: we are seeing that movement from the A320 to the neo version; same thing with Boeing. And we are hearing some comments from our customers that they are facing some challenges, which explains that the ramp-up is probably a little bit slower than expected, but it's happening. I mean, the production rate of the new planes should soon be back where our customers expected them to be.

Larger aircraft, the transition will happen with the launch of the 777X. You remember that we've signed an agreement with Boeing to be a supplier not just of secondary structure, but also part of the primary structure. The plane is supposed to fly in 2019, and production will start then.

We have new programmes starting up, LEAP and the F35. It's a very multi-decade programme. They are just at the beginning of their lives, and we expect to see significant increase in production rate in the next few years.

So, taking all of that in consideration, I would say that we expect the inflection point to be somewhere during the latter part of 2017, although again it's probably a little bit premature to give too precise of an indication. But in the first part of 2017, we expect to continue to see the phenomena that I have just mentioned continuing to apply.

On top of that, you have to take into account also the other, the non-aerospace composite. There we've done a bit of clean-up in the business. There were a lot of actions taken by the team to improve the profitability, to bring new customers in, and this clearly will play a positive role in 2017.

Peter Mackey: Okay. I just wanted to come back on the smaller aircraft, or the single-aisle aircraft. The key one to you, I think, is the 737 MAX, is it not? Just to check that in my mind. The A320neo is a smaller income to you?

Jean-Pierre Clamadieu: Yeah, a bit smaller as we speak, yes.

Peter Mackey: Right. But the LEAP engine is a positive part of the 320, is that right?

Jean-Pierre Clamadieu: No, yeah. That's why your question is a bit complex, because the LEAP engine will be the only engine for the Boeing 737. It will represent around half of the A320. But on top of that, we have also some components in the secondary structure of both airplanes.

Peter Mackey: Right.

Jean-Pierre Clamadieu: But we have a lot of – just expanding a little bit – we are very confident that, indeed, composite will be a growth engine for us. We are very confident that we are well positioned in aerospace on a number of programmes. We are certainly not losing market share. On the contrary, we see a situation where, as we did with the 777X announcement a few months ago, we are gaining shares into new types of application. LEAP engine is also a great success story. So overall, very positive on the opportunities that composite will have in front of itself. But yes, currently we are in a situation where there's a lot of moving parts due to the transition from older, less-composite containing aircraft to newer aircraft with a much larger content in composite. And this is the challenge that the aerospace industry is facing, and their suppliers of the composite at the same time.

Karim, on the two others?

Karim Hajjar: Yeah. Turning to your second question, Peter, on performance chemicals: I note your relative surprise at how modest the pricing power was. The main reason is Coatis; we see margins squeezed and a lower growth in the commodity environment that we're in today, that's the main factor. There is some weakness in Acetow and some mix affecting soda ash and peroxide, but nothing substantial. Partially mitigated by continued focus on excellence, and obviously fixed costs, which is what's helped us to both expand our margins and our earnings in this segment.

Your third question, it was quite long. Can you maybe just summarise and repeat it?

Peter Mackey: Yes, I will. Sorry for the length. You mentioned electricity outages in Vinythai, and I just wanted to know if they were one-off and done and dusted, or whether that's an ongoing issue? And then, whether had any impact on – or contributory factor to the step-up in margin in polyamide – I'm sorry, in functional polymers.

Karim Hajjar: Okay. I think it was of a temporary nature, rather than a structural, permanent one. That's the first thing. It wasn't hugely impactful, and did not contribute in any way to the polyamide business, which has really advanced very strongly, both in terms of volumes and, again, excellence. The team there is really delivering strong results, which we can now see very, very clearly.

Peter Mackey: Thank you very much.

Karim Hajjar: Thank you.

Operator: The next question is coming from Martin Flueckiger, Kepler Cheuvreux. Sir, please go ahead.

Martin Flueckiger: Yes, thanks for taking three questions. Firstly, on tax rate. On Q3, the underlying tax rate was relatively low, below 25%. The reported tax was even lower. Can you help me to understand where this low tax rate is coming from?

Secondly is on pensions, on slide 28 in your handout. You talked about a balance sheet impact. I would like to go one step further on the potential P&L impact next year: is there any risk that these cuts in discount rates will lead to higher interest costs for pension provisions in 2017, lifting personal costs in 2017 and thus burden EBIT? And if so, can you tell us the earnings sensitivity on these costs when discount rates are changed? And to what extent do you think that discount rates will be down next year versus this year?

And the final question, on smart devices: are you excepted from the current problems of Samsung with their newest Galaxy Note 7 product? Thanks.

Jean-Pierre Clamadieu: I'll take the last one, and I will let Karim prepare for the first ones. No, I mean, we are a supplier of components for batteries across the board, so I don't want to be more specific on which product goes in which application. Do we have any worries linked to the Samsung situation? Not at all.

Karim Hajjar: Okay, let me take your other two questions. I'll start with tax. The key headlines are as follows: the underlying tax rate is really the figure to watch for, and you see it at 28%. What we indicated a year ago was low- to mid-30s, and in September at the capital markets day we indicated around 30%. This, to our mind, is very much in line with what we were expecting.

When you look at reported tax rate, you get some distortion sometimes because of exceptional movements, portfolio impacts, etc. So, I would encourage you to focus on the underlying. And if I look at our benchmarks, our companies we're compared to, we see 22–29%. So, to my mind we're absolutely in the right zone. And we're absolutely responding to our responsibilities.

Pensions: quite a few things. You also asked for a view on discount rates, which obviously I can't give. Let me start with the sensitivity. On page 31 in the slide deck, you will see a sensitivity of 50 basis points on the balance sheet, which gives you €370 million. In this quarter, we've already seen a ramp-up in our balance sheet of €0.2 billion because of discount rates again. So, you can formulate your own expectations and do a 'what if'.

What you also are correct in saying is, depending what you assume, you can anticipate I'd say a modest P&L and, to an even lesser extent, cash impact. At current lower discount rates, I anticipate both to be in the order of €10–20 million more than we've had historically; in other words, well within the tolerance of our forecast, and very much part of our expectations that we integrated when we talked to you guys in the capital markets day in September.

Martin Flueckiger: Again, on tax rate: so 28–29%, this is the tax rate underlying going forward as well?

Karim Hajjar: The guidance we've given is around 30%, because it really does depend on the incidence on our profit between the different jurisdictions. But it's a good enough indicator. Around 30% is the best guidance I can give you.

Martin Flueckiger: Okay, thanks.

Karim Hajjar: 28% is good.

Operator: Thank you. The next question is coming from Paul Walsh, Morgan Stanley. Please go ahead, sir.

Paul Walsh: Thanks very much. Afternoon Jean-Pierre, Karim. Thanks for taking my questions.

Jean-Pierre Clamadieu: Hello.

Paul Walsh: I wanted – sorry to come back to the composites business; I promise the other two questions are not on composites: what's taken you more by surprise in the composites business so far? Is it the pace with which older platforms have dropped off, or is it the slower than expected ramp of new platforms? And just thinking about it from the modelling perspective: the negative 14 number that you posted in Q3, is that the sort of run rate we should expect until you hit the easier comps in the back half of next year and we get back to growth? That's the first question.

Second question would be around Acetow, simple one: are the margins in Acetow still above the average for performance chems?

And then final question: are you seeing any slowdown in activity in the automotive-related sectors at this stage, or is it a market that's still going strong? It's just that we've seen one or two more, I guess, concerning developments in automotive in terms of production schedules and so on recently, and I'm just wondering if anyone's seen that in their business yet? Thank you.

Jean-Pierre Clamadieu: Well, starting with your last question on automotive: no, I mean, we don't see any slowdown, because our technologies are still gaining market share. This is true with the internal combustion engine technologies; this is even more true with the development – I would say the quite fast development – of electric or hybrid vehicles. On the first part, internal combustion engine, we are continuing to see the development in the use of advanced polymers in many mechanical parts around the engine or within the engine compartment. And this gives us some tailwinds, so overall a satisfactory position. And for us, the amount of product we can put on an electric vehicle is significantly higher, as we've presented during the capital markets day, than what we do on an internal combustion engine. So, the fact that electric vehicles are becoming a reality, and we expect this year a very significant increase and next year should continue on the same trend, this clearly opens up opportunities for us in automotive. And battery, and battery for automotive, is likely to be the next big growth driver for our advanced material, and especially speciality polymer business.

On your first question, I have to be modest: we are a bit new to the aerospace segment, so I think we've been surprised a little bit by both. But we are not the only one. Even guys who have been there for quite some time understand that we are facing a bit of a new situation, where there is a very significant number of changes from older planes into new ones, from older engine designs into new ones. And all of these create some uncertainties short-term. I think mid-term, all of this goes in the right direction, which is increasing very significantly the use of composite. But it's true that at this point of time we see the OEMs working very hard to make sure that they put in place the production capabilities for the new planes and, at the same time, especially for wide bodies, continue to sell the existing ones. I'm thinking of a transition between 777 and 777X. So, we are learning the specifics of this new segment, and again, no big changes in our mid-term view but, yes, short-term a bit more disruption than what we were probably expecting some months ago.

Acetow, Karim?

Karim Hajjar: Yes, maybe just the headlines in Acetow. The business performance dynamic is this: flat volumes, some pressure on pricing, offset by strong performance in terms of operational excellence as well as fixed costs. The margin on the Acetow business I'd say is a positive contributor to the segment average of 29%, without going into too much detail. So, it's improving, it's doing well and in a demanding market environment.

Paul Walsh: And just one quick follow-up, guys, thank you very much for that. There's no risk of an asset impairment in Cytec given the slow growth rates, because you've just said, Jean-Pierre, the longer-term growth rates remain intact. So, presumably that's why –

Jean-Pierre Clamadieu: No, but guys, let's be reasonable on Cytec. What we are seeing on one hand is a little bit of a slower growth than what we would have been expecting, but much faster and more significant deliveries in synergies.

Paul Walsh: Yes.

Jean-Pierre Clamadieu: Don't worry about potential write-off; we are not at all talking about this. I mean, today we see a situation where again we have increased our target in synergies delivery. We have advanced our target as far as cash accretion is concerned. So overall, this is going well.

Paul Walsh: Very good, thank you very much.

Operator: Thank you. The next question is coming from Peter Clark, Société Générale. Please go ahead, sir.

Peter Clark: Yes, thank you. I've still got a few left, actually. Just on the pricing power, I think I asked this on Q2: the transactional impact in that – I know with the rolling contracts, you talk about a six- to nine-month delay – but just if it was still similar to Q2 in Q3, and when you expect that to wash out? I would presume by probably Q1, that pricing power help from transaction walks its way through.

And then on the silica business: just wondering if you're still getting a bit of pricing pressure, particularly in Asia, in that business?

Then finally, I know you don't want to expand on disposals and timing etc., but obviously we're seeing a peak of speculation again around us. I'm just wondering if you'd be –

Jean-Pierre Clamadieu: [Inaudible]. Okay.

Peter Clark: – if you'd be disappointed if nothing was announced, let's say, by the end of the year or very early next year? Thank you.

Jean-Pierre Clamadieu: Well, I like to move fast, so the sooner the better when it comes to being in a position to announce any decision. But again, we are not a forced seller of any asset. We know that there's a couple of situations where strategic movement could make sense. We are working very hard to make this possible, and as soon as we have some news, we'll be delighted to share it with you.

On silica pressure on prices: yes, but it's a business where we have long-term contracts, so the pressure comes when we renegotiate contracts. But then it's a discussion on prices, volumes, supply chain set-up which could be a good way to create value between us and our customers. So, overall I think it's a business where we have the ability to defend our margins medium-term.

For that, we need to continue to innovate. There are new sets of regulation coming regarding vehicle emissions in 2020 in Europe, which will call for more effective tyres, more fuel-efficient tyres, and this is pushing our customers to look for new formulations which could allow them to achieve that. So, that's an important subject for us in the next couple of years.

And we are also working very hard to improve our costs and competitive position on silica. I was mentioning that the new Korean silica unit is probably about to set a new benchmark in terms of cost, because we've put the best technologies we have on this new plant. And this will be a great opportunity to make progress on the other plants.

So overall, confident in our ability to continue to defend our margin in this business and to grow, but a lot of work to do to make sure that we can do so.

Karim Hajjar: On pricing power?

Jean-Pierre Clamadieu: Yes, Karim, on pricing power.

Karim Hajjar: Let me just give you an overview. It's very difficult to predict exactly what's going to happen. Partly because there are quite a few variables, as you know, that are completely outside of our immediate control: what competitors do, what happens to foreign exchanges, commodity prices. But here's what I can say: there are a number of levers we can influence; operational excellence, pricing, being really effective with our customers in the marketplace. And you've seen that for 11 quarters sequentially we've been creating positive pricing power. So, I can confirm that we intend to deploy every lever that we can, and to be effective in the marketplace. But let's see what time brings.

One thing I would highlight as well is, as we really evolve towards this multi-speciality portfolio, you can really see the quality of that pricing power and the EBITDA margin. The two go hand-in-hand. So, over time I think you can expect more of the same, particularly as the commodity feature of the portfolio diminishes in importance.

Jean-Pierre Clamadieu: No, and I would really like just to underline the fact that for the last years – and when I say years, it's probably four/five years – our teams have focused very much on pricing. And for us, prices before volumes has always been the key direction that we gave to our commercial teams. And I think the fact that we've been able for the past 11 quarters to show a positive price versus cost differential demonstrates the fact that, indeed, our teams are very focused on making sure that we sell our product at the right price. And then you have all the other levers and components that Karim has just mentioned. But from a cultural standpoint, what has happened within Solvay is really a strong focus on value and making sure that, indeed, we put price as a key objective for our commercial teams.

Peter Clark: Sure, sure. But obviously, if FX stays where it was today, with the change in the real against the ruble etc., you're probably looking at the help you've had from the FX side wash out early next year?

Karim Hajjar: I think it's fair to say it will diminish to a point.

Peter Clark: Okay.

Jean-Pierre Clamadieu: And again, it's very difficult to make a forecast.

Peter Clark: Sure.

Jean-Pierre Clamadieu: I can just remember that a lot of people expected the pricing power to reverse in Q2 or Q3, and it did not. So, we will continue to fight for it but, again, the equation is complex, especially in countries where we see currency movement.

Peter Clark: Okay.

Operator: Thank you. The next question is coming from Patrick Rafaisz, UBS. Please go ahead, sir.

Patrick Rafaisz: Yes, good afternoon, thank you. A couple of questions. First on corporate: can you give us a guidance for the fourth quarter? Will you again be well below the €70 million that we saw here, and will that therefore become a major driver of your double-digit EBITDA growth target for the fourth quarter? And also, can you maybe talk a bit about the phasing effects; what kind of projects were those, and how much of that was the synergy benefits?

Then secondly on Acetow, a quick follow-up. You talked a bit about the margin and pricing, but what are you seeing going forward? Because some of your competitors are talking about increasing pricing pressure also going forward. So, would you see margins declining there in Q4 and 2017? Thank you.

Jean-Pierre Clamadieu: I would say on Acetow, we are a bit more optimistic than our competitors. I was reading what they were saying, but we see a situation today where indeed we would expect to see improvements in the coming quarters. So, the difference of opinion is probably leading to a smaller exposure to China in our case, and a bit of a different customer mix.

Karim Hajjar: On your first question on corporate: I hope you understand I can't give you that specific guidance in that salami slice, but here's what I can tell you: corporate costs, excellent synergies will absolutely contributors, but we expect more of a supportive environment as well in terms of the comps last year being more helpful. That is how we will deliver the double-digit growth this year. So, as far as corporate costs going forward and the phasing element, the best indication I can give you is €10-20 million is probably the extent of the phasing, but there is a multitude of activities and programmes. To keep it short: every key function in Solvay has its excellence programmes, its roadmap and really looking to become more effective and lower cost. And that's very much part of the DNA in Solvay, not just in our sites, and that's what contributes to the strong performance. A lot of it is structural, sustainable and high quality.

Patrick Rafaisz: Thank you.

Jean-Pierre Clamadieu: Thank you.

Operator: Thank you. The next question is coming from Patrick Lambert, Raymond James. Please go ahead, sir. Mr Lambert, you have the floor.

Patrick Lambert: Yeah, hi. Sorry, good afternoon everybody. Can you hear me?

Jean-Pierre Clamadieu: Sure, very well.

Karim Hajjar: Yes.

Patrick Lambert: Good, thanks for taking my question. Again, first one on silica. Just to understand a bit better: you are basically down 12% year to date in top line. Could you mention about volumes and prices, and how quickly the Korea plant can invert that trend? First question.

Second question, on batteries: could you help us understand the – your exposure to batteries: is it the full impact of PVDF separators, but also the casing of batteries, which I think is also very important, in terms of flame retardancy? And if you can comment a bit more on where you play on batteries?

Third question, maybe I'll stop there and I'll come back.

Jean-Pierre Clamadieu: No, go ahead if you want.

Patrick Lambert: It's about seasonality in Q4, trying to – especially in the three big businesses: speciality polymers, oil and gas and aeronautics. Not very familiar with seasonality in aeronautics, so if you could comment where you see Q4 in terms of your typical seasonality for these three businesses, it will be nice, thanks.

Jean-Pierre Clamadieu: Which ones, again?

Patrick Lambert: The speciality polymers, and oil and gas chemicals.

Jean-Pierre Clamadieu: Okay.

Patrick Lambert: And aeronautics, yeah, composites.

Jean-Pierre Clamadieu: Well, I think the key issue in Q4 is linked to the fact that a number of industries are stopping production in the last week, or last two weeks of the quarter, so this could have an impact. But then it's compounded by the actual sales development, and in smart devices we would probably expect a rather strong Q4. I think on aerospace, I would not qualify this business as being seasonal. There could be, obviously, variation from one quarter to the next but, again, nothing which sounds like the seasonality that you would see in other, more commodity-type markets.

But again, a key driver for Q4 in terms of seasonality is the fact that a number of plants are being shut down during the last couple of weeks, and that the supply chain in a lot of industries is going to a low point at the end of December, so this is probably the most important event.

Patrick Lambert: Yeah.

Jean-Pierre Clamadieu: On silica, don't forget that there is a specific event which is the impact of the Venezuelan devaluation. We have, unfortunately, a plant in Venezuela which might not be the best country to operate today, and this has an impact of €5 million.

Regarding the impact of our Korean plant: I told you we are starting the product homologation. In silica, it takes several quarters to get this homologation, so I don't expect it to be a significant contributor before the end of 2017.

And there was a fifth, yeah?

Patrick Lambert: And batteries – yeah, batteries. Your exposure to batteries?

Jean-Pierre Clamadieu: Yeah, batteries, sorry. Yeah, mostly PVDF; casing in some cases, but mostly PVDF; that's really the bulk of our battery position today. But we are also working on some cathode components for different technologies, even electrolytes for some specific battery technologies. But if you look at the lithium-ion batteries which go into most of the automotive – most of the electric vehicle products, our main exposure is PVDF.

Patrick Lambert: Thank you.

Jean-Pierre Clamadieu: Thanks a lot.

Operator: Thank you. The next question is coming from Markus Mayer, Baader-Helvea. Sir, please go ahead.

Marcus Mayer: Yeah, good afternoon gentlemen. A couple of questions on my side. Firstly, on this price pressure you again reported on aroma performance. How long do you expect this to continue?

Secondly, on oil and gas chemicals: here – at least I hear more positive tone. Do you already see from the order backlog certain positive developments there?

Then, on functional polymers and the margin: how much is this margin inflated by raw material cost declines, and do you see this margin as sustainable going forward into 2017?

And then lastly, on the momentum going into Q4: what are the volumes you currently see in the fourth quarter? Is there anything specific to report? Thanks so much.

Jean-Pierre Clamadieu: I'm not sure I will remember all of your questions. So, oil and gas, indeed – but Karim will help me – oil and gas, indeed the tone is a little bit more positive. If you follow the recount in the US, you have seen some increases in the past months; rig increases, in fact, in the past months. We have seen significantly more activities on the ground, but people focusing on a relatively low-cost formulation when it comes to their fracking fluid, so it's something which creates significant opportunities for friction reducers, significant opportunities for the Chemplex business. These two businesses are coming from the Chemlogics acquisition, because at Chemplex we are preparing the formulation for our customers. Pressure is currently on guar, as guar is a rather expensive component which allows to make high-quality fracturing fluid, but in the current context people are really focusing on cost. I think we would need to see a higher oil price to see people ready to spend more on fracking.

But yes, the activity is increasing and this is good news. We have a feeling that the work is behind us; now we are pragmatic and reasonable when it comes to recovery. I'm not telling you that we are back to the 2014 numbers, I'm just telling you that we are starting to see a bit of an improvement.

Functional polymers, we are reasonably optimistic that we should be able to maintain the margin. It's one of these businesses where, indeed, the focus on pricing power is very important, combined with a number of excellence initiatives, so that's what we would expect.

Karim, I guess I missed the first question on aroma.

Karim Hajjar: Aroma performance pricing power. Essentially what we have there is – there is some pricing pressure. Volumes are holding up pretty reasonably in that business, and that's mainly in the vanillin and in the inhibitors business.

Marcus Mayer: And for how long do you expect this price pressure to continue, because you have seen this for quite a while? So, is there any specific competitor which is behaving irrationally, or…?

Karim Hajjar: I'd say it's difficult to predict what's going to happen. What I would say is we take a cautious view of the situation, and make sure we remain effective in that market environment; we're not banking on recovery.

Marcus Mayer: Okay.

Karim Hajjar: So, it's a competitive environment and we are leaders, as you know.

Marcus Mayer: And then the last question, the momentum going into the fourth quarter?

Jean-Pierre Clamadieu: Momentum is pretty good, taking into account what I've said, which is the fact that the fourth quarter is a bit of a shorter quarter than the other ones. I've just said in my introduction that we are expecting double-digit growth, which means that, indeed, compared to last year we see a profile which is a big difference, allowing us to achieve the 7–8% EBITDA growth over the full year. But the dynamic, I would say, is pretty good on smart devices, pretty good in auto and, again, from the top of my mind I would have difficulties to name a business where we would see a negative trend from Q3 to Q4. But again, Q4 tends to be two weeks shorter than the other quarters.

Marcus Mayer: Sure. Perfect, thanks.

Jean-Pierre Clamadieu: Maybe one last question, and we will conclude.

Operator: For the moment, sir, there are no further questions.

Jean-Pierre Clamadieu: Good, so I think it's time to conclude. Thank you very much for having participated in this call. I think, overall, we have demonstrated that the quality of our portfolio and the diversity that we have and the exposure to diverse segments allow us to deliver, despite the fact that we are feeling some headwinds in some markets. Some of these headwinds are probably likely to reduce in the next months: smart devices, oil and gas are probably going back to a more normal situation, which is good. But be assured that we will continue to focus very much on all the self-help action plans that we've been putting in place in past years. And this covers both excellence initiatives, which continue to be a very strong driver of improved performance for the company, but also the integration of Cytec; once again, very significant synergy delivery up until Q3 and for the full year, very much in line with our increased objective of €150 million of total synergies by 2018. Cash, indeed, is an important objective for the full year. We have delivered already for the first nine months a sizeable amount of free cash flow, and we have slightly upgraded our full-year guidance to at least €700 million of free cash flow.

So, with that, I would once again like to thank you, and we will talk again on February –

Karim Hajjar: 28th, 29th February.

Jean-Pierre Clamadieu: Yeah, 28th I guess – but look at our website and don't just listen to me – to present you the full-year results. Thank you very much, have a very good day.

Operator: Thank you, Mr Jean-Pierre Clamadieu and Mr Karim Hajjar. Ladies and gentlemen, this concludes today's conference call. Thank you all for attending.