Solvay

Moderator: Jean-Pierre Clamadieu
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7:30 a.m. GMT

Operator: Good morning ladies and gentlemen.

Thank you for standing by and welcome to the first half year and second quarter earnings conference call for 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, Thursday, July 31, 2014. And now I would now like to hand the conference over to your speakers today, Jean-Pierre Clamadieu, CEO and Karim Hajjar, CFO of Solvay. Please go ahead.

Jean-Pierre Clamadieu: Thank you, very much.

Thanks everyone to participate in this Q2 2014 results conference call. I am very pleased to present today solid results I think demonstrating that the Solvay transformation is continuing. These Q2 results are very much in the continuity of what we have presented from the first quarter, but the trend is continuing to improve and this is good.

Now, on top of that as you've seen this morning, we were able to sign few hours ago the divestiture of Eco-Services which is one element in the transformation of the portfolio of the Company which I think is an interesting sign that we are indeed determined to continue to significantly transform Solvay.

On top of that you are seeing that we are delivering on organic growth. Our growth engines are demonstrating very strong performance. External growth doing well too. Chemlogics was clearly a very good deal and we are fully benefiting from a very strong dynamic of the North America oil and gas business.

And last but not least, our excellent initiatives with various actions plans we are putting in place for the Group to improve the way we manage this Group and the way we operate. This is also contributing to our results.

So if we go into the numbers, good demand dynamics. Net sales are up 2 percent year-over-year underpinned by good demand and external growth overcoming the ForEx headwinds which are still significant during this quarter.

In terms of regions, mixed picture, but very much in line with what we said and what we've seen in Q1. US confirmed but especially in the market we serve that the growth is accelerating. Q1 was impacted by some extreme weather conditions so this is clearly behind us. But the region which represent today, one third of Solvay total net salesis clearly an area where we are growing and where we see further growth opportunity.

Europe which represents one-third of our sales shows steady but slow recovery. So, I think probably something we have to get used to but, still it is some opportunity for us and I think we've been quite active in saving these opportunities.

Asia which represents today 30 percent of our sales, continued to post solid dynamics, particularly in China and we've never been very worried about China, but we continue to see today a lot of opportunities and positive trends in this region. The only issue is that we are in Asia, as we imagine its other currency movement which impacted some of our businesses, but overall it's something that we've been able to overcome.

And probably the only area that we see as an area of cautiontoday and I was about to say concern is Latin America with Brazil, clearly disappointing, limited growth, competitiveness issues and it is an area where we need to fight and make sure that we make the most out of it. Bit of a challenging scenario.

In terms of end markets, once I would like to shed some lights on, because they are really contributing to our performance. First one is automotive, positive across all continents but Latin America and positive because we are bringing new product innovation into the automotive segment at last, I would include tire in this segment. And clearly this is an area where we see still significant opportunities for specialty polymer, engineering plastic and silica mostly.

Second important market for us is unconventional oil and gas North America today but very, very dynamic market with Chemlogics integration into Solvay. We have a broad range of offering as far as chemicals for unconventional oil and gas exploration are concerned and we are fully benefiting from the very strong dynamics that we see there.

And the last market, last but not least as we used to say, smart devices. This has become an important market for specialty polymer especially in times where we see a new product about to come to the market and that's really some market that we developed over the past two years which proved a very, very interesting market for our specialty polymer business.

So going into the numbers and just the headlines, Karim will go into more details. REBITDA is up 10 percent at EUR485 million in Q2. Sustained growth we have presented 11 percent growth in Q1, so its 10 percent very much in line. If we correct for four elements foreign exchange impact, perimeter which is Chemlogics and the fact that we've lost our carbon credit opportunities at the end of last year. We would have an underlying growth of 19 percent and I think this is clearly very reassuring. Just to walk you through the impact mentioned, slight impact EUR16 million conversion in the quarter, similar to first quarter. Chemlogics EUR23 million impact in the pro forma in Q2 2013 and CER in Q2 2013 was EUR44 million. So if you correct for that, 19 percent underlying growth.

And if you go into the varioussegments, advanced formulation is up 29 percent, advanced materials is up 16 percent, setting a record profit and record margin at 28 percent EBITDA margin. But frankly speaking, all segments were doing well. Performance chemicals is stable but at a very high level. Functional chemicals which is polyamide is improving very significantly. We're not yet at the level of profitability where we'd like to see this business like this one.

Excellence momentum is keeping pace more than compensating inflation on our fixed cost base and clearly helping us improve the margins. And margins are quite good. I mean they are up 140 basis points, from 17 percent up last year to 18.4 percent and when we compare with our peers, I think we have reasons to be reasonably satisfied with these margins. It puts us very well with our comparable.

In terms of portfolio management, we are continuing to work on the various transactions that we have announced, European chlorovinyls JV project is moving. The key challenge now is to achieve a divestment of the remedy package that we have proposed to the EU to get fair approval for the transaction. It's moving as the bank's working on it; we have a number of interested parties. Now we have to turn that into a transaction to be able to close this deal by the end of the year which is still our objective. We have divested Benvic which is the PVC compounding business in Europe. Indupa, The last thing before closing is authorization of CADE, the Brazilian anti-trust authorities, Braskem, our partner is working on that and we expect a decision by year-end.

Eco Services, we announced at the beginning of the year that we are looking at strategic opportunities. Indeed we've done quickly and quite effectively a lot of work. We are able to sign last night the divestiture of this business. We are selling it at what I think is a good price for such asset, eight times EBITDA at $890 million. That's clearly a good transaction. Eco Services was a good business, but probably not fully aligned with our own strategy, and I think that we'll find with the CCMP, a very good owner which can bring the business forward and for us. That's a way to streamline and simplify our portfolio and to free up resources to continue to grow in areas that we have chosen.

Obviously we are not just divesting, we are also looking at opportunities to strengthen our position in various areas, bolt-on acquisition is something which is important for us and although we don't have any news to share with you on this front, I think that -- I hope that in the near future you can see that we are continuing to be willing to grow on our growth engines and in regions like Asia or North America that we consider as having very significant growth potential for the next few years.

So, in a nutshell I think that we are continuing our transformation towards a higher growth, less cyclical and higher cash return growth and I think that today's results are a good demonstration of the commitment that the management team to deliver this transformation.

And with that Karim, the floor is yours to work through our results in a bit more detail.

Karim Hajjar: Thank you Jean-Pierre and good morning everybody. I will now provide more color on the results and obviously will cover some key bottom line elements as well as the balance sheet. As you've heard from Jean-Pierre, the headline EBITDA growth is 10 percent year-on-year but the underliyng is much stronger at 19 percent. How did we get there? The EBITDA grew factually from EUR440million in Q2 2014 into EUR485 million , an increase of EUR45 million. Half of that is Scope, Chemlogics, EUR23 million. The other half, we have a lot of quality because there is a strong organic demand growth component as well as a very strong delivery on our excellence programs which together overcame EUR27 million of total ForEx headwinds, at EUR16 million conversionwhich Jean-Pierre mentioned and EUR11 million of transaction risk effects as well as EUR44 million of non-recurring CER income in the second quarter last year.

When you take account of the conversion ForEx impact of EUR16 million, the CER shares that are absent of EUR44 million and a glance for the Chemlogics growth, the underlying is 19 percent. For the first half underlying is 17 percent. Our operating excellence program are delivering in terms of reducing our fixed and our variable cost. And if you just looked at our fixed cost alone, they are more than offsetting the impact in inflation on a fixed cost base which is over EUR3 billion just to remind you.

In addition there is very good progress in our commercial excellence program as well as our innovation. So it's fair to say that all the cylinders are firing now. Before I turn to performance of the business, it is worth noting that if average exchange rate in the first half prevail for the remainder of the year, the adverse currency impact relative to 2013 on a full year basis will be about EUR60 million to EUR65 million. As you look forward, we don't factor in any improvements or worsening in exchange rate and I'll remind you that on a cumulative basis for the first half ForEx headwinds totaled EUR53 million, EUR31 million of that is conversion, EUR22 million transactions.

I'll now turn to our key businesses and I'll start with advance formulations. That segment benefited both from Chemlogics strong performance which outperformed our expectations and from organic volume growth, especially in the oil and gas market where we really are responding to strong consumer demand because we can then need for relevant solutions.

The EBITDA was up 29 percent year-on-year at EUR119 million in second quarter, and was up 8 percent at EUR221 million for the first half. The EBITDA margins stood at 16 percent for the quarter and for the semester.

Advanced materials again beat its record performance and it delivered an EBITDA in the second quarter of EUR187 million, up 16 percent, year-to-date up 15 percent at EUR362 million. The growth was broad based and it was particularly evident in silica and in specialty polymers that Jean-Pierre alluded to. The latter benefited in the quarter from continued demand momentum in most end markets and there was a notable increase for smart device applications which more than offset a slight softening in the offshore oil and gas market demand.

The EBITDA margin in the second quarter reached a record 28 percent, a performance that was strongly underpinned by our excellence programs, both in terms of innovation and cost manufacturing excellence programs. In the course of the first semester, margin came in at 27 percent which is 285 basis points improvement year-on-year.

In performance chemicals, pricing power and volume growth were offset by fixed cost and by adverse ForEx, there was strong delivery in manufacturing excellence but it was not sufficient to overcome temporary logistics and maintenance issues in one of our plants came through from the turnaround as we started it up. And thus EBITDA was EUR2 million below last year at EUR189 million.

Over the first half of 2014, the EBITDA was up 6 percent at EUR377 million and the margin increased by 130 basis points to 24 percent on net sales. I will also highlight that eco services, which is currently reported within this operating segment is to be presented as discontinued operations and assets held for sale as from the third quarter following the signing of the binding agreement. Consequently, Solvay will restate its 2013 income and cash flow statements, and it 2014 financial statements to reflect the discontinuation of that business no later than the publication of our third quarter earnings.

Turning to functional polymers, they benefited from improved demand in Europe and Asia and from strong manufacturing excellence program delivery. Both P&I and engineering plastics improved but Fibras continued to be impacted by weak market conditions in Latin America. Overall though, REBITDA in the quarter was up 40 percent at EUR38 million and cumulatively EUR78 million in the first half.

Margin at 8.7 percent on net sales have improved 240 basis points, a work on improvement but we have more to go.

Turning to corporate and business services, net cost were EUR47 million in Q2 and EUR85 million in the first half. Energy services broke even in the quarter as it did not benefit from any CER sales.

On corporate costs, our cost discipline is continuing to rein in and defer costs. ForEx devaluation helped the cost base but it was strong delivery to the cost reduction as well. As a result, the first half of our corporate cost stood below our usual run rate, but we do expect the second half to be somewhat higher. That said, we are completely determined to build on the momentum that you've seen in the first half and remain focused over the remainder of the year.

I would like to take the opportunity to highlight that fundamentally our corporate cost structure is of the order of EUR200m a year. The increase that we signaled previously stemmed from two factors, one, an investment in our shared business services, and two, from orphan cost related to service functions that do not get recovered as you divest businesses. The cumulative effect of these orphan costs, net of the savings that we have delivered, distort our performance. In order to ensure that we better represent the fundamental underlying performance, we will allocate these net orphan cost, net of savings to each of our businesses who are benefiting from these services and will therefore restate our corporate cost and our segment results in the third quarter when we classify eco services as discontinued.

I will now turn to the elements below the EBITDA line. And I'll start by highlighting that the revaluation of the Russian ruble versus the euro in the second quarter has a positive impact on the ruble denominated debt of Rusvinyl which created a EUR13 million preoperational gain which was more than offsetting the loss we incurred in the first quarter of EUR12 million.

We remind you that we expect to commission Rusvinyl later in the third quarter and is totally normal during startup phase, its REBITDA contribution which will be accounted for in equity basis, recognizing that the project is highly leveraged. That contribution will be negative by few tens of million as production ramps up.

Non-recurring charges reduced to EUR46 million against EUR97 million in the same quarter last year as a result of lower restructuring cost, EUR30 million against EUR81 million last year. The remainder of the non-recurring charges consisted of non-current environmental, litigation and usual portfolio management provisions.

Net financial charges increased to EUR75 million, EUR24 million higher than last year. The net financial charges on net debt fell by EUR10 million, as you've seen we've taken steps to create value from our balance sheet by reimbursing EUR1.3 billion of debt in the first half, EUR500 million costing 5 percent in the first quarter and EUR800 million equivalent of Rhodia high yield bond at an average cost of 7 percent ahead of maturity. These steps reduce our average cost of debt by 40 basis points. However, the cost of discounting provisions mainly related to our environmental obligation went up by over EUR30 million reflecting a reduction in discount rates of 50 basis points between the two periods.

I will remind you also that we have issued a hybrid bond last year for EUR1.2 billion at an average coupon of 4.7 percent. This is reflected as equity and coupon payments are shown as dividends. And in this respect, in our dividend, cash flow statement you will see EUR15 million attributed to the hybrid and this is on six months for the EUR700 million tranche with a 4.2 percent coupon.

Turning to taxes, adjusted tax charges were EUR65 million which compares to EUR20 million in 2013. Clearly the non-recurring effects which distorted so if we look at the underlying tax rate and we are trending at 34 percent in second quarter, in line with the first quarter and entirely consistent with the guidance that we gave of mid to low 30s.

The net result from discontinued operations was EUR481 million loss as a result of the impairment of EUR477 million related to Inovyn, which is the chlorovinyls JV we are setting up with Ineos. You'll note that the impairment is essentially non-cash and includesinteralia, the write-off Rhodia related goodwill allocation of EUR142 million, a deferred depreciation charges of EUR60 million, as well as taxes and other cost linked to the structuring of the agreement for a combined EUR70 million.

Taking into account minority interest, the Group share of that impairment is EUR422 million and that is why our adjusted net income Group share is at EUR292 million loss.

Moving on to cash, we delivered a positive free cash flow in the second quarter of EUR89 million, better than the EUR64 million recorded last year and substantially offsetting the negative EUR97 million in the first quarter. Both quarters are characterized by seasonal patterns whereby industrial working capital requirements increased mainly inventories as we prepare ourself to follow our customers demand and respond to their needs in a sourcing anticipation of the incident of turnaround as we look to Q3.

What is pleasing is that our working capital intensity stood at 15.4 percent to sales and that is 20 basis points better than the same period last year, despite a ramp up in our inventories.

CapEx came in at EUR203 million with EUR181 million linked to our continuing operations.

Looking ahead, taking into account the phasing of our investment project and the fact that we have lower CapEx incurred in 2013, we anticipate the full year CapEx to be around EUR850 million.

Net debt rose to EUR1.4 billion from EUR1.3 billion at the end of March and this is as a result of financing cash outs. Dividend payment accounted for EUR171 million and that includes a EUR15 million coupon on the EUR700 million tranche of the hybrid, remainder reflects the final dividend for 2013 of EUR1.87 per share which took place in the quarter.

The second quarter also saw a high concentration of cash payments related to the financial debt of EUR158 million, and that includes a EUR51 million one-off payment related to the early retirement or makewhole of the high yield bond retirement. And that makewhole essentially reflects both premiums as well as the upfront interest payments took as expected.

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

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

A very detailed analysis of our results, just a few words on the outlook before opening the Q&A. We've seen a very encouraging part of the year in Q1 results. We are starting to show this trend.

Q2 is very much in line with what we've seen in Q1 and this gives us confidence for the remaining part of the year. We feel that we should be as we said when we presented our Q1 result, we should be able to generate in the current foreign exchange environment, high single digit year-on-year REBITDA growth. This guidance is made now taking into account the fact that eco service is in discontinued operations, so correcting for eco service in 2013 and 2014 or without eco service in 2013 and 2014. We are confident that we will achieve high single digit REBITDA growth.

Transformation for the Company will continue as you will see in the next quarters and we are very pleased to have demonstrated today that we are committed to its transformation and once again it's really an ongoing project. And the management team is very focused on delivering on all fronts.

And with that, I will open for Q&A.

Operator: Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question, please press star one on your telephone and wait for our name to be announced. If you wish to cancel your request, please press the hash key. Once again, ladies and gentlemen, that is star one if you would like to ask a question.

Jean-Pierre Clamadieu: So let`s go. Operator?

Operator: Yes, your first question comes from the line of Heidi Vesterinene, BNP Paribas. Please ask your question.

Jean-Pierre Clamadieu: Hello Heidi.

Heidi Vesterine: Yes, hi. Good morning. So, first one on Acetow please. Could you talk about what you saw in Q2 and what is your outlook going forward given recent cautious statements from some of your peers?

And second question, could you update us on your outlook on soda ash, please? Thank you.

Jean-Pierre Clamadieu: Well on Acetow, I am quite satisfied with what we have achieved during the first half of the year and frankly speaking, I'll probably be less cautious than some of our competitors. I think I've read the statement that you're referring to but we see the year is continuing to develop very well at a very, very high level of profitability for this business. If I compare it with what was the historical profitability based on very sound supply demand equilibrium. Yes, there are new capacity coming in China, but we don't expect this to create a significant impact and frankly speaking, it's a business for which I see a number of green lights.

Soda ash, positive also. I am not expecting any break through in profitability in soda ash, but clearly strong results in this quarter. We had a couple of operational issues in North America, mostly linked to a logistical issue, difficulty is to get product out of Green River. But this is now solved. I think there too the supply demand equilibrium is satisfactory. And I am probably expecting to see in the next couple of years some improvement there in terms of pricing and margins.

Heidi Vesterine: Thank you.

Jean-Pierre Clamadieu: Thanks, Heidi.

Operator: The next question comes from the line of Peter Mackey, Morgan Stanley London. Please ask your question.

(Paul): Good morning. Actually it's not Peter. It's Paul speaking. Morning Jean-Pierre and Karim.

Jean-Pierre Clamadieu: Hello.

(Paul): Just a quick question for you with regards to your sort of M&A sort of strategy. You talked about bolt-ons, Jean-Pierre in the presentation. But just wondering, sort of what that could mean because the balance sheet is obviously building up a nice war chest. Do you have some guidance on sort of size of deals, could be larger, more likely bolt-ons, just allocation of capital would be helpful. Thanks.

Jean-Pierre Clamadieu: Well I would say it's very difficult to make two specific comments on projects which are just developing, but frankly speaking for the remaining of the year you just -- you should just think of bolt-on being acquisition, that I would say a couple of hundred million of euros and I don't expect to do that many of such transaction. We might want to look and I think we would have the capabilities to look at larger projects, but we are very picky to make sure that we invest in the way it makes sense.

With Chemlogics, last year we had a significant size opportunity and with a bit more than six months of Chemlogics integrated into Solvay. Clearly this was a very good project and we are seeing Chemlogics and exceeding our expectation or the expectation on which we based the acquisition business plan.

Looking forward, I think that I would be very pleased to be able to make a bolt-on acquisition in one of our growth engines. In terms of geography I mentioned that the priorities were on Asia and North America. But again, I'm thinking of I would say a reasonable size bolt-on and certainly projects which would be smaller than Chemlogics just because we have not found larger ones available at a reasonable price.

(Paul): That's very clear. Thanks guys.

Operator: The next question comes from the line of Lauren Favre, BOAML London. Please ask your question.

Lauren Favre: Yes, good morning gentlemen.

Jean-Pierre Clamadieu: Hello.

Lauren Favre: Two questions if I can. One on eco services. Could you give us anything more in terms of financials, so not just LTM EBITDA that's going to be 2013 and year-to date? It will be something on capital employed, CapEx, working capital. Anything that we can basically use to judge the disposal that assure your strategy of reducing capital intensity in the business and accelerating growth.

And a second question is on slide 11 and the large ongoing investment projects. On the 2014 five startups, could you remind us roughly in which quarter those five projects are supposed to be on stream? Thank you.

Jean-Pierre Clamadieu: OK, so I'll comment on eco service, but I will turn to Karim for a bit more color or detail. I mean eco service is a business which was fairly high margin business, but consuming significant amount of CapEx, replacement CapEx, Sulfuric acid characteristic of eating up the plants in which it is produced or generated and in terms of free cash flow generation, the business was probably not at the level of performance we are expecting and limited growth opportunities. So these are the strategic rationale for the divestiture.

Now you might want to give a bit more color Karim on the divesture?

Karim Hajjar: Sure. I will say on eco what are the key parameters to bear in mind. I'd say from a REBITDA point of view, the $100m that we referred to is a good guide and one can look at that and you can anticipate that having been flat historically. It is quite a capital intensive business. The CapEx is in excess of $70m. What that means is that the free cash that we will no longer see of the order of $30m or less and that essentially be the fact.

If you look at CFROI, you will remember that we are looking at that and we will make sure we track it. This divestment is essentially margin enhancing ultimately and that is a positive outcome.

Yes and the sales we're talking about EUR300m or $400m, against that.

Jean-Pierre Clamadieu: So second question, on the slide 11, if we're going to this project, I would say that the first for which is Novecare in Germany, Aroma, Vanillin plant in China, the JV, fluoro-polymer in China also and our HDS plant in Poland, startup is expected before yearend, I would say between October and December for most of these plants. And I would expect them to bring EBITDA contribution in 2015 very much in line with the strategy, the growth strategy of this businesses and is kind of abuse for silica and novecare but also for Aroma Performance. Specialty polymer, I mean this -- clearly the objective is to prepare the next step which is -- which will happen in 2015 which is our own fluoro-polymer plant in China.

Rusvinyl is a large project. Obviously we are really in the middle of a startup. I expect to produce the first batch of PVC probably by the end of August which means that we will be starting commercial operation probably in September, October. As Karim mentioned, it's a highly leveraged project, so impact on our EBITDA is minimal. But it will start with a negative impact in the first period of operation. I guess it covered what you had in mind Laurent.

Lauren Favre: Yes, thank you.

Jean-Pierre Clamadieu: Thank you very much. Next question?

Operator: The next question comes from the line of Mutlu Gundogan, ABN AMRO Amsterdam. Please ask your question.

Mutlu Gundogan: Yes, yes, good morning everyone. Three questions. First on the scope. If I look at the waterfall chart for your revenues, I see that the contribution from scope was EUR81m while it was EUR96m in Q1, i.e. decline of 16 percent quarter-on-quarter. Now if I look at your EBITDA, I see that that is good indeed. I am just wondering on the top line, does this all relate to Chemlogics, that's the first question. And secondly, if that's so, is there a seasonality that we should be aware of or is there another reason for this decline?

And then the second and third question are minor questions, the first on performance chemicals, can you quantify the negative impact you had of the temporary issue that you mentioned. So that the impact on sales and REBITDA. And actually that same goes for functional polymers, what was the impact of the divestment of Benvic? Thanks.

Jean-Pierre Clamadieu: I think, I will take the last question on performance Chemicals. I don't -- I won't quantify what I was mentioning. It's a few million, but I will say it's more delayed than anything else, difficulty is to bring the product out of the plant and ship it to customers. So nothing that's really meaningful.

And Benvic divestiture, I don't have the actual number from the top of my head but it's a very minimal impact.

Karim on the scope?

Karim Hajjar: I think on the scope you are right that Chemlogics is the main factor, but there is also the divestment of lifescience that we did last year, and that's the other factor. Those are the main two drivers of what you see there.

Jean-Pierre Clamadieu: And Chemlogics seasonality, frankly speaking sometimes there is a bit of difficulties, operational difficulties in winter time, some time to growing product to the fracking operations but the business cycle is not seasonal, it's based on projects and we can see ups and downs linked to project growing. As we speak with you mostly up, but nothing like a seasonal pattern in our results.

Mutlu Gundogan: So you would say that this decline that we're seeing quarter-on-quarter is business as usual?

Jean-Pierre Clamadieu: Yes, I would not consider. Depends what you consider business as usual, but I will say it's not a seasonal pattern.

Mutlu Gundogan: OK. Thank you very much.

Jean-Pierre Clamadieu: It's just some volatility in the business, some variability of quality in the business.

OK, next question?

Operator: The next question comes from the line of Peter Clark, Societe Generale London. Please ask your question.

Peter Clark: Yes, good morning. Just following on a little bit from that with the Chemlogics, obviously we don't have the quarterly number for last year. But on the face of it, it looks like the sales has got healthy growth, but nothing spectacular. And obviously it's the margin as you indicate in the commentary that is remarkable. Obviously it's a high margin business anyway, but it does look like this margin has perhaps gone up certainly with 30 percent, maybe 40 percent. Just some way of my thinking there, because obviously we don't have the quarterly history on the sales at which it looks like it could be up double digit.

And then the second question is just more general. Obviously eco services, you sold it for a good price I think in line with a fair number of people's expectation, but is a good price. Just wondering if you have many other people to sort of come knocking on the door, parts of the portfolio that might consider you perceive as potentially non-core and suggesting similar things. Thank you.

Jean-Pierre Clamadieu: On the first question on Chemlogics, that's also a mix issue. I think what we've seen explain the incremental margin is the fact that we've been filling quite significant amount of friction reducers which is a product which is one of the key element of Chemlogics portfolio which is being very successful. Our sales are a little bit slower on some other segment of the business, but overall we are posting double digit REBITDA growth and this is what we have in mind. So yes, very solid growth indeed and I think the sales number are probably as always a little bit difficult to read.

I think it's clearly the EBITDA which makes sense.

On eco service and other opportunities, I think the situation is very simple. There's a lot of for businesses which could attract financial investors. We seek today a lot of interest its clear people have money to invest and are ready to look at good assets. Right or wrong people think -- right in fact. People think that in our portfolio we have a significant number of good assets which could find better owners and I was impressed by the number of expression of interest that we had for the eco service process and until the last minute we had several people really fighting for the asset.

And yes, we have people knocking on the door telling us that these are right assets which is very well in our own business model or portfolio. And by the way, one of the surprise on eco service is that we had a couple of strategic players also which were part of the last round of bidding and with prices which were not absolutely up to the financial investors, but within a close range and it's also good news I think.

So yes, we have already expressions of interest. Nothing which makes us ready to push the button to look for other opportunities, but we know that if we are willing to do that, it's probably a good time to look at such opportunities.

Male: Thank you.

Operator: The next question comes from the line of Markus Mayer, Baader Helvea Munich. Please ask your question.

Jean-Pierre Clamadieu: Hello, Markus.

Markus Mayer: Good morning, gentlemen. Good morning Jean-Pierre; good morning Karim. Two questions as well.

First of all, I missed Karim's sentence on the corporate costs and how they will be affected by now the divestment of Eco Services. And maybe you can update me on this and also give me a guidance on for this year or the years to come.

And then secondly, can you update us on the selling process of the chlorovinyl plants, which are part of the remedypackage of the European Commission?

Jean-Pierre Clamadieu: I will take the second one and Karim will clarify the statement on corporate costs.

On chlorovinyl, what we can say is that the process, the divesture process is ongoing. There was quite a large number of expression of interest and now we have to turn that into a deal. And so it's probably difficult to give you a more precise statement on this. But yes, it's ongoing.

There's a fair amount of interest and we are still expecting to close our own transaction by year end. And for that we will need to have a signed agreement approved by the European Commission.

Markus Mayer: OK.

Karim Hajjar: On corporate costs, so Markus, there are a few things here I'd like to really share with you all. And that is if I look at the fundamental corporate costs I referred to, I mentioned that we have EUR200 million. EUR40 million of that is what I would call good long-term investments in corporate (R&I). So the EUR160 million, that is the fundamental run rate that we've been accustomed to and that is well below the 2 percent to revenue benchmark that is considered good.

Now that's the reality. Now what's happened in the Group? In the last two years, I'm going to share these three facts.

One, inflation has done its ravages for our services and our corporate costs at the run rate of about EUR20 million a year. That is pure inflation. That's what would happen if we just stood still. Orphan costs is when you have almost a partial recovery of the service costs that remain we sold our businesses. When you sell businesses we don't recover those costs. That total orphan costs cost is of the order of EUR55 million.

So you've got inflation and orphan costs and you've also got savings. And we've been unrelenting and just in the last two years, by the end of this year we will have saved about EUR50 million as well.

Net-net we consider that we're distorting our corporate costs and we're therefore going to be reallocating it because we've done a lot to mitigate and we want to make sure that we're not flattering a distorted performance.

Markus Mayer: OK, perfect. Thanks.

Operator: The next question comes from the line of Joe Dewhurst, UBS London. Please ask your question.

Joe Dewhurst: Hi, just a couple of questions from my side.

Just on the 2016 targets post the Eco Services divestment, will you still maybe maintain that EBITDA number or will that be adjusted?

And then just on the specialty polymers side, again you did speak about sort of advanced devices and the electronics side. In line with the strong performance though, was it largely related to the electronics or was it quite heavily weighted towards automotive as well? Thank you.

Jean-Pierre Clamadieu: On the first question, we have our target. We said our 2016 target was set at the constant perimeter, at the perimeter we had at the end of 2013. This being said, I think it's too early to make a re-statement or let's give us a bit of time. And I think in the next Capital Markets Day we'll have the opportunity to tell you where we stand regarding this target. But frankly speaking, we're very well positioned to achieve it.

On your second question, I think it was not linked -- specialty polymer business results were not linked to one single market.

And as far as the smart device business is concerned I think we probably -- we'll probably see some interesting development in the next months. But in the first half of the year automotive, health related products or oil and gas and smart devices contributed to this very good performance.

But it's not -- as your question, is it a one-off exceptional level for specialty polymer? No, frankly speaking. I think the business structurally is improving and I still have a significant expectation to see the business continuing to out-perform.

Joe Dewhurst: Thanks very much.

Operator: The next question comes from the line of Jaideep Pandya, Berenberg Bank London. Please ask your question.

Jaideep Pandya: Thank you. The first question is really on the margins in advanced formulations and advanced materials.

So on advanced materials the margins went up very nicely. So can you give us a little bit more color on that?

And in advanced formulations if I actually back out Chemlogics then the margin seems to be flattish. So can you confirm that? And if so, why is this because you had very nice volume growth and also a slight positive pricing in this business. Those are my main questions. Thanks.

Jean-Pierre Clamadieu: Advanced material, I think we've covered it already. But on the specialty polymer, very good volume growth, volume growth on high value added product. And again not linked to one single specific market, but a good performance across the board. And based in a number of cases on the new formulations or new combination of product that we are bringingto the customer. And frankly speaking it is a trend which will continue.

I was mentioning that smart devices will probably come up, not only for the second half of the year, but we expect it to continue to be a very good market for this business.

And on top of that silica is really a very good business which is continuing very nicely on a growth trend, with tire makers more and more willing to access our high dispersibility silica. And new capacity was created in the past few years. We will start up our new plant in Poland in the second half of the year. So a lot of elements explaining these good results.

On advanced formulation, I think the situation is a little more complex. We have not mentioned this yet, but within the segment we have a business called Coatis which is Latin American based which is suffering from the current situation. We have Aroma Performance which faced a couple of force majeure with some remaining effects in Q2.

So if I focus on Novecare, which is the largest of our advanced formulation business, yes, we are benefiting from Chemlogic integration. But not just from that, we had previously some oil and gas related business, mostly our guar derivative related business which is doing very, very well. Guar consumption is -- guar derivative consumption on the ground has increased significantly and this is good news for us. We are running today at full capacity as far as guar production is concerned.

Agro is back. It's back in the a year which was not a great year for agro for us because the weather in the first quarter in the US but we've got some lag effect. And as we said a couple of time, home and personal care is an area where we need to make improvement.

So again in summary, a very strong oil and gas business, both Chemlogics but also the legacy Solvay business in oil and gas. A bit of challenges in Latin America for Coatis and a bit of, I would say some, still some operational issues on Aroma Performance.

When we add up we are at 16 percent margin for this business, 100 basis improvement. So overall I think quite a good performance, but a little bit mixed for this quarter.

Jaideep Pandya: Just one follow-up on the costs savings. The EUR200 million, EUR100 million for soda ash, EUR100 million in polyamide, how much of that is done? If you can remind us quickly.

Jean-Pierre Clamadieu: I don't have a specific number off the top of my head. But I would say it's probably -- it's probably 60 percent on the -- if you add up the two -- if you add up the two segments.

Jaideep Pandya: That is done now. That is in the numbers.

Jean-Pierre Clamadieu: Yes, that is done, yes. we've shut down the -- our Povoa plant and we are now working on Torrelavega and a couple of our other plants in terms of fixed costs.

And on polyamide, engineering plastics, the reorganization is done and the unit is performing very well. And P&I we have also achieved a significant part of the program. So I think 60 percent is a good evaluation of what has been done as of the end of Q2.

Jaideep Pandya: OK, thank you.

Operator: The next question comes from the line of Patrick Lambert, Nomura London. Please ask your question.

Patrick Lambert: Good morning and congratulations. Very good numbers. Two very quick questions.

Can you update us on the Russia situation? With sanctions what you think can happen? You basically said no impact so far and you still expect Rusvinyl to produce. Is there any financial impact on liquidity or anything you can say about Russia sanction impact for you guys would be interesting.

Second question regarding Acetow. We had two sort of profit warnings mostly on outlook from competitors. Can you comment a little bit? Your prices were up, volumes looked OK, stayed flat. But mostly on outlook, where would you see that coming? Are you more hedged in terms of regions and volumes? Thanks.

Jean-Pierre Clamadieu: Well, on Russia I would say short term our focus is really to start up the unit. We have significant teams there and we are, as I was mentioning, in the middle of the start-up plan, a little bit more thanin the middle. In fact we expect to have probably the first tonne of PVC produce next week, but out of some intermediate that we brought into the plant. So with full lines are producing probably at the end of August.

Then looking at the impact we'll have to see how the Russian market stabilizes itself in the current challenging economic environment in Russia. So today's it's a question mark.

And then on the financing side, I would say no short-term issues. We have the financing package in place; we have the resources. We have partnerships with western banks but also with Russian banks which have, for some of them at least, ample liquidity.

So I don't foresee any specific issue on this project. You know that EBRD is one of our equity partner in the project also, which probably gives us some level of confidence. Now it's an unstable situation and not always easy to predict what will happen next. but frankly speaking, the focus today is very much business and technology first to make sure that the plants operate well and then business.

On Acetow, when you see profit warnings from some of our competitors. Some of them have mentioned a bit of a softening of the business in the second half, but starting with very, very good performance in the first.

As I said I'm little bit more optimistic and I understand what our competitors are referring to. But when I look at our own situation I think H2 is likely to be quite similar to H1 on this business.

Patrick Lambert: So it's mostly a -- you think company specific China issues

Jean-Pierre Clamadieu: Exposure to China seems to be an element for us. We have always had a limited exposure to China. And so overall.I mean I have difficulties to see in our own forecast what some of our competitors are referring to.

Patrick Lambert: OK. Thanks Jean-Pierre.

Jean-Pierre Clamadieu: Maybe we should take the last question?

Operator: The next question comes from the line of Laurent Favre, BOAML London. Please ask your question.

Jean-Pierre Clamadieu: Hello again, Laurent.

Laurent Favre: Yes, hi again Two quick ones.

Specialty polymers and the product cycle in smart devices, I didn't get the message. But did you mean that the one-off product launch impact is bigger in Q3 than in Q2? Obviously the timing of these particular devices were I guess important for that business.

And the second one is I know it's small but the refrigerant business in special chemicals, can you talk about how that business has developed? Obviously it's been pretty tough for the whole industry in the past six or nine months. Can you talk about what the impact has been on you? We haven't seen it on the business line, but that business must have suffered. And where do you see this business going for the next year or so? Thank you.

Jean-Pierre Clamadieu: Smart devices, to be clear what I said is that this was part of the reason why we performed well in the first half. That's one element among a lot of others. And yes we expect to have a more significant impact -- not significant impact, positive impact I should say on volumes in the third quarter on the smart device market for reasons which are linked to product cycle. I won't be more specific on this, but you probably understand what I'm referring to.

On refrigerants, yes, it's a challenging business. But for us it's getting -- it's small. We are refocusing special chemical on other areas. We are by the way also getting rid of businesses which were totally underperforming. So the overall impact of refrigerants on the performance of special chemicals is very limited today. And special chemical results have shown a significant improvement in 2014 versus 2013.

Laurent Favre: OK, thank you.

Jean-Pierre Clamadieu: OK, so maybe it's time to close this call. Thank you very much for your attendance and your questions as usual very well -- very pointed to the key elements of these results.

Maybe if I can just summarize in a few words I think we've been very pleased too -- with our H1 2014 performance. I think 10 percent growth despite significant foreign exchange headwinds and the loss of all carbon credit, this is I think very good. And once again underpinned by delivery on two different levels, organic and external growth on one hand and excellent initiatives on the other hand. And I think this is a very good mix.

We will continue to focus on the execution of our strategic road map. Portfolio management, innovation to respond to our customers' concerns. And what we are seeing especially in the advanced material cluster, but also advanced formulation clearly demonstrates that. And continuing with excellent initiatives, we are now -- all the Company now is focused on how we can improve the way we do business and we're seeing that as we've seen this being a very significant lever for improvement.

Thank you very much for your attention. Don't hesitate to call the IR team if you need any more clarification. Have a very good holiday and I guess we'll see you back in September or October to continue to have a dialogue with you regarding Solvay's transformation and improved performance. Thank you very much.

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

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