

Corporate Participants

Jean-Pierre Clamadieu

Solvay - CEO

Karim Hajjar

Solvay - CFO

Jean-Pierre Clamadieu

Thank you very much, everyone, and thanks for joining us for this Q3 conference call. I'm sharing it with Karim who is sitting next to me here in Brussels, our new CFO, and he will be taking the stand, if I may say that, in a few minutes. And Maria Alcon Hidalgo is also here with me in Brussels.

So what I want to do is share with you in a rather compact format what I think are the headlines of these results, and then we'll go into the usual Q&A questions. I'll remind you that there was a presentation put on our website which should allow you to follow although I won't be referring to specific slides.

So first important element, the execution of our strategic roadmap. We are continuing in the Group transformation into a group which will be... which will have higher growth, less capital intensity and higher returns. Key elements are first on the portfolio the acquisition of Chemlogics that we have announced a few weeks ago will allow us to increase our exposure to this very dynamic US energy market where we'll be able to increase very significantly our offering. And we have a lot of very positive expectations on this deal which should close very quickly in the next few weeks as it's a very simple transaction.

We are making progress in the chlorovinyls JV project, and you've seen that we are in these results presenting it as discontinuing operation because we are confident that this project will come to a conclusion. We are making progress on various fronts.

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Antitrust, obviously, we have discussed a lot on remedies in the past month, and you've seen that we've done a filing on that. This being said, it's a complex subject, and I think that the question of whether it can be approved in phase 1, which would mean early November, or in phase 2 which would mean some months after is still open, and I think it's clearly something which is... on which it is difficult today to have a position.

What's clear is that we are also working on the other fronts to make sure that we can close the deal as quickly as possible with Ineos obviously continuing the discussion of the detail agreements. We are currently doing the consultation process of our European Union. All of this again is moving well in a project which, contrary to Chemlogics, is quite complex, as you can imagine.

Second important element regarding the execution of our strategic roadmap operational excellence initiatives. And with that, we all think of manufacturing excellence, but it covers also commercial excellence. We are seeing a lot of good things happening, some of them having some visible impact on our results. The good performance that we see in this quarter in advanced materials or performance chemicals are partially linked to the fact that we've been able to deliver actual improvements to the business thanks to this programme, both in terms of pricing as far as commercial excellence is concerned, and obviously in terms of manufacturing excellence, more capacity available out of the existing plants set up; better cost, better flexibility. All of that is moving and moving very strongly.

On the specific plans we have announced regarding specific businesses, the EUR100 million cost improvement plan for soda ash is also moving well. We have signed last week an agreement with the Portuguese union regarding the shutdown of our Povoá soda ash production facility. I think it's a very good step because it will allow us to keep our objective to shut down this plant by the end of the year. And in terms of cost, we are also very well on track. And this applies to this overall quite ambitious soda ash cost improvement plan.

Polyamide, the plan is also going on very well. It's already implemented in the engineering plastics part of the business. It's still in the process of being designed for Fibras in Brazil, and Polyamide & Intermediates is facing today quite challenging market conditions, we'll probably come back to that, which tends to add a little bit the impact of the plan. But there too, we are seeing progress.

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So all of this again gives me a very high level of confidence that, yes, we are indeed transforming Solvay, and in fact, the transformation is accelerating.

As I was mentioning earlier on, an important message or an important element of these results is the fact that we have discontinued our chlorovinyls activities and that all financials have been restated accordingly. Sorry for those of you who were a little bit surprised when they read our press release this morning, but it was very difficult for us to give you advance information on this.

Moving into the results, I think there are probably two key words on the results. The first one is contrasted, and the second one is guar; contrasted because we see very different situation in our various operating segments. Some of them, two operating segments are doing in fact quite well in the current environment. It's our Advance Materials and Performance Chemicals segments, and one, the Consumer Chemicals is very much impacted but by one product line with impact which are higher than what we were expecting. And this is Novecare with the guar business.

But if we look at the overall results we are presenting, sales down 8% at EUR2,458 million. 5% negative ForEx impact, not very surprising. It's that we've seen also in other international companies. Prices 4% negative, but in a deflationary raw material environment.

In terms of volumes, almost stable, and we see there probably the first sign of actual stabilisation of our volume, taking into account the fact that CER are now phased out.

In terms of geography, probably nothing very original to say. Europe, we've probably seen the bottom, but we are moving slowly out of the recession. In other geographies, for us at least, the US still shows very solid signs of improvement. Brazil mixed, and Asia, especially the countries where we are focused, China, Korea, Thailand and Japan, doing reasonably well, very well as far as China growth is concerned, but some impact of ForEx mostly in Japan.

If we go to the REBITDA line, EUR439 million, down 13% year on year comparable, and there we are giving you an indication to ease the comparison in the previous scope, previous perimeter. REBITDA stood at EUR478 million.

If we exclude, and now my comments are all on the new scope, if we exclude the impact of guar as we were expecting it, which was on the Hichem associates line, EUR47 million, and carbon credit EUR40 million, REBITDA is up 2%, but the guar related impacts are very substantial. And in fact, something which is new and that we are sharing with you in a very open way is the fact

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that on top of the impact on Hichem that we had singled out since the beginning of this year, we had a EUR28 million negative impacts linked to margin squeeze in guar derivatives. And this we were not expecting when we started the year with the feeling that there would be some pressure on guar margins, but that this would be compensated by more volumes.

Unfortunately, it did not happen. We've seen very hectic behaviour as far as ordering is concerned from our customers, not because the guar consumption on the ground was changing, but because they had a hard time managing their inventories. And at the same time, we ended up in a situation where we processed more slowly some expensive raw materials that we have purchased at the beginning of the year, all of this creating a situation where we've seen significant margin squeeze. And I think, by the way, that this effect will continue until the end of the year.

So overall, EUR75 million. That's a very significant number of negative impact versus last year linked to guar.

If we look to pricing power, in fact, guar explains all of our negative pricing power. If you exclude guar, we have a balanced situation between the improvement that we see on the raw material and energy front and what we are conceding to our customers in terms of prices, which I think is a very good sign.

And in terms of performance, I would say underlying performance, if we try to clean up from the various exceptionals, we are seeing a slight improvement in Q3 versus Q2, which taking into account the usual seasonality is probably a sign that things are normalising. And I will share with you a bit later on when we look at Q4, we expect also for the first time to have slightly better results in 2013 than what we had in the same quarter in 2012.

If we look at the clusters, Consumer Chemicals, I've already mentioned that we are seeing there this very significant guar impact. The rest of the Novecare businesses are doing well, especially the ag and coatings segment. Aroma and Coatis are showing very good resilience in the current context.

Advanced Materials had a very good performance. We are almost at last year's record, EUR170 million. Record for this segment was EUR172 million in Q2 2012. Very, very strong result in silica; 16% volume growth, record margins. Good results at Specialty Polymers, probably a little bit short of our expectations in terms of volume growth, but very solid margins. We continue to see weaknesses at Rare-Earth.

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Performance Chemicals, there it's a record result, EUR202 million of REBITDA overall growth, especially at Acetow, which had very good results this year. Essential Chemicals also is delivering solid results and operational excellence was a key driver for these results Emerging Biochemicals on the contrary is facing some challenges and some pressure.

And Polyamide, stable result versus last year. Very good progress at Engineering Plastics. But unfortunately, both Fibras and Polyamide Intermediates are facing tough market conditions.

So this is what I wanted to share on the business front, and I will now turn to Karim to comment on some of the P&L elements below the REBITDA.

Karim Hajjar

Thank you, Jean-Pierre, and good afternoon, everybody. It's a real pleasure to be here with you today, a month into my new role at Solvay. I will focus my comments, as Jean-Pierre indicated, on the key P&L elements below the REBITDA. And indeed, we'll start with non-recurring items, which you will have noted as amounting to EUR33 million. And these related to environmental and litigation provisions, as well as M&A charges relative to portfolio management activities.

So very few, in fact, no significant restructuring reserves at all, because as you'll recall, we recorded in the Group EUR100 million in the first half comprising the last tranches of the integration, as well as the cost optimisation costs for Soda Ash and Polyamide.

Turning to depreciation and amortisation of EUR148 million, slightly up; about 2.8%. Pretty consistent for a growth company with a CapEx profile in relation to depreciation such as ours. These two factors lead to an adjusted EBIT of EUR253 million, lower than last year, though you'll recall that last year was a highly demanding base to compare with.

Net financial expenses of EUR59 million were down 38%. There are two components. Firstly, debt charges were stable at EUR44 million, whereas we've benefited from higher discount rates in Brazil, UK and US on our assessment of environmental provisions. That has been the main driver of the reduction in financial expenses.

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Turning to discontinued operations of EUR5 million. That comprises largely a EUR9 million contribution from the European chlorovinyls activities. You will note that we disclosed the EUR39 million REBITDA for the quarter, EUR141 million for the year so far, which is essentially flat year on year, consistent with prevailing market conditions that remain pretty challenging for all players.

Taking these factors together, and recognising there were other small losses at Indupa and the discontinued life science businesses, all of that leads to an adjusted net income of EUR129 million, of which the Group share is EUR118 million.

Turning to cash, I'd like to first note what you will have noticed no doubt which is our working capital is down from 14.2% of total sales at the end of last quarter to 13.7%. Leaving aside the chlorovinyls, that cash generation of EUR70 million has contributed to what we consider to be a strong free cash flow performance.

Before talking about that, I'll take a quick pit stop on CapEx and just bring to your attention the fact that we've invested EUR178 million in CapEx in the quarter, bringing the cumulative to EUR497 million, and that includes chlorovinyls. Just to try and help you understand the impact of some of things we're doing, chlorovinyls on an annual basis typically accounts for EUR80 million to EUR100 million of CapEx annually.

The strong free cash flow of EUR224 million gives us a cumulative of EUR278 million for the year, and our expectation is that that strong cash flow performance will be maintained as we look forward to the rest of the year.

The combination of all these factors is a reduction of our net debt of 6% to EUR1.475 billion.

Finally, as is customary for our Group, we have announced an interim dividend which will be payable on 23rd January. It is determined by reference to 40% of the total dividend of the prior year; and in this case, it amounts to a gross dividend per share of EUR1.33.

Finally, and before I hand back to Jean-Pierre, I just would like to bring to your attention that we've disclosed on page 61 an additional analysis that really re-presents our financials historically because of the discontinued operations in an attempt to make it easy for you to absolutely track the performance.

Thank you. I'll now hand you back to Jean-Pierre.

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Jean-Pierre Clamadieu

Thank you very much, Karim. So just a few comments before opening the Q&A on the outlook. We needed to restate our outlook to take into account the chlorovinyls discontinuation. So the context is very much the one I was mentioning. Europe is slowly coming out of a recession with a gradual recovery in demand.

In this context, we expect a seasonality effect in Q4 which would be less pronounced than what we've seen in the last two years. And again, probably a situation where for the first time, we see slightly better result in 2013 than the one we have seen in 2012.

To be as simple as possible, we are giving you one number. We expect to generate a REBITDA of around EUR1.65 billion for the full year 2013 in the current perimeter. This is broadly in line with our former guidance, the one that we had shared with you which was based on prior scope, but reflects a slight decline due to last quarter's disappointing performance at guar. And in fact, the expectation of EUR1.65 billion in 2013 compares to EUR1.7 billion in 2012, if you take into account the EUR190 million of exceptionals that we have commented since the beginning of the year.

So this is what we wanted to share with you, and we are now ready, with Karim, to answer your questions.

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Questions and Answers

Analyst A

Yes. Good afternoon. Three questions for me, please. First, on the outlook statements, you indicate that you expect to see a gradual recovery in the month, but could you maybe elaborate if you do see already in some product lines specific improvements in trends in the month and what product lines that are?

Second question on CapEx. You indicated in the presentation that we should expect a lower CapEx than the previously guided EUR900 million. Does that mean that we should just deduct the EUR80 million to EUR100 million normally attributed to PVC from the number, or should it be lower than that?

And then thirdly on Soda Ash, could you maybe elaborate what is currently happening on the export markets; where you see prices under pressure? Is that still due to weak demand in either Latin America, or how is Asia developing in this respect? Any clarification would also be helpful on that.

Thank you.

Jean-Pierre Clamadiou

Okay. So improvements, I would say we see them across the board, although I insist, these are small signs. And when I read in some newspapers that Europe is out of a crisis, this is clearly not the case, but we see signs that the situation is not degrading any further and that people are looking at the end of the year with a bit more of a positive tone than what we would expect. But practically speaking, we see that in our Specialty Polymer business. In the smart device, there are also some product lifecycle which is helping.

Automotive industry, in regions where it has been very dynamic, but also in regions where it has been going through a very difficult time like Europe, in other consumer-related businesses, where

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we operate. So these are small signs again, and I certainly don't want to overplay them, but they cover a number of our businesses. Probably the market where we don't see improvement today is construction and what's leading to construction, which continues to demonstrate a bit of a gloomy picture.

CapEx, we have two phenomena. The one you have mentioned. As we discontinue, we won't take into account the CapEx which are linked to the chlorovinyls business, but on top of that, we should expect some reduction. Probably a little bit too early to put a number there, but we've seen two phenomena. In fact, one is the fact that as manufacturing excellence is being effectively implemented, we see new capacity being made available just by improvement in the operation of current production facilities.

And the second is linked to the fact that as the market gets softer, we are in some cases in a situation where we are ready to delay a bit our project because we think there's no reason to be operating a new capacity ahead of market demand.

Soda Ash, it has resisted very well; obviously, in North America, but reasonably well also in Europe. As you rightly pointed out, the challenge is on the export markets. There I think the issue has probably not been so much the demand but some aggressive behaviours of some of our competitors, especially Chinese ones.

There have been some signs that we could see price improvement. The ANSAC, which is the North American export organization... by the way, Solvay does not belong any more to this... has expressed a willingness to increase prices. We've seen various similar announcements. Probably a bit too soon to figure what will be the outcome, but my feeling is that we are probably past the low point in terms of export market contribution for Soda Ash.

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And overall, once again, if you look at the overall performance of the performance chemical cluster, we are... I think, soda ash business is performing well in this environment.

Analyst A

Okay, very clear. Thank you.

Analyst B

Yes. I've got two questions, please. So in the release, you talked about delays in deepwater drilling and photovoltaics. Do you see any sign of recovery yet in Q4, or do you think it will take a little longer?

And secondly, could you please update us on Rare-Earth, as we've recently seen that prices are stabilizing or increasing in some areas?

Thank you.

Jean-Pierre Clamadiou

You're following that very carefully. Deepwater drilling, this is a market in which some of our high-performance specialty polymer goes. We are not seeing short-term signs of improvement, but when we look a little bit further down the road, yes, there are some... we are seeing decisions made which points at renewed activity there. So we are reasonably optimistic on the fact that this market will come back, but probably not in the next few months.

Photovoltaic, some improvement, although I've seen very enthusiastic comments coming from other chemical companies. I will be a bit more cautious and just say some improvements.

Rare-Earth, you're right. The price of light rare-earth is stabilizing. The price of heavy rare-earth is increasing a bit. These are positive signs. This being said, we continue to suffer on the

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lightning, electronic lightning segment. On catalyst, it is going reasonably well. So the business continues to suffer, but probably some signs of improvement linked to the rare-earth price situation.

Analyst B

Thank you.

Analyst C

Good afternoon, everybody. I have three questions, please. Firstly, I wonder if you could talk a little bit about the dynamics in the Polyamide business, particularly in light of how you see the cost curve having evolved. Obviously, last year's spike in butadiene prices disadvantaged you. Things should have improved a little bit more recently and yet you had a bad performance in Q3 as a result of the lower butadiene price. So I wonder if you could talk about those sort of short-term versus midterm dynamics, please.

On guar, the effect of inventory, you said you expect the effect to continue into the fourth quarter. Is that going to be similar to the level you saw in Q3? And if so, I'm struggling to understand a little bit, given the absence of business which cost you, I think, EUR12 million in Q2. I realize you were sitting on inventories that were perhaps a little bit older than would normally be the case and, therefore, at higher guar prices, but I'd have thought that would have worked its way out through much of Q3. So if you could give us some sort of quantification, that would be great.

And finally, just on your working capital performance, it's obviously down quarter on quarter, but it is up year on year, and I wonder if you could just flag what the drivers of that are, please?

Jean-Pierre Clamadiou

Okay. So Polyamide, you're right in your comment that butadiene prices going down should favour us. The difficulty is that when butadiene prices goes down the first effect is a negative one

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because we have a rather long supply chain, and we are in a situation where finished product prices are linked to the current raw material scenario. And unfortunately, our costs are linked to the scenario prevailing a few months before. So every time we have a situation where butadiene goes down, and especially when the drop is significant, we see a situation which pressures our margin. This effect is probably behind us now.

I have to say that on the intermediate point of the chain, market for the product that we sell to the open market is still challenging. Engineering Plastic today is doing quite well. Part of that is linked to its transformation. You know that we split this business in two parts, one which is a low cost business model, which really focuses on undifferentiated product; and a part of the business in which we really provide with our customers innovative product and the services associated.

There seems to be, I think, some quick impact, probably a little bit quicker than expected. But overall, the favourable scenario that you were hinting at does not materialize until probably the next few months due to the length of this chain and the fact that in the scenario where prices for material are going down, we first suffer and then see some benefit.

On guar, in fact, what makes the situation complex is the fact that guar consumption on the ground seems to be on the nice growth trajectory. But our customers at the time of the guar crisis have developed inventories, one; and some purchasing behaviours which ends up in a very high level of volatility in the demand pattern for us.

And this is what make us suffer because we have difficulties to predict how much we would be selling quarter after quarter. And in some cases, as you've said, we were sitting on higher cost inventories than what we would have been expecting. This effect will continue; we have not been completely through it until Q4, probably with a bit of a more limited impact.

And what we expect is to be able to start 2014 with a cleaner picture and much more visibility in the ordering pattern of our customers. We have not lost market share, but some guar derivatives for us that's key. But we have to live in a market where our customers, which were caught last year by surprise by this guar bubble, have started to develop behaviour which makes our life a little bit more difficult; and again, with significant impact on our profitability quarter after quarter. I think again we should be entering in 2014 in a year where this will be easier to manage.

Working capital, your comments are absolutely correct. We are making improvement, but probably not to the point we would like. So we are continuing to work on this and I'm relatively

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optimistic regarding the fact that as usual we should end up the year with reasonably good, probably a good performance.

In fact, when we compare with some of our peers in terms of working capital on sales, reasons are diverse on why we have a bit of a higher working capital on sales. There was a couple of plants shut down which as usual complexifies a little bit the management of working capital. But probably teams focused on a lot of issues and in a situation where we probably see more challenges on other parts of the business than the management of working capital. But very confident regarding the cash generation of the Group for the last quarter of the year.

Analyst D

Hi, good afternoon. I've just... three questions, first of all on the Consumer Chemicals. Are you able to give an indication of really what kind of longer-term EBITDA you would see that settling at after we get through all of the noise of guar adjustments and inventory adjustments?

And the other thing is also on Silica. Again, very high growth rates, certainly growing significantly higher than underlying tyre markets. There, is it because we're getting much greater market share in higher performance tyres, or are you seeing more proliferation of silica down into all grades there?

And then just finally with the vinyl side, from a housekeeping point of view, I guess the remaining, or the joint venture portion that you still own will be reported then as discontinued until you finally sell the last 50%. And then just on that, is there any idea when the feedstock costs will potentially start to come down on that element that's left, as Ineos is able to bring across the lower cost ethane from the United States?

Thank you.

Jean-Pierre Clamadieu

Well, I will disappoint you on the last one, because I think it's a little bit too early to give indication on this. And this you've seen also that Ineos was having a lot of discussion on its refinery operation in Scotland in the past few days.

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In fact, my understanding is that the JV will be reported in associates, so within the EBITDA once it's formed. So we have a current situation in discontinued operations is a temporary setup, and once the JV is in place, it will be the... the net result will come into this line that we call associates which falls within the EBITDA.

Silica, why are we doing so well? For one simple reason; we are really focusing on the high-performance energy efficient tyre segment. And I know that sometimes it's a little bit confusing because we are seeing other people which are, in fact, exposed to the overall tyre market making also this type of comment.

But in our case, it's really what we are serving is a market for high-performance, energy efficient tires, first element. And this is really going very fast, especially in Asia and North America because there are new regulations coming in line.

By the way, the new labelling constraint in Europe is also creating some opportunities. Second element is that to say things simply, tyre makers have realized that the more silica they put in their formulations the better performance they get. So there is a tendency to use a bit more silica for tyre, and the two elements combine in a good performance.

Consumer Chemicals, you're right. 13% is disappointing. I remind you that in terms of return on capital, it's still a very good business, and it's probably an area where we need to give you a bit more visibility during the Capital Markets Day. But it's a business which is really low in terms of capital requirements, and the performance of the Consumer Chemicals in terms of return on capital puts this segment among the best. In fact, it's the best within our portfolio.

Historically, we've seen the business at around 15% to 18% EBITDA margin. I think the challenge is to go back as quickly as possible to this level. As I was hinting, I think the dust linked to guar bubble is slowly disappearing; probably still a bit of an impact in first quarter of 2014. But then I think we should be in a position to put ourselves back on our growth track with the right references.

Chemlogics will be integrated into the business very soon also. So all of this gives us very good expectation, and I would say probably quite demanding expectation in this consumer chemicals segment.

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Analyst D

Thank you very much.

Analyst E

Yes, good afternoon. Two questions, first on the negative pricing power on slide 8 within your presentation. That's on a Group level. Could you tell us if that is predominantly given by Novecare, or that are other businesses as well that are facing negative pricing power in Q3?

And then secondly, on Soda Ash, could you talk a little bit about the current utilisation in your plants and your expectations for the utilisation in next 12 months given all the changes in the supply and demand?

Thank you.

Jean-Pierre Clamadiou

Negative pricing power that you see on slide 8 is completely linked, all of it is linked to the guar situation. In fact, we are seeing in the slide that there is a EUR28 million negative net impact on pricing power linked to guar, and the total impact is EUR29 million. So if you exclude guar, we are balanced, which means that we give back to our customers the improvement that we have received in terms of raw materials and energy cost reduction.

And by the way, this is more challenging than it sounds because it's always in a situation where raw materials are going down that we feel the most pressure from our customers. So my personal view is that this is a good performance if we exclude the specificity of the guar situation.

On Soda Ash, we are not publishing detailed figures. What I can say is that in North America we are running very close to capacity and we are working hard to increase capacity there as we have the ability to increase capacity with limited CapEx.

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Europe, we are in the process of shutting down our Povia soda ash plant, so it means that clearly we don't see the need for it.

We've signalled that our strategy then would be to use our Italian plant, Rosignano, as a swing capacity where we will have a cushion to follow market expectation.

The other plants, both the ones which have the ability to export, Devnya in Bulgaria and Torrelavega in Spain, are running at quite a high level. And the inland plants in France and Germany are also running well.

So the capacity issue for us has an impact on Povia, but again, the decision was taken to take this off. And then on making Rosignano a more flexible plant so that we can adjust and make sure that the supply/demand equation is reasonable well balanced for this product.

Analyst F

Yes,. Three questions remaining. First of all, on your JV with Ineos, is it true that there's antitrust approval is expected, or another approval is expected for 5th November? So quite soon?

And secondly then on your Performance Chemical business, am I right that electricity costs should normally drop down your margins? And when you have a look at your unit, the margins are looking quite good. So do you have a long-term contract there, or have you been successful in increasing caustic soda prices?

And then lastly, you have a lot of innovation, or innovative products in your presentation. Can you give us a flavour what kind of new sales from new products is coming over the next years from your innovation pipeline?

Jean-Pierre Clamadiou

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Sorry, but I didn't get your last question. If you could repeat it.

Markus Mayer - Kepler Cheuvreux

Yes, if you can give us a flavour what kind of incremental new sales is coming from innovations over the next years.

Jean-Pierre Clamadieu

On PVC just to repeat what I was saying, we have various fronts on which we are working today. One of them is the antitrust authority. We have a meeting point, if I can say that, or a milestone, which is early November when the Commission will say whether they think they can approve this project in phase 1 or go into phase 2.

I'm just saying that it's very difficult to have a view today. I think there was a lot of good work done, and as you've seen we have come up with a package of remedies which we think should make this approval possible. Phase 1 or phase 2, it's open, and what we are making sure is that we work on all the fronts, this one but also others, because the carve-out of this business and the related agreement is not necessarily a piece of cake. So we are working on all the fronts to make sure that we can close the deal as quickly as possible, and I would say whatever the decision regarding phase 1/phase 2 is.

On Performance Chemicals, yes, we are reasonably large... it's a reasonably large user of electricity, but PVC was also significant one. We are very active in optimising our cost of access to electricity. We don't have... well, we have in some countries long-term contract. In France, with the Exeltium consortium. But we benefit from various specific situations in different countries, and I think we are probably quite good at taking advantage of that. We are also looking at a bit more aggressive way of managing that. We are today in a situation where we could take advantage of some opportunities on the electricity market to reduce our need in some of our plants and to sell electricity when the market is ready to pay high prices for it.

So a very, very active management of this input cost, which gives us confidence that we should be able to do reasonably well in the scenario where electricity prices are probably going up in Europe in the next few years.

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I tend to think to think that we are... I might be wrong, but I tend to think we are the most sophisticated buyer of electricity within our peers.

Your last question on innovation is not very... it's not simple to answer because today innovation is managed in each of our global business units. It's obvious that in a business unit like Specialty Polymer or Novecare innovation plays a very important role. In agrochemicals, in the agrochemicals segment of Novecare, for example, we have a very strong innovation pipe, and we'll probably be in a situation in which a few tens of percent of our sales in the next two or three years will be coming from innovation. Specialty Polymer innovation is very important there.

Even in silica, high dispersibility silica is not just one product. We are coming up with new references, new products with improved performance. So overall, significant numbers, but we have not consolidated at corporate level what we expected contribution of innovation. I think we will give you a bit of a more clearer view during our Capital Markets Day at the end of November.

Analyst F

Okay. Perfect.

Analyst G

Thank you. First question is on your cost savings. If I look at your bridge for Q3, can you just tell us where are the cost savings, the inflation that you have? Is it the net effect? Or if you can just point out the cost savings.

And the second question is linked to that. If I look at SG&A cost as a percentage of sales, and also on a year-on-year basis absolute terms, they went up quite significantly. Can you tell us why? What are the reasons for increase in SG&A cost, given that you are in a cost-saving mode?

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And then the third question is around volume. If you look at the volume dynamic, could you tell us, excluding maybe one or two clear headwinds that you have, maybe in rare-earth or guar, which are the areas where you're actually seeing decent volume growth? Because quite a few chemical companies are reporting healthy volume growth and your volumes were flat roughly today. So I'm just trying to understand where actually you are seeing positive volumes, which are offset by some maybe clear headwinds.

Thank you.

Jean-Pierre Clamadieu

I will take your last question and I will leave it to Karim on the first two.

The business where we see very strong volume growth is silica, that's for sure. The volume where we see some signs that things are improving are Specialty Polymer and Engineering Plastics, on the Polyamide side. Then I would say on the other we see a situation where volumes are stabilized, but not increased significantly.

And just one point you have to keep in mind when you do the analysis is that, on Emerging Biochemical, we have also some volumes going down. Emerging biochemical is the underperforming element of the Performance Chemical cluster.

And last point, don't forget that CER are phased out, and this accounts also in our price volume analysis.

But again, to be simple and specific, silica very strong volume dynamic. It's a bit of an exception. And businesses like specialty polymer, engineering plastics and Novocare, if you correct from the guar situation, we are starting to see some signs that things are improving.

Karim, on the cost side of the questions?

Karim Hajjar

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Okay. Thank you, Jean-Pierre. Hello, Jaideep. I think on the cost savings, we've already alluded in our press release to a number of strong performances in our businesses that reflects the impact of both the commercial and the operating excellence programs.

We're seeing it in the bottom line in many, many ways, but if I turn to the SG&A part of your question and look for those synergies, I would recognize it's very difficult to make that connection. And that's largely because, as you may recall, when we represented our businesses with the new businesses, there was actually a refinement in the allocation keys at the beginning of the year that actually makes a comparison of the SG&A costs year on year very difficult.

So if I then turn to the fixed costs, and to the other part of your question, they are 3% higher than last year, which is in line with inflation. And what I can say to you is there's been significant progress on the synergies.

I certainly have seen, in my first few weeks, significant momentum; just highlight the fact that at the end of last quarter we also announced, for example, the restructuring costs in relation to Solvay Business Services, almost the shared services backbone of the Group. And it is equally something that is beginning to take hold.

So in overall terms, yes, they're there; the synergies are being delivered. There's a lot of momentum and there's a lot of opportunity to go for.

Analyst G

Okay. Thank you.

Analyst H

Hi, good afternoon. Thanks for taking the question. I still have one pending question on Chemlogics. Could you give us any clarity on how much working capital is there and how we

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should think about it for our modelling? And also how much debt, and if you could give some clarity on pension liabilities as well, that would be great.

Thanks.

Jean-Pierre Clamadieu

I have to admit that I'm probably not in a position to answer your question on working capital. Pension liabilities, there's none, so it's not an issue.

Working capital, frankly speaking, I don't have... I have a number in my head, but I don't want to mislead, you so it's probably something where you can come back to Maria and she will give it to you.

Just one comment on Chemlogics. Just taking the opportunity. I think the market has not fully understood the tax impact of this transaction. And I think that's something which is important and that you need to realize.

You need to realize that, due to the mechanism which is called step up in asset, we will, indeed, reduce our cash tax spending after the acquisition. And when we do the net present value of this effect, we end up with an acquisition multiple for Chemlogics which is at 8.7 times. And I think this is really something that you need to take into account.

It's very usual in US transactions. When you buy your business which has been developed by its creator, usually you have this phenomenon of tax step up of assets. It's not so common in Europe, so I think people have had a little bit of difficulties to understand it. But from a cash standpoint, it's taking into account the cash impact of this tax phenomena, you end up again with a multiple which is very reasonable for this transaction. And this was part of the reason why we decided to move forward.

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So maybe the last question.

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Analyst I

Good afternoon. Actually, I have a few questions. Coming back to the savings, I think if we go back the Capital Markets Day, at that time we had I think, EUR110 million incremental savings this year.

With the disposals of vinyls, I guess that will be revise down, if you can comment on that, I think maybe wait for the Capital Markets Day, the next one, to do that. But if you could give us some sort of idea why, at this stage, where it could be. That's question number one.

Question number two, going back on the guar impact, on the derivative demand, I think you mentioned that the demand for guar is still pretty well on track. But is there any signs of customers switching technologies, or using less of the guar for the applications, currently, or maybe structurally? If you can comment on that.

Third question, Epichlorohydrin. You mentioned I think in your notes that it was actually pretty decent set of number, on Q3, but we got Dow yesterday saying that it's actually pretty ugly. I would like you to reconcile that, if you can.

And I think the last one, sorry for that, you said Brazil mix. Can you comment a little bit more on details, what's happening in Brazil?

Thanks.

Jean-Pierre Clamadieu

Okay. So I'll take the last three question, and I will leave the savings again for Karim.

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On guar what do we see? We see the situation where or when last year, when guar was at an extremely high price, some of our customers started, obviously, to look at other solutions.

Very few of them have been implemented on the field, and we see now a situation where guar is back at what I would call a reasonable price. And we see, in reality, little substitution, actual substitution, and when we look at the guar usage on the ground, the dynamic is positive, and the dynamic is a growth dynamic.

This is completely hidden by a very complex management, and a bit erratic management of inventories which is making, I was saying, our life more difficult.

This being said, for us, one of the reasons why we thought that the Chemlogics acquisition is key is that it gives us a lot more opportunities to play in these fields, with guar derivatives of a product.

And I think it puts us in a situation where we can use our expertise and our position and different types of product, to bring to the customer the best solution. So overall, I think it's a way to use the platform that we have created, both us and Chemlogics.

And by the way, as we've said when we presented the acquisition, and different types of customers, to use this strong base to develop a comprehensive offer, which will allow us to serve our customers, whether they want to continue to use and be exposed to guar, or whether they want to move different types of solutions.

For Epichlorohydrin, I wouldn't say it's a disaster. I think you used the very negative comments coming from Dow. But it's stable at not very exciting level.

And your last question was on...?

Analyst I

Brazil.

Jean-Pierre Clamadiou

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No. Brazil, my comment is a very macro comment. I think it's a country which should have a potential to generate some 5%, 6% of growth. We'll probably end up the year at 1.5%.

There was huge movement in currency, which makes our life a little bit complex too. We used to complain because the real was a bit too expensive, and this was impacting some of our businesses, because it was creating opportunities for import into Brazil, competing with our product.

The situation has dramatically changed in a short period of time, giving some relief on some businesses, but creating also some issues on business where we are exporting. So I would say a complex situation and a bit of a disappointment regarding the fact that this country is not growing as fast as we think it could or it should grow.

Analyst I

Could I just comment? The Chemlogics acquisition should make this inventory mismanagement less of an issue, going forward, right?

Jean-Pierre Clamadieu

No. Frankly speaking, I think the inventory issue is probably a little bit behind us, I think. As we see, guar going back to normalized level. I think, why do we have this issue in inventory? Because some of our customers have a lot of difficulties to physically access to guar in 2012.

And when they were able to access to guar it was at huge prices, so they started to develop some attitudes to protect themselves. It's not a criticism. It's just something that we see. And where they were, at some point of time, to build inventory, when they wanted to reduce it very quickly, this makes the management of the supply chain very complex, for a product which is produced in India, and then processed in Texas.

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I think that, as guar price normalizes, we see much less of this, and we'll have a situation where we can manage, once again, inventory in an easier way.

Analyst I

Okay.

Karim Hajjar

On the question of costs, I think fundamentally what I can highlight is that it's very difficult to pinpoint specifically where you'll see different elements of what is being delivered. It cuts across the whole value chain, from logistics, supply, purchasing, operational, commercial and, obviously, SG&A components as well.

I can't be more helpful to you, showing you exactly components, beyond saying to you that this is the essentially where we are. As I take a step back and look what's in front of me, it's evident there's a lot of, what I would call, structural cost reductions that are evident. So we are on the way.

Although there's also I think, another factor worth just noting, which is there's also the profile, year on year of investing in capability to have the Group transition, to really drive the value agenda.

And that is another feature as well. But I think, as we said earlier, this is something we will give you more light on as well at the Capital Markets Day at the end of November.

Analyst I

But do you think the overall number is likely to be fairly stable, despite the chlorovinyls discontinuation?

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Karim Hajjar

I think every business contributed to what we've committed. So I think this is a question I'd almost like to take on board, and make sure we provide more clarity. Also, there will be an impact on the change of portfolio. Obviously, this is an opportunity to reset and really make sure we aim where we want to, so we'd like to come back to you at the Capital Markets Day.

Jean-Pierre Clamadieu

My only comment to complement what Karim is saying is that this was not a business where we had a specific aggressive cost reduction plan like the ones we have in Soda Ash or Polyamide. So this is not this type of effect that you should think of, but yes, it was contributing, as any of our business, to our effort.

Thank you very much. I think it's probably time to come to an end. Maybe just a few closing remarks.

The first one is that this Group, this management team, and Karim coming on board, is certainly a very important addition for us. He is very much focused on executing our strategic roadmap.

We will give you an update on that during our Capital Markets Day, but for us, portfolio transformation, operational excellence or various forms, to make sure that our business performs to their utmost potential.

This is key and this is really what I've been doing with my colleagues from the exco. I think that we've seen, in the past months, a number of events which were important milestones, showing that we are, indeed, accelerating our transformation into a Group.

We've had our growth lower capital intensity, and that's something which is important to us, and obviously higher returns.

Performance during the quarter contrasted, one big issue, guar; some businesses performing very well, in absolute terms; some businesses performing very well, in a current challenging environment, and probably some signs that things are slightly improving.

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And then a very important date for us, November 27, in London, we'll have the opportunity to spend a full day, myself, my colleagues from the exco, and some of our key GBU general manager, to share with you, what our strategic roadmap, how much ground we have covered, what's left to be done. I think it will be a very interesting day, and you can count on us to make it as interesting and as informative as possible.

Thank you very much for your attention.
