SOLVAY

Moderator: Jean-Pierre Clamadieu
November 13, 2014
7:00 a.m. ET

Operator: Ladies and gentlemen, thank you standing by, and welcome to Solvay Q3 '14 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 on the 13th of November, 2014. I would like to turn the conference over to your speakers today, Jean-Pierre Clamadieu. Please go ahead.

Jean-Pierre Clamadieu: Thank you very much, everyone. Thanks for joining us for this Q3 2014 earnings call. I'm here in Brussel with Karim Hajjar, CFO, and Maria Alcon our investor relation person.

So I think when I look at these results, the key theme is probably momentum. I think that both in terms of transformation and in terms of operational performance, the company has built and is continuing to build very strong momentum. I think we are presenting a set of robust quarterly results, very much in line with what we have delivered during the first two quarters of the year, and this is really clear results from the ongoing transformation which is taking place at Solvay.

Just focusing on the headlines, our earning momentum is primarily driven by our growth engines. We see the strength of our innovation and our ability to deliver significant volume growth, and I think this is very reassuring regarding the strategy that we started to put in place a couple of years ago. Sales volume growing 10 percent in this segment -- I think that's a good performance. External growth initiatives that we have concluded in the past couple of years is also delivering up to our expectation, and this clearly helps us improve our market position.

And last but not least, and this was also a feature of the first two quarters, excellence measures are continuing to support the improvement of our profitabilities.

So now going into the details, demand dynamic is good on the segment that we serve. Net sales were at EUR2.6 billion, up 8 percent year on year, results of strong organic growth and further lifted by the external growth. In fact, the only significant contributor to our external growth is Chemlogics.

Regional developments, no surprises there. North American confirm the accelerated growth that we've seen in Q2. Asia continue to represent for us a lot of opportunities and market dynamics there is very satisfactory. Europe, you know, the overall European situation, but looking at the market that we serve and looking at our own penetration, we see good recovery in Europe, and that's one of the elements of these results.

In fact, the only area where we have a significant number of challenges is really Latin America. In fact, we still face there a number of issues going from very low growth -- in fact, the current expectation is for almost no GDP growth in Brazil -- high raw material costs, high energy cost, high salary inflation, so quite a number of challenging situations.

Going into the various markets that we serve, just making some comments on the one which I think are the most significant or the ones on which you might have the most questions, automotive, 3 percent growth year on year overall market, strong growth rates in North America and Asia, but you have to remember that our primary exposure in the global automotive market is linked to new applications, these going from tire from high energy efficiency tires to solutions which could -- which allow us to reduce the weight of the vehicle and to improve their fuel efficiency and their overall emissions. We are very much exposed to these trends, and we are clearly benefiting from tougher regulation and much more focus on the OEM on these types of issues where our product can really make the difference. So our growth rate in automotive is higher than the overall market growth rate.

Unconventional oil and gas, we are continuing to benefit from a very strong dynamic there. What we've built with Novecare position and Chemlogics is a very strong provider of solution to the oil and gas industry, with a specific focus in North America. I know that some of you are following very carefully the oil price and wonder whether this could have an impact on our activities in the U.S. Difficult to answer. I mean, the factual answer is up until now, we have not seen any impact on the growth dynamic is very strong. We know that if the oil price was to stay for long at a lower level than what people had expected for many years, this could impact our sales growth, and we are vigilant. But, again, no signs today of any impact linked to the current oil price.

And when we look at our exposure -- and we might come back in the Q&A part -- it's important to realize that we have a balanced exposure between gas, which is where prices are -- where prices are stable to slightly increasing, and tight oil, where the price is, indeed, a global price. So frankly speaking, no big issues looking forward, but the need for us to be very vigilant.

Another very important end market is the smart device market. We have -- we are clearly benefiting from a breakthrough in trends in this market that we've made only a couple of years ago. We have developed thanks to our innovation and our ability to build customer intimacy. We have developed a strong presence in this market.

We know that it's not a smooth market, that we are dependent on product cycle, but clearly this is a significant contributor to our growth in the specialty polymer business, and we expect to continue to benefit from the position that we've built there in the market, where demand is more and more sophisticated and innovative solution.

In fact, looking at the market, the only market where we are seeing today negative trend is our Acetow business. New capacity in China, we've probably felt that a little bit later than the other guys, because our exposure to China is smaller. But we've seen softer demand and a tendency to destocking which affected our volume, although as I've mentioned we expect Acetow to post probably best year ever in 2014, but clearly there are some challenges there on the second part of the year, which will be a bit more difficult than the first one, but we are taking some measures there. You might have seen the announcements that we've closed two small workshops in Germany and in Brazil, which in our view will help make sure that the market is balanced between supply and demand.

So now going into -- going into the numbers, REBITDA stood at 458 post the discontinuation of our Eco Service business. It went up 9.5 percent year on year, so we are still very much around this 10 percent growth year on year. Driven mostly by growth engines, but in fact all operating segments have contributed to REBITDA growth and margin expansion.

Excellence project are continuing to deliver. We are seeing that both from the -- for the operations side, and this leads to -- this leads us to be able to almost offset inflation in our fixed costs, but also in commercial activities, and you've seen that we've posted a significant impact in terms of pricing power, and clearly our commercial excellence action plans have helped secure this contribution of pricing power to our overall growth.

Margins are on the high side, 17.7 percent on net sales, so quite -- quite a good achievement, if you compare this with -- if we compare this with our competitors.

Strategic portfolios -- so I know there was some disappointment. When we hear the news yesterday that the Brazilian antitrust authority, CADE, has decided to veto our -- the Indupa divestiture to Braskem it was a disappointment for us, I have to say. But we are very convinced, we are very determined to exit this business, and we are convinced that we should be able to re-launch the process quickly with the objective to, indeed, find a better owner than us for this -- for our stake in Indupa, which will delay a bit the process, obviously, but the Indupa currently is not weighing on our cash performance. This business is not consuming cash. And we think that there will be other opportunities, but we'll try to make happen as soon as possible to divest this business.

On European PVC, we are well on track with the -- with our objective, which is now to close this transaction around year end. We have -- we are currently negotiating with a number of potential acquirers of the businesses that we need to divest to satisfy the European antitrust authorities' decision. We expect to finalize with one of these parties in the next few weeks, and then get the E.U. final approval, which will allow us to close. And, again, no changes in our plans to close around year end.

Eco Service, probably the simplest of all of these projects, we expect also to close in the next few weeks this divestiture. And there, there is no major roadblock. But portfolio management is not just about divestiture. We are continuing to redeploy our resources to generate value for the company and its shareholder. The Ryton PPS business will be integrated into Solvay probably as of January 1, 2015. We don't see any specific issues there, and it's clearly an acquisition which will strengthen very significantly our position, mostly in the automotive industry segment, and it will broaden our technology offer, so very good news and plenty of opportunities for us looking forward.

We've made also a smaller acquisition to support our aluminum brazing business in special chemicals. We are developing additives which are used for aluminum brazing with significant growth opportunities, and we bought a midsized German company called Flux Brazing, which will help us bring more innovation, more innovative solutions to our customers. So we'll continue to look for bolt-on opportunities, and clearly portfolio management is part of a key action plan that we are developing as part of the transformation of Solvay.

Karim, the floor is yours now to go a little bit more deeper into our numbers.

Karim Hajjar: Thank you, Jean-Pierre. And good afternoon. As usual, I will amplify Jean-Pierre's commentary on the businesses and go slightly beyond in terms of other bottom-line and cash balance sheet elements.

I would also make reference to certain slides which are in our results presentation available on the website. And, in fact, I'll turn your attention to slide five, which has had a sustained solid REBITDA growth, and maybe pick up where Jean-Pierre mentioned that sales grew 8 percent year-on-year to EUR2.6 billion in the quarter. Chemlogics was 2 percent of that, and higher volumes in our growth engines is the remainder. There was no meaningful impact from FOREX or pricing beyond what I've just said.

Turning to REBITDA, 9.5 percent up quarter on quarter, but if I begin to unpack it and give you a sense of the quality of it, a few things to highlight beyond the volumes, which I'll come to in a moment. Net pricing is up EUR29 million, and that is despite transaction FX headwind in relation to the euro-yen movement, and that's about EUR5 million. Where does it come from? Two main factors. We do see some benefit from lower raw material prices, such as butadiene, guar, and rare earths. But more fundamentally, we're seeing strong sustained delivery of our operational excellence programs, which are helping to contribute to this performance.

Operational excellence is also visible when you look at fixed costs, which show a slight increase of EUR9 million year on year, and that is on a base of EUR737 million in the quarter. That's only 1 percent. If we look at it on a year-to-date basis, our fixed costs are flat. And again, this is in large part due to the sustained delivery on operational excellence, which is coming to the bottom line.

Other charges of EUR50 million, which you'll see there, as well. These relate to a number of factors. There are start-up losses at RusVinyl, which are shown in the equity earnings, and that's about EUR7 million. And you may recall last year that we took a one-off insurance benefit of EUR22 million, which is non-recurring. We also had the benefit last year from small non-recurring capital gains from the sale of certain assets stemming from the integration of Rhodia Solvay and that was in China, if memory serves me right.

So fundamentally, as we take a step back and look at the underlying EBITDA growth for the quarter -- and that means excluding any one-off effects, such as

Chemlogics, insurance, foreign exchange, underlying REBITDA growth is 13 percent in the quarter on a like-for-like basis. It's 15 percent merely on a year-to-date basis, as well. What is also very encouraging is the fact that the REBITDA margin has expanded to 17.7 percent in the quarter, and it's 110 basis points higher on a year-to-date basis than this time last year.

If I turn to our key businesses, and if you want to follow, it will be slide seven for advanced formulations -- I'll start by reminding what -- emphasizing what Jean-Pierre said, which is every one of our operating segments grew REBITDA and expanded margins. Advanced formulations, so sales increase of 27 percent.

If we exclude the Chemlogics acquisition effect, that's 9 percent. REBITDA, up 49 percent, excluding Chemlogics acquisition effects, 13 percent up. Where is it coming from? Well, Novecare features very strongly with strong demand in the U.S. oil and gas market, but also some good improvement in the agro business.

The Coatis performance was lackluster. It reflects the downturn of the Brazilian economy, which really happened to -- well, it weighed on our results by squeezing our margins because of raw material price cost inflation.

Aroma performance experienced certain production issues at the Baton Rouge plant in the U.S. We also had an unexpected forced temporary shutdown of a plant in China, which also negatively impacted our sales.

If we look at the portfolio collectively, REBITDA margin widened 223 basis points to 15 percent, but that is in large part because of the addition of the Chemlogics business.

Turning the page to advanced materials on page eight, sales are up 9 percent, REBITDA up 14 percent. Where is it coming from? Two real highlights. Specialty polymers delivering very strong volumes, and that really benefited from product launches in smart device products. This is a trend that we started to see in the second quarter, and we signaled it, in fact. But we also see a continued improvement in sales to the automotive segment.

Silica has delivered double-digit sales growth of 12 percent, and that is pretty broad-based, and we see improved demand both in OEM and replacement segments. Rare earth systems delivered a two-digit improvement, special chemicals, really nothing to report. It's in line with what we saw last year.

The segment improved 100 basis points to 26 percent. Performance chemicals, 2 percent, is the improvement in sales, 5 percent improvement in REBITDA. What is very encouraging is the growth in soda ash and in peroxide, with delivered 3 percent and 12 percent sales increase respectively. And the cost savings is also coming through to bottom line.

This helped to compensate for the decline in Acetow that Jean-Pierre mentioned, which as you'll know is a linked to the destocking in the industry, as well as new addition of capacity in China. And we don't see any major movement or improvement in our emerging biochemicals business in Asia. The margin for the segment improved to 26.1 percent.

Functional polymers, REBITDA grew 18 percent, and that stems from the margin expansion as butadiene raw material prices decreased, but more fundamentally by good volume growth in Asia and our engineering plastics business, together with broad-based delivery on our excellence programs. This helped to offset weaker profits in fibras, which as you all know is impacted by the Brazilian dynamic, but also by start-up losses in Rusvinyl PVC joint venture in Russia, which started up in September. The margin for that segment rose slightly to 5.2 percent.

Corporate and business services -- I hope you welcome the new additional insight on page 11 and maybe just highlight the fact that whilst costs are up sequentially, on a year-to-date basis, and if I leave aside the distortions, if you like, of the one-off provision reversal we had last year, we're showing an 11 percent reduction in our corporate costs from 150 year to date to 134. And that is just another signal of the continuation of the cost discipline that we're very attached to in Solvay.

Now turning to page 12 and the elements below the REBITDA line, the news here is there is genuinely no big news. If you take that highlight, nonrecurring costs of EUR30 million now included EUR10 million restructuring provision, largely related to the suspension of activities in the fluorspar mine in Namibia. Net debt charges fell EUR14 million completely, as one expects, given the repayment of the high-yield debt in the first half of this year, which is really making -- help us make inroads to reducing our negative carry.

But that was more than offset by reductions in our discount rates, which impact our HSE provisions in the U.K. and in Latin America. That was EUR22 million of impact. Tax, no surprises. Underlying tax rate of 33 percent very much in line with our guidance of low to mid-30s.

Finally, if I turn your attention to page 16, and the cash flow, a couple of things. One, our free cash of EUR122 million is after investing in CAPEX of EUR205 million. I can confirm our expectation for CAPEX of EUR850 million for the year still. We are investing for value.

Working capital is something which I think you ought to be very focused on, as well, like we are, and essentially given that we have a very significant ramp-up in sales, volume net sales, quality volumes net sales, we see an increase in working capital. What is pleasing for us as we go below the surface and look at seven key metrics, we're seeing our day sales outstanding, our DSOs, improving by one day in the quarter. Our overdues fundamentally are 40 percent better than they were in nine months ago. There is very significant attention on cash and very significant discipline on driving sustainable balance sheet efficiency.

That means that we have confidence, strong confidence that we expect a very big reversal of this built-in working capital in the fourth quarter of this year. You will see a couple of elements. The acquisition that Jean-Pierre mentioned in Germany, the Flux Brazing business, was closed and financed in the third quarter. We also see other charges of EUR100 million, two main elements -- funding the completion of Rusvinyl in Russia. We also have the normal accrual of financial interest, remembering that the vast majority of our cash interest payments, crystallized in the first half of the year, less that normal lumpiness in terms of short-term loan movements, as well, which on a year-to-date basis net out to very limited amounts. As a consequence, our net debt rose slightly to EUR166.5 million.

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

Jean-Pierre Clamadieu: Thank you very much, Karim. So just a few words before opening for the Q&A.

Outlook, we are just confirming our previous guidance, the one we've gave since our Q1 results presentation. We had robust performance in Q1, Q2. We are confirming this very good performance in Q3. We reiterate our expectation for the full year. We expect we'll see the normal seasonality in Q4 versus the other quarters, but we expect to deliver growth in Q4 2014 versus Q4 2013. And overall, we expect to deliver for this full year a REBITDA which will show high-single-digit growth rate versus last year.

We know that the overall environment is complex, both from an economical and Geopolitical standpoint, but we are mid-November and we are confident in reiterating our previously stated guidance.

Cash generation is a key point for Q4. Karim has covered this. We are optimistic regarding our ability to generate very significant free cash flow generation in Q4. And obviously, we'll continue with the transformation of our portfolio. The two projects that we expect to close in the next months, are Eco Services and our European Chlorovinyls project regarding PVC, we know that we need to -- we know that we need to re-launch a new process. But clearly for us, as I said back linked to the CADE decision, is not impacting our willingness to exit from this business. And we are very confident that we'll find overall opportunities with less antitrust-associated risk to achieve our objective.

Maybe just one last point on dividend. Just to remind you that in Solvay's corporate policy, the interim dividend is always set in comparison with the previous year dividend, so it's not -- I don't see -- I don't look at it as a signal or a guidance of what would be the final decision regarding dividend. In fact, our policy is very simple. The interim dividend represents 40 percent of the prior year dividend, and this represent a growth dividend of 1.3 repeated infinitely euro per share payable in January 2015.

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

Operator: Thank you. As a reminder, if you wish to ask a question, please press star and one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, just press the hash key.

Your first question comes from the line of Wim Hoste from KBC Securities. Please go ahead, sir.

Wim Hoste: Hello, good afternoon. Wim Hoste from KBC Securities. Have a couple of questions. First, on the raw materials and energy cost outlook, could you shed some light about your anticipation for the various regions?

Then, second question. On Acetow you mentioned you have some additional capacity in China and some destocking at customer level. Can you maybe saw how much -- how long that this destocking is expected to last and maybe shed any view on the 2015 pricing outlook, as well as your commitments to that business? I think there were some rumors recently that you might be looking to divest that business, so any insight in how committed you are to Acetow would also be helpful. Thank you.

Jean-Pierre Clamadieu: OK, well, your first question is a complex one, raw material and and energy cost. We currently operate in a deflationary environment regardingraw material and energy cost although the picture, as usual, is -- is a bit more -- is a bit more complex than this. We continue to natural gas prices in the U.S. at the usual -- at the usual level, and we don't expect significant changes. Oil I won't make any forecasts. We just know what's the situation today.

And when I look around at our raw material, I see a tendency that is flat to slight reduction. But, again, we are buying so many different raw materials that summarizing that in one comment is a little bit of a challenge. But probably what you can keep in mind, if you want to simplify what I've just said, flat to small -- to small reduction, and in this context, we know that we have to give a little bit of this back to our customers, which we know also that we want to continue to demonstrate our pricing power and our ability to defend our margins in a lot of different raw material environments.

Acetow, difficult to quantify what the amount of destocking that we are currently -- or how long it could last, our feeling is that it will mostly -- it will mostly impact the market until the end of -- until the end of Q4, so we don't see that as a structural change of the market, but just as a temporary event. And looking at what -- at the various comments that we have made in the past few weeks and the subject where it's probably an opinion which is largely shared.

Regarding Acetow future, we don't comment on rumors. We have not launched today a formal process for the divestiture of Acetow. We've said several times that we are very pragmatic regarding portfolio management and clearly portfolio transformation is still a key issue in the overall transformation story of Solvay, but we tend to communicate when we have something concrete to share with the markets. So again -- no reasons for us or no basis for us to comment on rumors.

Can we move to the next question?

Operator: Yes, sure. Your next question comes from the line of BoAM from U.K. Please go ahead. Bank of America Merrill Lynch.

Laurent Favre: I guess that's me then good afternoon. Just two questions, if I can, one on soda ash. I guess we are more or less in the middle of the pricing negotiation. Could you confirm that your European utilization rates are currently, you know, close to, I guess, full capacity and therefore if the whole industry is in the same boat, we should be expecting small price increases for next year? That's the first question.

And the second one is on Acetow, again, in terms of raw materials, what are you seeing, I guess, into 2015, what are you seeing in terms of dissolving pulp prices, you know, given all the supply additions that we are seeing on that side? Thank you.

Jean-Pierre Clamadieu: Well, on soda ash, I mean, yes, the situation of the supply-demand equilibrium is -- is well balanced in Europe. And you know that we've closed the capacity in povoa there was a couple of similar actions by other players. I think today we have a situation where supply-demand is well-balanced, and you've seen the good performance of soda ash during this quarter, and we expect that to continue. I think what we've done in the past -- what we've done in the past couple of years, strengthening our position in the U.S. with marginal debottlenecking strengthening our position in Europe with fixed cost action plans, plus the shutdown of povoa all of this is paying off and will continue to live with the same action plans.

On Acetow, I don't want to be too specific and to comment too much on elements which are part of our negotiation with our customers, so no specific comments, sorry.

Laurent Favre: Just one more, if I can. You mentioned that the interim dividends should not be seen as -- I guess as a signal for the final dividend. So can you tell us how we should be thinking about that final dividend?

Jean-Pierre Clamadieu: Oh, you should probably wait -- you should probably be a little bit patient. I mean, it's something we need to discuss, obviously, with our board in due time, but I was -- I was referring in fact to some comments that I've seen this morning on the Internet of people trying to make -- trying to draw conclusions from the interim dividend. Again, in Solvay policy, it's -- the interim dividend is set at a level with the reference being the previous year dividend. So frankly speaking, no conclusion can be drawn from that, just that it represents 40 percent of last year dividend, and this is -- this is what is -- it has been the case, I guess, for the last 20 or 40 years. So wait until our full-year presentation to know how we feel about dividends.

Laurent Favre: Thank you.

Operator: OK, thank you. And next question comes from the line of Michael Rae from Goldman Sachs. Please go ahead.

Michael Rae: Yeah, hi there. Thanks for taking my question. You've touched a bit on the outlook for Novecare oil and gas in the commentary there, but can you just give a bit more color on the extent of your order book in that business, so how far out in time do you have this ability?

And then, secondly, you've disclosed this sort of underlying growth in advanced formulations, excluding Chemlogics, but what's the growth rate been at Chemlogics since you've owned those assets? Thanks.

Jean-Pierre Clamadieu: On Chemlogics, the growth is clearly in the double-digit zone, very strong -- very strong growth dynamic, and when I look back, if you don't have information, but when I look -- when I look back at the acquisition business plan, we are clearly significantly ahead of our expectation.

Order book in oil and gas, it tends to be a short order book, so I would not draw any conclusion from this, but as we speak, we haven't seen any slowdown in tight oil or shale gas. You know that we are serving these two markets in the U.S. We have not seen any slowdown in exploration, fracking, or production activities.

And I remind you, also, that our exposure today is well balanced between shale gas and tight oil and well-balanced also between -- well-spread, I should say, between various subsegments. So there's probably some activities which would be at risk if oil stays in the $70 to $80 per barrel for long period of time, but so far, we have not seen any visible move, and the growth dynamic is still very strong.

Michael Rae: OK, but does your visibility extend already into 2015 in the spring? Or is it -- I mean, it's -- how short is short?

Jean-Pierre Clamadieu: No, I mean, our visibility is a few months. And, again, tight oil in the U.S. is kind of a -- is a bit of a new phenomenon. It started a couple of years ago. No one knows, in fact, what could be the reaction of the players in this market in different oil price scenery.

But, again, I can just share the fact which is that -- which is the one I've just mentioned. We have not seen yet any signs of slowdown.

Michael Rae: OK, thanks very much.

Operator: Thank you. The next question comes from the line of Nathalie Debruyne (Petercam). Please ask your question.

Nathalie Debruyne: Yes, good afternoon. I have actually two questions. The first one would be on cost of goods sold, but I just noted that it actually increased, whereas the top-line decreased -- will it be due to actually higher volumes? Or how do you actually explain that? So that was the first question.

And the second one would be on Aroma performance. You mentioned that positive market trend is there, that -- the top line was actually impacted by the shutdown in China and technical issues in the U.S. Do you still expect this phenomenon to affect Q4? Thank you.

Jean-Pierre Clamadieu: On Aroma, we don't know. I mean, we have a temporary production effect were temporary, and we don't expect this to continue into Q4. We had technical issues at our Baton Rouge facility in the U.S., plus a bit of an aggressive shutdown of our plant. It was not our plant. It was the utility was -- who was providing with us steam because of Olympic Games in the regions where -- regional Olympic Games in the region where we are operating, so a little bit -- a little bit surprised by this -- by this decision, which at the end of the day had a significant impact on the output of our Chinese plant. But this is over today, and we -- in Q4, we don't expect any more production impact in Aroma performance.

Cost of goods sold, Karim?

Karim Hajjar: It's an interesting question. I think fundamentally, if I look at the nine months, just look at the IFRS results, make it easy for folks, then our press release on page 14, essentially what you see is an increase of cost of goods sold of EUR130 million in nine months. But that comes with sales -- a net sales increase of EUR280 million, approximately.

The margin on our sales has increased by 2 percent in the same period. So as you see even in the chart five that I talked about, you have EUR123 million of volume driven growth. That obviously has a cost, but the margin is enhanced as a result of that increase in sales.

Nathalie Debruyne: OK

Jean-Pierre Clamadieu: The consequence of volume growth, which again is...

Karim Hajjar: Yeah, it's quality, yeah.

Jean-Pierre Clamadieu: OK, thank you.

Nathalie Debruyne: Thanks.

Operator: Thank you very much. Your next question comes from the line of Marcus Diebel from Citi. Please go ahead.

Marcus Diebel: Hi, everyone. Two questions, one on silica and double-digit growth rate. Could you tell us a little bit more about the regions there? You said you were quite happy with the performance in all regions except Latam. But could you just, you know, give a bit more color on Europe and Asia here?

And the other point is on Functional polymers. You stated that the disposal had around EUR40 million impact in the quarter. And going into Q4, could you tell us what the impact would be just to get our models right?

Jean-Pierre Clamadieu: On silica, it's difficult to be much more specific. We are clearly following the growth of the energy-efficient tire market in this region. The growth is -- as you would expect -- higher in Asia than in Europe, higher because -- because the overall growth is higher, but also higher because with -- because we've seen some -- we see some new regulation coming and the penetration rate for this type of technology is still currently lower in Asia than in -- than in the rest of the world.

But I would say very solid -- very solid growth in all -- in all regions, with the exception of Latin America, but which is rather smooth market for this types of applications. So no big differentiation regions by region.

And once again, we can demonstrate with this result that the dynamic in the energy efficient tire market segment is significantly better than in the overall tire market.

So the second question, Karim?

Karim Hajjar: Yeah, maybe on Benvic. I think fundamentally Benvic will lose sales, but we don't lose much profit, which is why the functional polymer segment itself fell 8 percent in terms of sales, so broadly the best guidance we can give you is that the sale of Benvic does not deprive us of a significant profit stream as we look forward.

Marcus Diebel: OK, thanks.

Jean-Pierre Clamadieu: Next question?

Operator: Thank you. Your next question comes from the line of Martin Roediger. Please ask your question.

Martin Roediger: Yes, thanks. And hello, Jean-Pierre, Karim, Maria. Three questions. And my first on your Ryton acquisition. You spent $220 million. Sales is EUR100 million. A meaningful EBITDA is not expected before 2016. So can you give us some color on what is the EBITDA on a standalone basis? And what is the synergies you expect to achieve? And you highlight the strong growth prospects, so I wonder why Chevron Phillips sold that business to you.

The second question is on the excellence program. Can you share with us how much of the savings you have already achieved and is booked now year-to-date in your numbers?

And, thirdly, in the corporate line, you have EUR5 million REBITDA from energy. Is this run rate -- a quarterly run rate we can use for going forward for the energy part? So is this run rate sustainable? These are my questions. Thanks.

Jean-Pierre Clamadieu: Thank you. On Ryton, what we expect post synergies is a REBITDA margin very much in line with the overall cluster, no surprises there. We know that -- where there's few challenges that we have to overcome. One of them is the fact that Chevron Philips has started to implement new technologies, but they are currently facing some challenges, and we think that we have the -- the resources and technologies to overcome this, whether it's part of the -- of the synergies that we are expecting. But again, simple view that this business will generate a REBITDA margin very much in line with specialty polymer and the cluster.

Why did Chevron Phillips sell this business? Just because Chevron Phillips is a petrochemical company. This was their only specialty business, their only specialty polymer, and although Ryton as a very good -- is a very good brand in this field. It was a little bit isolated within Chevron Phillips portfolio. And we were able, in fact, to convince Chevron Phillips that we were probably the best owner of this business and we're able to negotiate on an exclusivity basis, which is always a better position when going for an auction. We will share our site with Chevron Phillips, so I think they were a little bit picky when to choose the guy with whom they wanted to share the site. And Solvay sounded like a very good neighbor, so it's why we were able to conclude the transaction I think in reasonably good conditions.

Maybe just one comment on excellence initiatives before -- before I think Karim will give you a bit more color. I wouldn't -- I wouldn't answer in percentage achieved, just because excellence initiatives are probably a permanent feature within the company. I mean, we obviously have some specific program for specific businesses. For example, in soda ash, with 100 M€ fixed-cost reduction program, it's probably 60 percent done at the end of -- I mean, at the end of this quarter, but when I look at the -- at the broad picture, I think we will be always looking for more opportunities my now 20 years of experience with the chemical industry tells me that wherever you are, there are always opportunities to improve them, in terms of overall efficiency and fixed-cost.

Karim Hajjar: Thanks. Maybe I'll just add to what Jean-Pierre said. I think broadly speaking, we are on track. We will probably share a lot more with you next year as you look back and show you the quality and the nature of that contribution from the excellence programs.

But, I mean, some programs are doing far better than we thought. Others are frustrating, not quite up to expectations, but as a collection of portfolio of well over 120 programs, we're pleased. But, again, I think genuinely Jean-Pierre says, we want more. We will always look for more. But so far, so good, very pleased with the progress.

And the other part of your question, which is unrelated, is on energy services, and I think broadly what I can say that excluding carbon credits, this business does have a bit of a lumpiness in terms of its profit profile, but EUR20 million a year is about right at this stage. But it will be up and down from quarter to quarter, and that's normal business.

Martin Roediger: Just one clarification question. On Ryton, is this business now still loss-making on REBITDA level right now at this point in time?

Jean-Pierre Clamadieu: Well, it's difficult -- it's a difficult question to answer, because clearly the cost structure within Chevron Phillips is not the one that we will have within Solvay, so, no, we won't be starting up with loss-making business. And, again, the objective is to bring it as soon as possible to the average level of specialty polymer. And, frankly speaking, having reviewed last week in the U.S. how the integration plan is set up, I think this is -- this is something which will move very smoothly.

Martin Roediger: Thank you.

Operator: Thank you. Your next question comes from the line of Patrick Lambert. Please ask your question.

Patrick Lambert: , Nomura. Good afternoon, everybody. Very quick question on Novecare and trying to get the current size of the oil and gas. If I had done pro forma last year, I think, and with the growth is it fair to say its about 45 percent of Novecare currently. That's the first questions.

Second question is a little bit more so on the rare-earth margins. I think you commented that they were pretty sustained due to the raw materials. Could you be a little bit more quantitative about that compared to what you had published a few years ago on the average margins of this business? Thank you.

Jean-Pierre Clamadieu: On oil and gas, the overall exposure for Solvay to oil, to oil, is around 5 percent of our sales, a large part of it within Novecare and a bit within specialty polymer with some specific application, like risers probably the best granularity I can -- I can give you.

Patrick Lambert: OK.

Jean-Pierre Clamadieu: OK.

Patrick Lambert: I tried, at least.

Jean-Pierre Clamadieu: No, no, but I think it's EUR500 million, but your ballpark, where we are, so it's an important piece, but, again, Solvay today is very diversified, and we should all be -- we should all be careful to draw conclusion from what's happening in a very specific -- in a very specific segment. So we are looking at that very carefully, but we don't see today major risk to this side

Patrick Lambert: And is it fair to say, also, that AG was about 200 M€?

Jean-Pierre Clamadieu: Well...

Patrick Lambert: It's more for the growth drivers, actually. Your growth engines..

Jean-Pierre Clamadieu: Wait until -- wait until our Capital Markets Day to try to give you more granularities on our exposure to such specific markets.

Jean-Pierre Clamadieu: Karim, on Rare-Earth

Karim Hajjar: Yeah, on Rare-Earth I think essentially a couple of things to mention. One is, it's the catalysis business that's coming in and helping to drive real improvement. It's REBITDA margin as our own business has improved about 2digit percent, so for this year, and broadly speaking, REBITDA performance is in line with the segment that it's included in, as well.

Patrick Lambert: Great. Super. Thank you.

Jean-Pierre Clamadieu: Next question?

Operator: Thank you. Your next question comes from the line of Jeremy Redenius. Please ask your question.

Jeremy Redenius: Hi, it's Jeremy Redenius from Sanford Bernstein. Hi, can you hear me OK?

Jean-Pierre Clamadieu: Sure, sure. Go ahead.

Jeremy Redenius: I just had the question about the working capital increase. I'm wondering if you just give us a little bit more detail about, you know, what's happened beyond just, you know, sales growth picking up that's driven that increase in inventories and in ARs. And maybe specifically what you're doing in Q4 to address that. Thanks very much.

Jean-Pierre Clamadieu: Well, as Karim has mentioned, we had -- we had a profile within the quarter which was a little bit back-end-loaded in terms of sales, which means that we've -- which means that we have sold significantly in September and then we were on the table to collect the cash, so it's a bit of a natural phenomenon.

On top of that, we have some number of new projects where our customers are very demanding in terms of safety inventories, so that's weighing also on our working capital, which in my view is -- is at a level which is certainly a little bit too high at the end of Q3. So what are we doing?

First, this launch of new product is now behind us. I think customers have -- customers have a level of confidence which allow us to decrease our level of inventories, and we are focusing our teams on cash. I think overdues probably -- also a little bit high, so it's something that we currently correcting.

And, yes, indeed, I think the -- an important challenge in Q4 is to make sure that we are -- that we generate a significant amount of cash, but we are very confident that we do that.

Karim Hajjar: No, absolutely. The only other thing to mention is what we show as an overall cash flow is despite some pretty tough conditions in the Chlorovinyls business in Europe, with caustic soda margins which erodes -- which actually doesn't contribute positively to our cash flow at all, but fundamentally, the attention on cash is huge. I've talked about working capital in terms of receivables.

Nothing more I can really add. Maybe one other thing I can maybe help you understand, which is there's a most increase inventory levels, but that really is at -- call it ahead of the normal shutdown profile, so it's very much business as usual.

And the final comment maybe is just to remind folks that in Solvay, for bonuses to be earned requires the minimum cash to be delivered. So there's a natural incentive, and people are very, very engaged day in, day out to collect the cash that is rightly should be in Solvay's accounts, which is very helpful dynamic.

Jeremy Redenius: Thanks very much.

Operator: Thank you. Your next question comes from the line of Mutlu Gundogan please ask your question.

Mutlu Gundogan: Yes, good afternoon, everyone. Two questions, first on specialty polymers. Obviously, you have very strong volume growth in this quarter. Just wondering how you see that devolving in the next following quarters. And then, secondly, on peroxides, also here are high sales growth of 13 percent. Just wondering what the split is in volume and prices and which occurred operating rates. Thanks.

Jean-Pierre Clamadieu: On specialty polymer, we can't expect the business to be very stable one quarter after the other. There's obviously some product launch at our customers we are launching currently innovative -- innovative products, so there could be variation.

But frankly speaking, we see a lot of our markets performing well, as we speak, in specialty polymer, and the ones which have demonstrated the higher growth during the last quarter will continue to demonstrate good growth, and the ones which are a little bit -- which are at a little bit lower growth, continuing also to deliver, so overall I think we'll continue to see quite a satisfactory dynamic at specialty polymer.

And, by the way, a key subject at specialty polymer is to make sure that we have the right balance of products within our portfolio. And the right balance of -- when I say product, I mean a right balance of exposure to industries with very different life cycles, smart devices as kind of a short life cycle is a kind of short life cycle market. We are trying and we have been hugely successful there.

We are now looking at other markets, like the -- we are looking at other markets like the aerospace, where we think we have a lot to contribute and which, obviously, is a market with much longer product cycle.

On peroxide, I would say it's both -- it's both a good performance in terms of volume and price. We are today running at almost full capacity with our current set-up and very, very, very good business for us. We have a very strong position. We are by far the -- we are by far the market leader and the performance of the business is very much in line with the strong leadership on this -- on this market. And probably, by the way, a development of higher margin activities.

I mean, we are starting to enter into a new market, like fish farming, where hydrogen peroxide is a good way to protect fishes from specific disease and is proved to be a very good market where we can build entry barriers and pricing power.

Mutlu Gundogan: Thank you, Jean-Pierre. Just maybe a quick follow-up. In terms of profitability, if I compare the peroxide business to soda ash, I mean, am I right to assume that profitability is lower than soda ash?

Jean-Pierre Clamadieu: I don't want to give you a specific amount on that. The structure of peroxide is a bit more complex because we have a few JVs, our mega plants are in JVs with -- with our key partners, like BASF and DOW. The -- overall, I would say you can probably assume that it's quite balanced, but I don't want to give you the more specific and give you specific numbers.

Mutlu Gundogan: Yeah, yeah, yeah, no, thank you very much.

Jean-Pierre Clamadieu: Maybe the last question, as we are getting to the end of this call, or maybe the last two questions?

Operator: Your next question comes from the line of Heidi Vesterinen. Please ask your question.

Heidi Vesterinen: Yes, hello.

Jean-Pierre Clamadieu: Hi, Heidi.

Heidi Vesterinen: It looks like you delayed your Vanillin plant in China by a year, looking at your slide 15. Could you tell us what happened? And is this just a specific situation, or are you considering doing some of your other projects potentially?

And then, second question. We heard something about water shortage affecting some sites in Paulinia. Can you update us on that? And is that going to have any impact on Q4? Thank you.

Jean-Pierre Clamadieu: Well, on -- well, you're following us very carefully. No, on Vanillin, from memory, it might have slipped from Q4 to Q1 (correction its Q4 2015), which means a year on our slide, but it's just a few weeks or a couple of months' delays in the products or nothing -- nothing very -- nothing very significant.

On Paulinia, you're right. I mean, it's an issue that we are currently facing. It has been a challenge already a few months ago. The river in our Paulinia site is getting dry again, so that’s a challenge for us.

How serious will it be? Well, we should probably look for the weather forecast. We don't know how long it will take to see water flowing again in this -- in this river. We don't consider that as -- today as a significant risk to the guidance that we've given you, but, yes, that's an issue.

Heidi Vesterinen: OK, thanks.

Jean-Pierre Clamadieu: Brazilian authorities are just completing a dam, and they tell us that this issue won't repeat again, but it's true that this year is the second time we are facing -- we are facing water shortages.

Heidi Vesterinen: OK, thank you.

Jean-Pierre Clamadieu: So maybe the last question? And I'll conclude.

Operator: Thank you. Your next question comes from the line of Boam. Please ask your question.

Jean-Pierre Clamadieu: Hello. Hello?

Laurent Favre: Sorry me again. On slide 15, you don't have to the debottlenecking in Wyoming, I'm just wondering when those volumes -- I think you were hoping to get those extra volumes early 2015. Can you confirm it's on track for the debottlenecking?

Jean-Pierre Clamadieu: To my knowledge, no change to it.

Laurent Favre: OK. Thanks.

Jean-Pierre Clamadieu: So with that, I will -- I will -- I will close this call. Thank you very much for your very pointed question, as usual. So maybe just a few words to conclude.

I think we have delivered in Q3 strong performance and very much in line with what we've done during the first two quarters of the year. Significant growth, organic, mostly innovation-driven, and we see the -- we see that our growth engines, indeed, are delivering. This is good.

Our significant external growth project, which was Chemlogics), is also delivering, and this is good. And, again, the excellence initiative across the board are helping us improve our margins, reduce our cost, improve our pricing power, and we can see the impact both on growth engines, but also on our performance chemical business, which are the sustainable cash generator.

We continue myself, my colleagues at the comex and most of our management teams are continuing to focus on the execution of a transformation strategic roadmap that we've put in place. Portfolio management will be a key issue, and again, we are all a little bit disappointed by the setback yesterday in Brazil, but very convinced that we need to re-launch the project as soon as possible.

And very convinced, also, that we should be in a position to deliver the completion of Eco service and Inovyn transaction in the next -- in the next few months. We need to continue to innovate to address our customers' needs. Clearly, our success in some segment that we serve with specialty polymer or Novecare are the demonstration of the fact that when we are very well aligned with our customers and when we put our brains at work, we can, indeed, make -- achieve significant results.

And we'll continue with our excellent initiative. And, again, not feeling that we are getting to the end of a program, but thinking that this needs to be a permanent feature of Solvay.

So I -- I confirm our guidance for 2014. We are already starting to work and to prepare 2015. I think the level of confidence is good. It needs to be another year of growth. And with that, I will end this quarterly call and, obviously, our IR team is at your disposal for any further questions that you may have. And we'll see each other at the end of February for our -- February 24th. Thank you very much for your time. Bye-bye.

Operator: Ladies and gentlemen, that does conclude your conference for today. Thank you for participating. You may all disconnect.

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