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Speakers: Jean-Pierre Clamadieu and Karim Hajjar

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Operator: Ladies and gentlemen, welcome to the Solvay Third Quarter 2017 Earnings Conference Call for the investment community. I am pleased to present Mr Jean-Pierre Clamadieu, CEO; and Mr Karim Hajjar, CFO. For the first part of this call, all participants will be in listen-only mode, and afterwards there will be a questions and answer session. Please dial 01 on your telephone keypad to enter the queue for the question and answer at any time. I now hand over to you, Mr Jean-Pierre Clamadieu. Sir, please go ahead.

Jean-Pierre Clamadieu: Thank you very much. Thanks everyone, and thank you for joining our call today. As usual, I'm here with Karim Hajjar, our CFO; and Kimberly, and together we'll try to provide an overview of our Q3 results before going into your questions. I tend to think that there are no significant surprises in these results, so we should be able to move relatively quickly in the introduction and leave enough time for your questions.

Before going into the Q3 performance, just a word on the announced sale of polyamide. I think this is a very important transaction. It's clearly, in my view, the last major milestone in the portfolio transformation that we started four years ago. This transformation has indeed strengthened our business model, and allowed us to increase our ability to generate long-term growth and value for our shareholders. Our portfolio looks very different from what it was four years ago; today we are a company which is both advanced material and chemical. 50% of our business indeed today is in advanced materials, and when I say advanced materials, it's really the top of the pyramid of the most sophisticated non-metallic materials; 25% in what we should probably call surface chemistries, with Novecare, technology solutions, or positions on surfactants, polymers, phosphorus, which gives us the ability to serve our customers; and the remaining 25% being businesses where we have long-term sustainable positions, like soda ash and peroxide.

This is reflected in our EBITDA margin, which has been constantly above 20% since 2016, well above our traditional peer group. 50% of our portfolio today offers sustainable solutions for our customers, so very much in line with our sustainability policy, and we've seen over the years, as I have commented several times, a dramatic shift in the quality of our customer base to ones that provide major global blue-chip companies with unique solutions that are critical to their own programmes. Overall, I think our strategy to turn into a multi-speciality company, materials and chemical, is indeed bearing fruit.

Looking at our Q3 results, I think the highlight of the period would be first, the 9% volume growth; clearly significant, driven by volume increase across our three segments; EBITDA of €553 million, up only 1% despite a strong organic growth of 5%. But most of this was offset by foreign exchange, particularly the dollar/euro pair. EBITDA margins remain robust at 22%. Cash flow generation for the first nine months demonstrated our ability to focus and generate cash. And with that, I will turn to Karim to provide more specific insights to our financial performance. And I will come back with some concluding comments.

Karim Hajjar: Thank you, Jean-Pierre. Good afternoon. As usual, I am going to refer to some slides that you can access on our website. And I will be talking about figures on an underlying basis, because it is more helpful and comparable with our past, remembering as well that the P&L figures that I will be referring to are those that reflect the discontinuation of the divestment out of the polyamide activities.

And I start with sales. On slide number 8, you will see the fact is that our net sales increased by 4%, but that doesn't tell the full story because, as Jean-Pierre mentioned, volumes are up very significantly: 9% across all of our operating segments, in fact. So, if I start with advanced materials, they were up 5%, mainly in automotive and smart devices. You will take note as well of the fact that composite sales in aeronautics were stable, as we see the production ramp-up of the F-35 programme, continuation of the growth of the LEAP engine compensate for the continuing decline in wide-bodied platforms, particularly older-generation ones such as the A380 and the 777. Industrial composites sales did decrease, mainly because of the end of a supercar programme, the Ferrari F150; that was anticipated. But we did see some softness across a couple of industrial markets, such as wind and rail.

Turning to advanced formulations and seeing volume growth of 15%, with a strong recovery in oil and gas. This is something we see also helped by improving mix, which is visible in the improved EBITDA margins compared to the second quarter this year. Technology solutions did increase its volumes as well, especially in non-mining activities, and so far as mining is concerned we remain very well positioned for anticipated new mines that will come on stream in the foreseeable future next year and beyond.

Performance chemicals, volumes up 7%. Strong volumes in soda ash continue, particularly in the seaborne market, but also in the speciality bicarbonate applications and, of course, as you'd expect, the contribution from the new HPPO peroxide plant in Saudi Arabia. These are all contributing to the growth, and obviously help to offset the foreign exchange headwinds which, as you'd expect, the appreciation of the euro, particularly against the dollar but also the Chinese renminbi, the Japanese yen, which together gave us a negative 3% conversion effect. But there's more to it than sales, clearly.

If you turn to slide number 9 and look at EBITDA, you will see the fact is that the headline growth of 1% has essentially moved forward off a very strong comp last year, I'm sure you remember. So, that 1% also belies the fact that we've overcome some headwinds on foreign exchange, and a modest impact on scope. Now, on an organic basis, excluding foreign exchange and scope, EBITDA grew by 5%. The key point I'd like to highlight is, one, the full impact of the volume growth helped to overcome higher energy costs, particularly coal in soda ash, but also an increase in our fixed costs that results from two main factors: additional capacity – that's good cost, if you like, in many ways – but also the variable remuneration, as we recognise and reward our teams for delivering on strong objectives. It's also important to note that what you don't see is the weather-related disruptions in the US, such as Hurricane Harvey. They haven't impacted us much at all in Q3, but we do anticipate a modest adverse supply chain logistical impact of up to €10 million in Q4 as well. We have obviously taken that into account in our forecast, that Jean-Pierre will talk to in a moment.

Moving beyond EBITDA, and turning to other important financial elements, on slide 11 you will see two points in particular. Financial charges are lower, as we maintain our focus on cash generation, as we deleverage our balance sheet. That has an impact on reducing our financial charges. The other element is our underlying tax rate is down from 28% to 27%; again, it is a good improvement that does create value, and will be sustainable at this stage as we see it.

Cash is a very positive indicator, and we have to look at it beyond one quarter. If we turn to page 12, you will see that the free cash flow from our continuing businesses was €195 million. But on a cumulative basis, nine months, to try and take out some of those modest seasonality impacts, we are 33% higher than last year for the first nine months. That's €111 million better than last year, and that comes from two main factors: continued attention to CapEx, no surprise there, and hopefully no surprise from the continued discipline in working capital, where we're very attentive to our days sales outstanding, our overdues. This is really part of the regime that we have in place here.

Now, for those who are particularly attentive to our debt levels, we were pretty high, let's say, 18, 24 months ago; you will have taken note of the reduction in those debt levels. Our leverage ratio currently of 2.3 times is down from 2.6 times at the beginning of the year. And you will take note of the fact that the polyamide divestment will further improve that to around two times on a pro forma basis. The fact that the cash is there, the profit growth is there, is clearly also acknowledged independently by S&P, and we're pleased to see that acknowledgement in the upgrade to our credit rating to BBB+ in early August. And with that, I hand you back to Jean-Pierre.

Jean-Pierre Clamadieu: Thank you, Karim. This brings me to the outlook for the remaining months of the year. As we've said in our press release, we remain well on track to deliver a strong financial performance. Our underlying EBITDA growth is estimated between 6–8% for the full year, based on the strong year-to-date growth of 9%. This implies, as you can easily figure for Q4, an EBITDA largely in line with last year, with taking into account all the elements that Karim has mentioned: foreign exchange and some of the disruption in our supply chain coming from the Harvey and other weather-related events in the US. On the free cash flow side, €484 million delivered in the first nine months. This puts us in a very good position to deliver more than the €800 million that we have mentioned at the beginning of this year. And indeed, the fact that we have a much more regular cash flow profile over the year is something that we are aiming at, and I think it's a very good achievement from our team. We have confirmed an interim dividend payment of €1.38 per share.

Looking at our priorities today: as I've said, leaving aside the completion of the polyamide divestiture, which is indeed a very important project, I think the focus now is very much to make sure that we will continue to drive in delivering on our mid-term financial objectives. We want also to make good progress, and I think we are indeed making good progress on extra-financial objectives, including our commitment to sustainable development. We will continue to drive organic growth, with innovation being at the centre of our plans. We have a unique portfolio to be able to support very demanding customers, but customers which certainly have a need for the solutions that Solvay is in a position to deliver. We are now, as we have finalised our portfolio transformation, in the process of reviewing our corporate and functional structure to simplify and better align this structure with our new Group profile, and we are planning to share more of this with you at the beginning of 2018. With that, Karim and myself are ready to take your questions.

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

So, the first question is from Thomas Wrigglesworth from Citi. Sir, please go ahead.

Jean-Pierre Clamadieu: Hello, Thomas.

Thomas Wrigglesworth: Good morning, gentlemen, thanks very much for your presentation. Three questions, if I may. The first, on advanced materials, just looking at the composite growth year on year. Could you unpack that a little bit for us, and talk about how much of that, explicitly in composites, was FX, the LEAP engine positive versus the slowdown factors? That would be very interesting, thank you.

And my second and third questions focus on performance chemicals, and in particular in soda ash: is this 26% EBITDA margin now the new run rate for soda ash, noting that you're absorbing these higher energy costs?

And secondly, obviously there's a significant ramp-up in Turkish material due literally now in the coming months: is your sense that this material's already been priced by the market, i.e. it's already been signed off and it's just a function of delivering it, or do you think the negative price impact is yet to come for the soda ash market? Thank you.

Jean-Pierre Clamadieu: Okay, so important questions. On composite, maybe a few comments on the business, and Karim can complement with any other FOREX impact on this. But what we are seeing in composite is a continuation of the challenges we've signalled in the non-aerospace market, and we benefited in past quarters from the support of some supercar programmes; they will come back, but we have a few quarters where we don't have this type of activity. So, it's really something that we need to work on to make sure that the non-aerospace part of the business is indeed delivering on the more regular pace.

On aerospace, we have some short-term smoothening of volumes, but in my view nothing serious. I mean, the balance between the very significant ramp-up we are expecting, and seeing in fact, both for LEAP engine F-35, A320neo, Boeing 737 MAX – probably, by the way, good news also on the Bombardier C Series, because the fact that Airbus is taking responsibility for this programme will probably increase the likelihood of seeing more planes being built. So, all of these are very good news for the short and medium term. And at the same time, we are seeing a reduction in build rate on the large platforms like the A380 and Boeing 777. So, all of that gives us a feeling that the opportunities in front of us are quite significant, because our position and our share in these various programmes is something which is set. So, we are just waiting to see the build rate indeed increasing. Maybe you want to comment on FOREX on composite, Karim?

Karim Hajjar: Sure, of course. Thomas, as you probably understand, we're not going to start giving foreign exchange impact on an individual business segment. The segment on advanced materials is down €43 million now. What I can explain is the fact that composites is by far the most significantly impacted business, but so is the speciality polymers business as well. They're the main two drivers. I'd say the FX is the main driver to note for the composites evolution. There's a small element on auto as well, and that's to do, for example, with the Ferrari F150. But that's an industrial materials piece, but that's relatively modest. FX is the main impact there.

Jean-Pierre Clamadieu: On soda ash, I think in fact the Turkish ramp-up came in two events. The volumes coming from the first increase in capacity is already in the market, and fully priced. What's coming up next is probably not fully priced, and as we have a pricing mechanism in which we have a number of negotiations during the end of the year, and we are just in this situation, I will refrain from making comments on where we stand there. We have a lot of moving parts as far as soda ash is concerned. An important element, especially in the export market, is the fact that Chinese capacities are being phased out, mostly for regulatory and environmental reasons, so this is good, and this opened up opportunities for us in the export market. We are very confident that we've prepared very well for this new capacity coming from Turkey, but again, let's wait a bit to see what will be the actual impact in 2018. But in my view, nothing catastrophic, as I've said several times, but an impact which will be visible.

Operator: Thank you. The next question is from Laurent Favre from Evercore. Sir, please go ahead.

Laurent Favre: Good afternoon, everyone. Thanks for taking two questions. The first one is on the industrial side of the composites business. It looks like, versus expectations from two or three years ago, there's been a lot of loss of business between wind, supercars, etc. I was wondering, what do you think has been the main constraint to winning new business? It looks like the win/loss ratio has really been not so favourable; I'm wondering what you've been doing on the commercial side of things, for instance, to do that? And the related question I guess is: do you think you've got the right cost base now, given the size of this business, which has been shrinking quite a bit since you acquired Cytec?

The second question is on silica and silica pricing. It looks like the pressure has accelerated into the third quarter, despite higher energy costs where I think you have the pass-through, and also higher silicon metal prices. I'm really puzzled as to the price cut there, when I would have thought that your raw material pressure would push prices up. So, I assume there has been a big squeeze on profits. Can you talk about what's happening in silica? Thank you.

Jean-Pierre Clamadieu: Yeah, on silica, the pass-through, as you say, is never an immediate pass-through. To be able to take into account evolution in raw material or energy, we need to have numbers available, and there's always a mechanism which creates some delays in the way the pass-through is applied. So yes, indeed we are seeing a bit of pressure, but for me it's temporary pressure, and I think silica will continue to be a strong business in terms of profitability.

On composite, on the non-aerospace – we call it industrial material; I would probably think non-aerospace is probably something that is more descriptive – we have been very much focused on very special programmes the supercar programme, the F1 and a few others. We've never been a big participant in wind. I don't think that we have lost any market share, if market share is the right terminology, and I'm not sure it really means something in a business which is very granular. What we've seen is that we are today serving customers who have programmes which come on and off, which are relatively short-term programmes compared to the traditional automotive programmes. And we are seeing this impact. The short-term, I think there are still some adjustments needed in our cost base in this part of the business. In the mid-term, the challenge is really to be able to develop a meaningful business in what I would call real automotive; not the supercars, but the traditional OEMs. We are working very hard on this. We've signalled since the Cytec acquisition that it will take several years to have a meaningful development, but this is exactly the direction we want to go.

Karim Hajjar: Maybe just to build on what Jean-Pierre said: you may remember that when we acquired Cytec, that part of the business had just had an SAP implementation, and there were some teething problems. We were quick to remedy and rectify and stabilise that, and certainly since then we've seen some stability. But as Jean-Pierre said, there is some lumpiness depending on the particular markets we serve, but this is something we are looking at as well to make sure it's very competitive looking forward.

Operator: Thank you. The next question is from Martin Roediger from Kepler Cheuvreux. Sir, please go ahead.

Martin Roediger: Yes, good afternoon Kimberly, Jean-Pierre, Karim. Three questions. First, on your free cash flow guidance, which is above €800 million. Based on constant scope and constant FX, assuming current exchange rates stay where they are, what is the likely FX effect on cash flow in Q4 year over year?

Second question is on your net pricing effect of €22 million in EBITDA, minus €22 million. When I factor in the very small price increase, the delta obviously therefore is €27 million. Is that solely related to the energy increase effect, or are there also any raw material cost issues in terms of increased raw materials?

And the third question is on the corporate and business services line, where you recorded a €14 million EBITDA contribution by the energy services activity in Q3. Can you tell me how sustainable that earnings development is going forward? Thanks.

Jean-Pierre Clamadieu: Karim?

Karim Hajjar: Sure. Let me start with your question on cash. This is based on the portfolio that we had at the beginning of the year, so it's basically excluding Acetow and Vinythai, but it included polyamide. And we've reconfirmed our expectation that we'll deliver in excess of the €800 million. And just to make that clear, that's after the evolution of exchanges that we've seen. So, to my mind, whilst I can't necessarily quantify specifically the FX impact on our free cash, it's more modest than the impact on our EBITDA. But nevertheless, no matter what it is, we will deliver more than the €800 million. That's one.

Perhaps on pricing, taking that question as well, it's predominately energy costs, predominately coal. We see that mainly in our soda ash, performance chemicals to be broad. That really is the one that's probably worth highlighting. The rest is very much – we see the continuation of our excellence programmes helping to preserve our margins, which have been very strong.

On corporate and business services, I'd say the Solvay Energy Services business does have a profit stream, but it's not a linear, predictable level of profitability you can extrapolate. We don't necessarily give guidance at that degree of precision. What I can share with you is the following: our corporate costs are running at the rate of €250–260 million a year. There are occasionally phasing differences from one quarter to another, but the discipline, the attention to costs, the rigour, let's say, continues. So yes, there'll be occasional swings and roundabouts on Solvay Energy Services, but nothing material from a total Group point of view.

Jean-Pierre Clamadieu: And just to build on what Karim was saying on pricing power, we clearly don't have a pricing power issue within Solvay, with the exception of soda ash where we are in a situation where we set prices at the beginning of the year, and we've seen an increase in energy cost, mostly coal, in the second part of the year that we are not in a position to compensate. And as we have large volumes, even a small discrepancy per tonne has a visible impact, hence the negative impact on pricing power. But leaving this aside, we have solid pricing power in the business. Yes, when there are situations like the one in silica, where we have to wait a quarter to see the impact of an increase in raw material, or energy – in this case, it's energy – but frankly speaking, I'm very confident regarding our ability to manage prices and margin in our current portfolio. And by the way, the 22% EBITDA margin that we are generating in Q3 clearly demonstrates the fact that, indeed, Solvay has pricing power.

Operator: Thank you. The next question is from Nathalie Debruyne from Degroof Petercam. Madam, please go ahead.

Jean-Pierre Clamadieu: Hello, Nathalie.

Nathalie Debruyne: Hi, good afternoon. Well, two questions from my side, if I may? The first one is very simple, and I have a follow-up on that one. That would be: could you quantify the start-up costs in advanced materials? And following up on that, I was wondering in PVDF, especially for the EV batteries market, what is exactly your positioning in there, and what kind of qualifications timing would you have, or are you already qualified for that capacity? The idea is a bit to have a view on the ramp-up of the new facilities. That's the first question.

And the second one would be, actually, on soda ash again; sorry to insist on that one. But I understood that in order to kind of secure your market positioning, you worked a little bit more with long-term contracts, and I was wondering how this works; is the price really fixed for a couple of years, or do you still have some negotiation power to increase prices in response to higher cost base, i.e. energy costs or whatever other raw material or freight costs?

Jean-Pierre Clamadieu: Okay, maybe just – someone mentioned that maybe I said 20% EBITDA margin: it's 22%, to be clear, 22% in Q3 and 23% year to date. Again, if you compare us with the usual suspects, we rank very favourably.

On the PVDF, you hit on the right subject, Nathalie. Indeed, we have qualification processes which are pretty long, and yes, it's very good for us to have a new facility available now in China, because we are constrained on volumes before we had this new facility up and running, but we should expect probably another – I would probably say four to eight months before we are indeed able to sell, because we are qualifying these new products. We don't yet see the impact of our sales to the battery market, but this market is growing very fast, both in China and other parts of the world, and we think with a global footprint, taking into account this new Chinese unit, we are indeed well positioned.

The impact of the – when we say long-term contract, there are obviously in the pricing elements of these contracts some components which are linked to the external environment. I don't want to be too specific on this. But yes, we have variability. Overall, it plays well, because it is an element of stability in the market which limits the potential fluctuation of market share from one player to the other. And again, it was clearly a vote of confidence coming from our customers to say, 'In the current environment, I'm really ready to commit to work with Solvay.'

Operator: Thank you. The next question is from Peter Clark from Société Générale. Sir, please go ahead.

Peter Clark: Yes, good afternoon everyone. Thank you very much. Two questions, please. First of all on polyamide, well done for the deal there. But just wondering: you've still got Fibras, which obviously is probably in a difficult situation. I presume it's non-core difficult markets, still quite a sizeable business. Just wondering what you've been seeing on that?

And then in terms of the Novecare improvement, particularly with the mix, I'm presuming that is driven by guar gum more than anything else? Because you mentioned the oil and gas business picking up. So, those are the two questions, thank you.

Jean-Pierre Clamadieu: No, in fact – *bon*, the first question: yes, I mean, Fibras is not a strategic business for the Group. That's kind of obvious. It could not be part of a global deal, that's obvious also. Frankly speaking, a little comment today on what will be the future of the business, it's more a regional business, and any solution is likely to be a regional one. The business has a very small contribution to the Group; it's large in terms of number of employees, but small in EBITDA contribution, so probably not an important element in the modelling. But someone we'll continue to work on.

On oil and gas, in fact the reality is it's friction reducers who is really doing very, very well. We've seen a significant switch over the years and through this crisis from pretty complex, very efficient fracking solutions, to solutions which are probably more cost effective, and friction reducers is great and we have come up with a number of innovations which help us strengthen our position. We have a very strong position in friction reducers. This is coming from the Chemlogics acquisition. The guar is, I would say, the next expected event. Last 12 months there was very little guar sold, but we've started to see people interested in looking again on how they can again use guar in our formulation. And yes, I would expect a possible development in guar during the next quarters. But up until now, the growth in oil and gas has been mostly friction reducers.

And if I can add something to the answer to Nathalie's question: I answered just on the PVDF unit, but don't forget that as far as the speciality polymer is concerned, we have also a new PEEK unit operating. This is good news, because we have a lot of developments, interesting business developments regarding PEEKs. We were capacity constrained; in fact, we had to source PEEK from one of our competitors. The fact that we have now a capacity up and running, being qualified or about to be qualified, depending on the customer, will give us also some more freedom and clearly significantly more business opportunities to continue to develop this polymer, which is a very interesting one.

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

Markus Mayer: Good afternoon. Three questions as well, from my side. First, again, on these ramp-up costs. Of this €41 million of the higher fixed costs, what kind of percentage have been ramp-up costs, so the ramp-up cost impact? And also, can you give us more clarity what is the run rate going forward for the coming quarters from the ramp-up costs?

Secondly, again on composite: if I remember correctly, you have been more positive on the composites recovery, in particular in the last quarter conference call. Now this business is stable, or even declining; has that changed anything, or is the intended recovery just delayed?

And then lastly on the cash flow, the changes in provisions and other operating cash flow: was this €122 million relatively high? Maybe you can give us some more clarity on this position. Thank you.

Karim Hajjar: The first one is on fixed costs.

Jean-Pierre Clamadieu: So, for you, Karim.

Karim Hajjar: No, sure. Markus, good afternoon. On the fixed costs, I think it's probably fair to say that approximately half of the ramp-up is to do with the new capacity increase. We're not going to start giving run rates on the new capacity in isolation of the overall evolution of the Group's portfolio. I mean, obviously you've got the impact of inflation, excellence, variable remuneration comes into the mix as well. So, these are the other factors as well there.

On cash, maybe I'll take that. There's nothing particularly significant. There's quite a lot of seasonality, typically, in that line. You've got things like the cash flow related to environmental remediation activities and suchlike, and it's completely in line with our expectations and factored into our expectation of the €800 million cash flow. So, it's very much in line with our historic patterns of spend.

Jean-Pierre Clamadieu: Now, on composite: frankly speaking, I could take the exact same words that I used during the Q2 call, as it's still exactly the same situation. Yes, aerospace looks good. I will come back on why it doesn't look so good when you look at our number, but it looks very good because we are really in the middle of a transition towards platforms using a much, much larger amount of composite, and we are well positioned there. Non-aerospace issues that we have discussed several times but, again, the comments were exactly the same. Maybe we gave a bit more colour mentioning Ferrari and the F150, but this is exactly what we knew three months ago.

No, on aerospace, what we see is just some difficulties in production. And I mean, you can listen to the calls made by Airbus and Boeing, and you'll hear about that. Even Lockheed Martin and the F-35, there are some slight changes in the production rates, slight adjustment which are linked to technical difficulties. I think Pratt & Whitney has not yet solved the issues linked to the engines they are supposed to deliver to Airbus, so it has an impact on the A320neo line. There are still production issues here and there in the supply chain, we see people working very hard to solve them. By the way, in some cases we have had also some quality issues which has delayed some shipments, but frankly speaking, the fundamentals medium and long term are exactly the same as in Q2.

The only new event, and directionally it's a positive one, is clearly the C Series of Bombardier. It's a plane which seems to have significant potential. Probably Bombardier alone was not in the best possible position to make it a great commercial success. By the way, the duty imposed by the US government will probably have significantly weighed on the project. The fact that Airbus is coming and will be now a partner in the development is changing completely the picture. And for us, it's certainly for the better, and we expect to see some opportunities coming. Don't ask me for that in Q4; I mean, it takes a bit of time to develop these opportunities in this market. But we are very confident once again in composite for aerospace mid and long term.

Operator: Thank you. The next question is from Geoff Haire from UBS. Sir, please go ahead.

Geoffrey Haire: Good afternoon, thank you very much. Just two quick questions. First of all, just looking at your cash flow target of €800 million for the year, excluding interest: it implies that you need to generate somewhere in the region of €320–350 million of cash flow in the fourth quarter of the year. I'd just be interested if you could give us some sense of that the levers are to get to that, given it's almost 80% of the cash flow you generated in the first nine months?

And secondly, just looking at the leverage of the business as a whole. If you strip out the FX, the EBITDA grew by roughly 4%, but that's obviously well below the organic growth level of 9%. Just wondering: obviously, I appreciate there's ramp-up effects and one-off costs, but it looks like the leverage is sort of one, and I was just wondering if you could see that improving going forward?

Jean-Pierre Clamadieu: No, just to comment on cash before leaving Karim to continue. I mean, there was a time not so long ago where Solvay was generating most of its free cash flow in Q4. So, we have a much more regular profile of free cash flow generation across the year. So yes, I really think that the Q4 numbers that you mentioned are clearly achievable. But maybe Karim, you want to complement on this?

Karim Hajjar: No, absolutely. If you look at the seasonal cash flow patterns in our past two years, you'll find that they exceed the €320–350 million in Q4 that you've just mentioned, that's a fact. Now clearly, we've divested some of the businesses, but we remain confident of that.

Now, what are the levers? Fundamentally two factors, or three, actually. One is delivering the profits, converting it into cash by being very, very disciplined on working capital; almost mechanically, as you have lower activity in the final couple of months, you're able to convert a lot more of the receivables into cash. We've seen that every year, and we'll continue to deliver that. That's the main one. And one is CapEx; we're not expecting a big ramp-up in CapEx. So, nothing particularly unusual; it's just repeating what we've done in the past. That's the main answer to your question there.

Jean-Pierre Clamadieu: No, and again, end of December is, from probably the global manufacturing sector, a very low point, so we have a situation where there was a very significant build-up of working capital in Q1, and very significant reduction in Q4. We've done a lot of work to make sure that we manage this much better, and in a much more regular way, and I'm pretty pleased with a cash flow performance; both the number we expect to generate for the full year, but also ability to generate it much more regularly.

Now, on your comments regarding Q3, be careful. I mean, we are more and more working on long-term, multi-year programmes. So, making a cut on one quarter and trying to develop a view on what would be the leverage between sales and EBITDA is something which is probably becoming a bit difficult, and in some cases irrelevant. There's a number of specific elements that Karim has mentioned during Q3, going from provision for variable compensation to ramp-up costs in various plants, which explain what you've seen in terms of transformation of volume growth into EBITDA. I think it makes a bit more sense to look at the last nine months, or at the full-year results when they will be available. And indeed, I have the feeling that we have the ability to transform our volume growth, which by the way was lacking last year, but we have the ability to transform our volume growth into profitability and cash, and this is very much our focus. I understand why you need to try to get the most out of the quarterly results, but sometimes there's a limit to what you can extract. If I go back to the comments on composite, one F-35 moving one quarter to the next has a meaningful impact; a bit of a steeper or slower ramp-up in a smartphone programme could have also an impact on a quarter, which will be compensated the next quarter. So, be a bit careful on the conclusion you draw.

Karim Hajjar: Maybe just to add one or two facts to what Jean-Pierre is saying: Q4 2015, €430 million of free cash flow; Q4 2016, €412 million of free cash flow. So, the €320–350 million to my mind: yes, there are portfolio changes, but we'll continue to convert more profits into cash. Does that help?

Operator: Thank you.

Karim Hajjar: Thank you.

Operator: The next question is from Chetan Udeshi from JP Morgan. Sir, please go ahead.

Jean-Pierre Clamadieu: Hello, Chetan.

Chetan Udeshi: Yeah, thanks. Hi. A few questions. Firstly on composites: is it possible to give some quantification of the impact from the Ferrari contract in terms of growth?

And related question to that is: we're still in a phase where aerospace is still bobbing along up and down a few points, in terms of growth. When do you see there is a clear inflection in terms of growth being more consistent and sustainable? Is it probably sometime next year, or it's probably we need to wait longer than that?

And last question is on the full-year guidance range of 6–8%: can you give some puts and takes on what will drive the full-year number in either the bottom end or the upper end? Because that results in quite a big variation in the Q4 number. Thank you.

Jean-Pierre Clamadieu: I will leave it with – your last question is a difficult one, so I will leave it to Karim. No, Ferrari, I don't want to be too specific on one customer, but let's say it's a few million of sales, these programmes represent a few million euros of sales.

On aerospace, where are we? I might repeat myself, but we see programmes like the F-35 or the LEAP engine, which are just at the beginning of the actual ramp-up. And yes, indeed we have very significant expectations regarding this map-up for the next year and the following ones. And on these two programmes, we don't see much difficulties today. And by the way, the expectation regarding peak rate has increased significantly for both programmes, both the F-35 and the LEAP engine. They are seen today as very successful programmes. On the A320, I think the challenge is still probably with the engine and the – not the LEAP engine, but the Pratt & Whitney engine. I don't have much more clarity than you have. And on the reduction of the rate in the large platforms, this has been announced today by Boeing, by Airbus and – mostly by Boeing and Airbus, so the impact will be in the next couple of quarters, let's say. So yes, overall, I think we are in a situation where we will see probably in the course of next year, the positive elements taking over the negative ones that I was mentioning. So, yes, I expect to see a change.

Now, it will always be a business where, from one quarter to the next, you could see some variation, just because the production chains don't run as Swiss clocks, and we have to get used to it. But clearly, the fundamentals of the business are very solid. And even if I was looking longer term, we are seeing a number of activities which will lead to a situation where the vast, vast majority of the commercial airline platforms will be made using composite. I remind you, the announcement of Boeing on what they call the 'middle of the market' airplanes, the work that Airbus is doing on the wings of tomorrow; I mean, we see a number of activities showing that, indeed, composite is the way to go, and this will create very significant long-term growth opportunity. Don't worry, we focus on long term but also on short term, and there I think the situation will look better and better as these production difficulties will go behind us.

Karim Hajjar: Maybe on your first question, on what can create volatility or variability on our Q4 expectations: I think there are a couple of factors, internal and external, let's say non-controllable. To take the obvious: if there is a significant shift in exchange rate, or a significant shift in energy costs, our capacity to respond and mitigate otherwise is obviously restricted in a short timescale. So, that is one factor, probably no surprise there. There are all the controllable aspects, let's say our costs, etc. Now, I think we are very, very confident that we are running a very tight regime, so we expect to land very much – we're in control of that. Now clearly, Harvey has had an impact; nobody would have predicted that a couple of months ago.

The other aspect, perhaps, is slightly more difficult to respond to, and that is about visibility of our order book and our volumes. It is quite short; we don't necessarily see clearly everywhere a clear runway to the end of the year. I'll give you a small example: oil price today is what, $57 WTI, $63 on the Brent? Despite that, I understand that the rig counts are falling right now. Now, we see some good progress on friction reducers and guar, but who is to say it can't reverse pretty quickly? That market momentum can change quite quickly. I think, given that we are quite a diversified Group, typically small bumps on one side can be overcome elsewhere, and we think that strength or that portfolio gives us the confidence to say no: volumes, top line, costs, profit, cash will be delivered. And that is really on what it's dependent. But external factors clearly can conspire or help, and we'll see what that brings.

Operator: Thank you. We have time for two more questions. The next question is from Patrick Lambert from Raymond James. Sir, please go ahead.

Patrick Lambert: Good afternoon, everybody. A few questions, I'll be quick. Specifically on composites, the F-35: I think Lockheed was looking for an increase of run rate of about 25% this year versus last year, 2016. Is that what you're seeing into your own composite demand for the F-35? That's question number one.

Question number two: your comments on rare earths and diesel, could you elaborate a bit on that statement saying that potentially you see in Q3 a slowdown? What's your view going forward? Is it a structural issue of catalysts and recovery of catalysts in the diesel market that starts to occur in your business?

And last one, a very quick one: your exposure on soda ash seaborne market; I know it's pretty small, but is it spot market, that market? Thanks.

Jean-Pierre Clamadieu: *Bon*, F-35: yes, clearly, we see a solid ramp-up. Now, I would really let Lockheed Martin comment on the detail and what it means, but for us, what we see in terms of demand is very much in line with the public information available regarding the increase in ramp-up. And again, it's a programme where the peak production rate has increased significantly.

Rare earth and diesel, I don't see anything specific. We know that diesel regulations are becoming more and more stringent ones, creating the need for much more sophisticated and costly catalysts, so that's good. We know at the same time that the share of diesel is going down very significantly. On top of that, some recall activities here and there, creating the need for new catalysts, so the picture is pretty complex. Gasoline engines, also some revolution of regulation which calls for more sophisticated formulation, so overall, I would say good opportunities in front of us in this catalyst business.

On soda ash: yes, I mean, export markets are a limited part of our activities, but it's an element of the global supply and demand balance. A very important element in this export market, especially Southeast Asia, are the quantities coming from China. What we've seen is a very significant reduction of these quantities, linked to the new – not new regulation, but stronger enforcement of existing regulation in China; the fact that a number of outdated capacities are being phased out, so that's structural, that's good news. It has to impact; we see increases in prices in the export market, that's good, and it helps rebalance the global market at a time where new capacity is available. So, overall, this is going in the right direction.

And by the way, if your question implied a doubt on whether gasoline engine catalysts contain rare earth, the answer is yes. Gasoline engine catalysts, since the beginning of this technology, contained and continued to contain washcoats made of rare earth. Probably a bit more in diesel today than in gasoline, but at the same time, as technology evolves, the need for more sophisticated washcoats appears in both types of technology.

Operator: Thank you. Our last question for today is from Alex Stewart from Barclays. Sir, please go ahead.

Jean-Pierre Clamadieu: A big responsibility, Alex, the last question!

Alex Stewart: I'll try and make it entertaining. Thanks for the presentation. I had a slightly more philosophical question; the volume and the demand that you've been seeing in your business, but also the industry has been seeing this year, has, I think it's probably fair to say, surprised most people. If I look at functional polymers while it existed, for example, you did 7.5% in the first half, which is well above what you've done in the last couple of years. Could you let us know how much, in your opinion, is a rebasing of demand upwards from a revival in activity in Europe and China, or how much, perhaps, is a little bit of restocking in relation to the rise in the oil price? So, just a feel for how you see it as a business, and obviously, related to that, what you think about volumes going into 2018 in general? You obviously have some project-specific businesses, but I'm talking about more generally in the chemical industry. Thanks.

Jean-Pierre Clamadieu: It's a good question indeed, but the answer is a bit complex. Don't forget that today, a significant part of Solvay's business is linked to specific programmes. You can think of smartphones, you can think of specific aerospace programmes, even some specific automotive programmes, which are not linked to the pattern of global demand. Yes, if the economy goes better, it has an impact on aerospace, but not so much on actual production rates for a given year. So, there is a bit of a disconnect between these two elements in the meaningful part of our portfolio.

Second comment, we see people in the various supply chains where we operate very cautious about building inventories. Even in markets like smartphones, after what happened a couple of years ago we see people being very careful in making sure that they try to align production rate and demand, and make sure that they are not building useless inventories. So, I don't have a feeling that we are seeing people building inventories today. I think people are trying to make sure that one, they are able to meet demand, which is good, because when there are opportunities they want to be there. Second, making sure that they could react quickly if the demand was going in another direction. So, this being said, looking at both the forecasts we have on specific programmes – in some cases pretty high-quality forecasts, in other cases probably not so high-quality forecasts – and looking at the general prospect of the world economy for the businesses where we are more exposed to this type of metric, I am pretty confident regarding volume growth in 2018. I think the year has been good in terms of volume growth for Solvay, 2017 I mean. And I tend to see a situation which, from a volumes standpoint, will probably continue to look pretty good into 2018.

So, with that, I suggest that we close this call, thank you very much. Once again, significant news during this quarter on the portfolio side was the divestiture of polyamide. We are now working hard to close this transaction. This is the end of a long string of portfolio movements; I think today we have the portfolio that we want. We might have opportunities to make add-on acquisitions here and there, but this is clearly the end of a large transaction. We are delivering, if I look at the first nine months of the year; in terms of growth at the EBITDA line, free cash flow generation, I think we are coming with solid numbers. We've confirmed our guidance for the full year, and focus is very much for us to make the best out of the portfolio we have; in terms of innovation, in terms of customer focus, but also in terms of simplification of our organisation. With that, thank you very much. We'll meet once again, Kimberly, on what date for the full-year results?

Kimberly Stewart: Sorry, I don't have those off the top of my head.

Jean-Pierre Clamadieu: Well, some time in February.

Kimberly Stewart: February, yes.

Jean-Pierre Clamadieu: Sorry for that, I don't have the dates in front of my mind. But we'll meet for our full-year results –

Karim Hajjar: It will be on 28th February.

Jean-Pierre Clamadieu: 28th February. Thank you very much, Karim. Thanks all of you, have a very good day. Thank you.

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