



**Wacker Chemie AG
Conference Call
Q3 2012**

October 24th, 2012

Final

Dr Staudigl, CEO
Dr Rauhut, CFO
Hoffmann, IR

Hoffmann:

Welcome to the Q3 2012 conference call on Wacker Chemie AG. My name is Joerg Hoffmann, Head of Investor Relations.

As usual, we have Dr. Rudolf Staudigl, our CEO and Dr. Joachim Rauhut, our CFO with us on the call today.

Please note that during this call we may make statements which contain predictions, estimates or other information which are forward-looking statements. These statements are based on current expectations and certain assumptions and are therefore subject to certain risks and uncertainties. Some of these risks and uncertainties are beyond WACKER's control and could cause the actual results to differ materially from results, performances or achievements that may be expressed or implied in such forward-looking statements. WACKER may not update those risk factors or the forward-looking statements made during this call, nor does it assume any obligation to do so.

We published today our quarterly report, a press release on our numbers, an excel-file detailing our data and a short presentation to accompany this call. A written version of today's prepared speeches will be posted on our website about half an hour after this call. You will find all of this on our website

WWW.WACKER.COM under the caption Investor Relations.

Dr Staudigl?

Dr Staudigl:

Ladies and Gentlemen,

Welcome to our conference call. As we've said, we have reported our third quarter today. Sales were 1.2 billion Euros with an EBITDA of 204 million Euros.

With unchanged strength, sales in **Chemicals** were up 7 per cent over last year. EBITDA increased by about 20 per cent year over year. Strong demand for our products drove especially **POLYMERS** sales and margins.

At **POLYSILICON** we saw further price declines. The market for solar PV is at a difficult junction. It was too attractive for too long. This prompted new entrants to enter the market and created overcapacity. In addition, there is presently too much inventory in the value chain. Although our shipped volume was higher in Q3 than in Q2 we manage our working capital levels by reducing utilization rates at our site in Burghausen, as announced on the last call, including the use of short-time work.

We have also taken a hard look at our capacity expansion program. The prevailing market conditions in 2010, when we decided to build the plant in Tennessee, have changed significantly since then. When we previously presold the entire volume way through 2015, we did not expect that by 2012 customers would come back to us asking for support during the current consolidation phase in the PV industry. From a short market governed by contracts with take or pay structures, a weaker demand and a sharp increase in global polysilicon capacity has changed the market environment.

Over the last weeks we have looked at ways to align our plant build up better with changing market conditions. Rescheduling construction allows us to align the ramp of our plant in Charleston better with slower than expected market developments. After evaluating several options we have decided to now begin with production in Tennessee about 18 months later than previously planned. That means we will start the ramp in mid-2015. Should the need arise, we can review and potentially re-accelerate the process. The slower schedule will reduce our 2013 cash flows for capex by an Euro amount in a three-digit-million range. Let me emphasize here that we remain fully committed to the site. This is the largest investment in our near 100 year history. The site in Tennessee will be developed over the next 10 to 20 years as an integrated silicon site ready to serve the dynamic chemical markets in North America. Polysilicon is just a first step in this journey.

We will double our efforts to further reduce polysilicon production cost. Focusing on all input factors, we aim to significantly improve productivity further. These activities will also benefit the new plant in Tennessee, where the advantage will be further compounded by lower energy costs. A focus target here is a further reduction of power as an input factor in polysilicon manufacturing.

These are clearly challenging times for **POLYSILICON**. However, I am convinced that the current market dynamics will ultimately benefit us. The massive price declines in modules force the development of higher conversion efficiencies. This will further enhance the competitiveness of solar, resulting in more market growth. In addition, it increases demand for materials that enable these efficiency gains. This plays to our strengths: providing high quality silicon at competitive cost and in scale. We have the right product, the right cost base, the right size and the commitment to defend our market position to emerge from the transition phase as a strong market leader.

Looking into the market today I would say that at prevailing market prices, there is little or no incentive to build new plants. The current oversupply of poly in my view is partially structural but also an effect of inventory liquidation along

the value chain. Given the underlying growth of the market there will be a new equilibrium, potentially at higher price levels than what we are currently seeing.

Nevertheless solar PV is fast becoming a viable, no variable cost alternative to traditional peak power generation and a fascinating opportunity for decentralized power. It clearly has overtaken CSP in the meantime. Consequently we expect strong growth in the years ahead.

Today, key markets, like Germany and Italy are slowing due to mainly feed-in-tariff adjustments. On the other hand strong demand from Asia, namely Japan and China as well as a growing interest in no variable cost energy in North America are driving growth. All in all our marketing analysts now predict a solar installation market of about 30 and 35GW this year and a market size between 35 and 40 GW next year.

Before I hand over to Joachim for a more in-depth discussion of our results, let me say this: WACKER is not a solar company. We are a very successful specialty chemical business with global aspirations and successes, world leading competitive technologies and high market shares in everything we do.

Ultimately, Polysilicon will contribute with a lesser share to Group results. Long term we aim to earn a premium over our capital costs in the segment and our cost and efficiency efforts are leading the way.

Going forward however, we expect strong growth from other segments and businesses with much lower capital intensity. You will have seen that we are doubling our capacities in Asia, namely in China and Korea for VAE dispersions. More growth in North America is underway, as replacement trends are so strong that we have a hard time meeting demand. Similar trends are underway in **SILICONES**. There we will focus on getting our production closer to our customers, investing in compounding and technical capabilities that will enable us to further improve our specialty chemicals offering on a global basis.

Joachim will now discuss segment results and provide more detailed guidance towards the full year. Joachim?

Dr Rauhut

On a Group level, **WACKER** reported sales of 1.2 billion Euros at the same level as in prior quarters this year. With 204 million Euros, EBITDA for the quarter came in 36 per cent below last year and 15 per cent below Q2.

Our combined **Chemicals** businesses reported sales of 746 million Euros, 7 per cent over last year and just above the previous quarter. EBITDA in **Chemicals** ran at 113 million Euros, this is about 20 per cent higher than last year and at the level of Q2. **SILICONES** saw a solid business environment in Q3. Pricing for silicone products declined, mainly driven by falling commodity pricing. Industry demand especially in Europe softened in the course of the quarter. **POLYMERS** enjoyed good demand driven by the substitution of other binder systems and healthy business in construction related products such as tile adhesives and screeds. We are adding capacities here to further participate in these growing markets. Cost declines in some raw materials in both businesses supported profitability. **Chemicals** should see normal seasonality in Q4 with some impact of the slower world-wide GDP growth.

At **POLYSILICON** sales declined by 6 per cent over Q2 and almost 30 per cent versus Q3 last year. Rising volumes could not compensate falling prices in the quarter. EBITDA in the segment was down 35 per cent to 79 million Euros compared to the previous quarter. EBITDA margin in the segment declined from 35 per cent to 29 per cent as weak pricing and lower utilization harmed fixed cost absorption. Smaller inventory additions than in Q2 had a positive effect on EBITDA in the third quarter. Retained prepayments and damages from the termination of one contract in the quarter amounted to 2.1 million Euros.

Given the financial state of many customers, it is very likely that this level rises in Q4. Nevertheless, you should understand that we rather work with our customers to develop mutually beneficial outcomes than collect prepayments from cancelled contracts. Long term contracts with strong customers and executed with some flexibility provide a good framework to maintain relationships in difficult times. Only if there are no other solutions possible we have to agree with customers to cancel the contract.

Prices for hyper-pure polysilicon have since the end of Q3 continued to slide down. With low visibility into the fourth quarter, volume guidance is difficult until the end of the year. Since the end of July we have been reducing utilization rates at our site in Burghausen and Nünchritz in order to avoid investing in too much working capital.

Short-time work under German law provides for an effective tool for those situations. We have applied for short time work in Burghausen until the end of March next year, with an option to go back to full utilization as soon as market conditions permit.

As Rudy said, we are reinforcing our cost reduction with a special focus on **POLYSILICON**. These activities go beyond our regular specific cost reduction targets. We are confident that with increased efforts we can take out further cost.

Lower demand from PC markets and a slowing power business resulted in a sequential decline in sales at **Siltronic** by 5 per cent to 235 million Euros. Positive currency and restructuring effects could not compensate volume declines. Combined with flat pricing this resulted in an EBITDA of 10 million Euros in Q3. Largely determined by uncertain outlooks on GDP growth and consumer demand the PC business currently is very slow. Utilization rates in Siltronic were between 70 per cent and 90 per cent with and the Samsung JV even seeing higher rates.

Net cash outflow in the quarter declined from 157 million Euros in Q2 to 90 million Euros in Q3. **Working capital** increases were small, as we continue our efforts in this area. In the POLYSILICON division we target individual solutions for our customers avoiding credit risks. **Cash flow from operating activities** improved after the second quarter had to bear bonus payments and restructuring costs.

Capex for the first nine months was 722 million Euros, mostly for the fab build up at the site in Tennessee and some capacity additions in **POLYMERS**. You should expect another investment outflow of over 300 million Euros in Q4 mainly for material and services that have already been ordered for the Tennessee site, before we decided to change ramp speed. Included in the fourth quarter spend are scheduled shareholder loans to our joint ventures in China and Singapore.

Liquidity including short and long-term securities amounted to about 766 million Euros, down about 40 million Euros compared to the end of Q2. We intend to maintain a relatively high level of liquidity going forward. This should enable us to react flexibly.

The reported **tax rate** came in at 42 per cent for the first nine months. The higher tax rate results from losses in overseas operations and non-tax deductible expenses, while at the same time profits in Germany declined.

Earnings per share declined to 50 Euro cents per share, down from 2.50 Euros per share last year.

Looking into Q4, visibility into **POLYSILICON** sales remains low. Credit problems and market distortions in anticipation of potential anti-dumping rulings as well as slowing installations in some key markets make it difficult to predict sales levels. Overall we expect **POLYSILICON** to come in with sales below the last quarter. **Siltronic** should report sales at the level of Q4 last year, despite softer pricing. At **Siltronic** we target EBITDA break even for the full year. Our chemicals business will display seasonality to the same degree as every year. We expect **Chemicals** sales levels overall slightly better than last year. The impact of lower sales in Chemicals will lead to an over proportional decline in profitability.

Group sales for Q4 are expected to come in at about 1 billion Euros, with EBITDA at about the reported level of last year. Our tax rate for the full year will increase as the German portion of our EBITDA will drop further, partially influenced by seasonal patterns in our Chemicals businesses in Europe. For the full year this translates into expected group sales of about 4.6 billion to 4.7 billion Euros and an EBITDA at 750 million Euros.

As Rudy said, we are facing a challenging situation and therefore we are taking actions. You have seen us delay capex for Tennessee. You will also note that we focus working capital. Cost saving measures, mainly in indirect functions and manufacturing cost reductions are being identified and actionable items scheduled with a special focus on **POLYSILICON**. We take a hard look at our overall capex program for 2013. With these actions and supported by the underlying strength of our portfolio we will get through this challenging transition phase.