Wacker Chemie AG

Conference Call

Q2 2013

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Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

WACKER

Hoffmann:
Welcome to the Second Quarter 2013 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, and an excel-file detailing our data. Please note that the implementation of Standard IAS 19 Revised resulted in changes to the prior year numbers published previously. The excel file has the corrected data for all quarters.

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:
Ladies and Gentlemen,

Welcome to our second quarter conference call. Today we reported a 7 per cent sales increase over Q1 to 1.15 billion Euros. EBITDA in the quarter was 14 per cent higher than last quarter at 188 million Euros. Since prices for **POLYSILICON** and **Siltronic's** wafers were still markedly higher a year ago, both sales and EBITDA in this year's second quarter came out lower than in Q2 of 2012. Net income for the quarter was 15 million Euros.

As you all know the trade dispute over PV modules between Europe and China has created many uncertainties in the market for quite some time from modules all the way back to polysilicon. Consequently the worldwide polysilicon shipments in Q2 decreased by about 10 per cent compared to Q1. We have tried to contribute to the discussions very constructively in Berlin, Brussels and Beijing.

Yesterday the EU-trade commission has announced an amicable resolution to the solar panel dispute. We believe that this will provide all market participants with much needed certainty again and will contribute to growth of this important market segment. The agreement however has still to be approved by the EU-commission, before all details will be announced.

On July 1st we have held our Capital Markets Day in London. We have presented our strategy, focus and goals for the years to come:

In our businesses we are in leading market positions, recognized by our customers. Our portfolio of Advanced Materials is certainly an excellent foundation for future growth.

Over the past more than a decade we have invested significantly to create this foundation through establishing sufficient base material capacity. We have set up an international production footprint covering Europe, America and Asia. In addition we have globalized our sales network utilizing technical centers with R&D capabilities around the world. A special focus was to increase capacity especially in polysilicon in order to provide our customers with enough high quality material and to defend our established market position. We have started to build a new site for polysilicon with low energy cost in Tennessee, which is also planned to serve us as an excellent base for our silicon chemistry in the US for the future.

This all has required investments significantly above depreciation.

We are now moving into what we call our “Leverage” phase.
With most capital requirements for expansion of assets behind us, we can now focus on lower capital intensity growth, using the established global asset base.

Chemicals are at the core of our growth strategy.

In **SILICONES**, the key will be to use our innovation efforts to continuously upgrade our product portfolio and to increase the share of specialty materials sales over standard products. This will have a positive impact on our profitability as well.

In **POLYMERS** we will continue our efforts to replace other chemistries with our very versatile VAE systems. Our dispersible powders business grows strongly with new building materials and methods.

In **Siltronic** our focus on restructuring and cost reduction pays off.

We target **Siltronic** to become cash generating. We will not venture into 450 mm wafers. 450 mm wafers would see us competing with a number of competitors for an even smaller number of customers, without the opportunity for decent return on investment.
300 mm is the diameter where growth and innovation happens.
Siltronic should benefit from market growth and technology requirements in 300 mm. This is why **Siltronic** will focus on 300 mm but will continue to harvest its very good position in 200 mm as well.

In **POLYSILICON**, we still have some capex requirements left to finalize Tennessee. After that, the business will begin to generate cash because incremental growth from debottlenecking requires much lower capital expenditure.

The growing PV market drives demand for polysilicon. Growth has been moving away from Europe already. PV is becoming attractive in all parts of the world now. Especially China and Japan have become major markets already.

With balanced supply and demand the pricing environment should improve as well.

Putting everything together:
– significantly reduced capital expenditure below depreciation
– increased share of chemical specialties
– growth in emerging markets
– cost reductions especially in **Siltronic** and **POLYSILICON**
– improved supply and demand balance in **POLYSILICON** with higher pricing

All this has to lead to improved profitability, cash flow and ROCE.

Therefore we have set out our goals for 2017:
We are targeting sales between 6.0 – 6.5 billion Euros, with an EBITDA of 1.2 billion Euros and a ROCE of higher than 11 percent.

These goals are certainly ambitious, but achievable.

For more details on this please refer to our CMD-presentation that you find on our website.

The present business environment however is still challenging. Highlights certainly are growth of Chemicals in Emerging Markets, especially China and of course the hopefully now achieved resolution of the solar trade dispute.

Now I would like to hand over to Joachim, who will explain the results of the second quarter and update our guidance.

Dr Rauhut

I am going to discuss our quarterly results and will provide some additional information.

At Group level, **WACKER** reported in Q2 sales of 1.15 billion Euros. This is about 6 per cent below last year, but 7 per cent over the first quarter. This increase came essentially from the **Chemicals** businesses, following a seasonal recovery and continued market growth after the Chinese New Year. Compared to last year price declines of 10 per cent or about 127 million Euros reduced group sales in this quarter. Second quarter EBITDA was 188 million Euros, some 22 per cent below last year, but 14 per cent higher than in Q1. During the quarter we recorded retained prepayments and damages from contract cancellations of 24 million Euros in **POLYSILICON**.

At 751 million Euros, **Chemicals** reported 12 per cent sequential sales growth over Q1. Q2 was at 2 per cent slightly above last year. Good demand for our products and seasonal recovery namely in **POLYMERS** were the cause. Earnings in the quarter in **Chemicals** were supported by volume and mix effects, despite some price declines. EBITDA in Chemicals improved sequentially by 21 per cent to 117 million Euros. For Q3 we expect overall slight improvements in sales and EBITDA year over year.

We have just concluded the VAE expansion at Nanjing, adding 60 kilotons to reach 120 kilotons capacity in largest VAE dispersions units in China. New technical centers were opened at our sites in Mexico City and Sao Paulo. Customer proximity is important in our Chemicals businesses, as many products are tailored to the specific need of customers or industry subgroups. Going forward we will invest more in labs and technical centers, driving our local presence in many regions.

Sales of 437 million Euros in **SILICONES** came in about 3 per cent over last year and 9 per cent over Q1. Volume improvements in Asia and across all major product groups drove results in the segment, resulting in high utilization rates. Segment EBITDA at **SILICONES** was 66 million Euros, despite price pressure on standard products and supported by strong Asian volumes. In addition, the effects of the Q4 Chinese Siloxane JV refinancing supported EBITDA in the segment.

Supported by the seasonal recovery of the construction industry and demand from Asia, **POLYMERS** recorded sales of 273 million Euros. This is slightly lower than last year, despite higher volumes and is 21 per cent better than Q1. ASP declines dampened sales. EBITDA for the second quarter in **POLYMERS** was 44 million Euros, 24 per cent up from Q1 and at the level of last year. Pricing of raw materials had a small positive effect on earnings.

BIOSOLUTIONS Q2 sales were 41 million Euros with an EBITDA of 6 million Euros, following growth contributions from pharma and agro products.

POLYSILICON reported sales of 203 million Euros. This is 29 per cent below last year and 14 per cent below Q1. The first quarter saw high sales due to an improved market environment for our customers and a replenishment of customer inventories after Q4 adjustments. This quarter uncertainties triggered by the trade dispute between the EU and China had a negative impact on poly demand of the industry. EBITDA for the segment was 64 million Euros, supported by retained prepayments and damages of 24 million Euros during the quarter. Excluding retained prepayments and damages, EBITDA in the segment was about twice the level of Q1 in an unchanged pricing environment. The result shows some of the progress we have made on our cost roadmaps and positive inventory effects as production exceeded sales.

In Q2, **Siltronic** recorded sales of 200 million Euros, up sequentially by 17 per cent, but 19 per cent below prior year. Increasing shipments among an overall weak pricing environment defined the quarter. With utilization rates around 80 per cent, EBITDA in the segment was about

9 million Euros, significantly better than Q1 and close to last year. Benefits from aggressive cost management supported the results, as **Siltronic** saw substantial cost reductions in variable costs per wafer. Negative effects from currency translation with respect to the yen muted the result. The performance in Q3 in Siltronic should be similar to Q2. During this quarter **Siltronic** received the “Preferred Quality Supplier Award” from Intel for its efforts in 2012.

Others reports sales of 46 million Euros and EBITDA of minus 3 million Euros.

Period **Net cash flow** came in at 65 million Euros, as operating cash flow improved due to lower capex. This is significantly better than Q1 or prior year. Depreciation was higher than investments in the quarter. At 820 million Euros our net financial debt level increased only slightly. During the quarter we paid a dividend of 30 million Euros to our shareholders. We raised successfully funds in a private placement of 400 million US Dollars in Q2, with the major intention of balancing our currency exposure. At the end of the quarter **liquidity incl. securities** was 648 million Euros.

Net result was 15 million Euros with a tax rate of around 50 per cent. Some positive tax effects contributed to the lower tax rate. For the full year we expect a tax rate significantly higher than 50 per cent.

Since we last spoke one major difficulty to giving full year guidance are still in place. The key question that has a large impact on our results this year is how the solar markets will develop after the China-EU trade talks with regards to solar material appear settled. This may have an influence on our **POLYSILICON** volume and pricing for the second half. As explained in the Capital Markets Day, we so far forecast to lose about 350 million Euros in pricing in the full year, mainly in **POLYSILICON** and **Siltronic.** This assumes that polysilicon prices stay at the level of the first half. Offsetting this to a degree are cost reductions of about 200 million Euros in 2013.

In this light, our guidance stays unchanged: we see 2013 group sales at 4.5 billion Euros and EBITDA below 2012, but expect a small positive net income for the full year. We expect full year capex at 550 million Euros. Net financial debt will be less than 1 billion Euros at year end.