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Wacker Chemie AG

Conference Call

on the First Quarter 2009

April 30th, 2009

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the first quarter 2009 conference call on Wacker Chemie AG. My name is Joerg Hoffmann, Head of Investor Relations. It is a pleasure to have with me today on the call Dr. Rudolf Staudigl, our CEO and Dr. Joachim Rauhut, our CFO.

As a reminder, let me state that during this call we may make forward-looking statements based on current assumptions and estimates of WACKER's Executive Board. Although we assume that the expectations in these forward-looking statements are realistic, we cannot guarantee that they will prove to be correct. These assumptions may harbor risks and uncertainties that could cause actual results to differ considerably from the 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, an Excel file detailing our quarterly data and a short presentation to accompany this call. You can find all these files as well as our fact book on our website www.wacker.com under Investor Relations.

Now let me hand the call over to Dr Staudigl.

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Dr Staudigl:

Thank you, Joerg, and thank you all for joining us on this call.

This morning we have reported on our first quarter 2009.

As you have seen, we have experienced a very strong **POLYSILICON** performance in terms of sales as well as earnings. Our chemical businesses have felt the global economic downturn and our silicon wafer business suffered from an unprecedented drop of sales and capacity utilizations worldwide. All this started already last year and is in line with the general market trends which we have discussed in our last conference call. As a result, Q1 2009 sales came in 14 per cent below Q1 of 2008, while EBITDA was 46 per cent below previous year's first quarter performance.

Our chemical segments saw low demand from major markets like automotive, construction and textile. This resulted in lower capacity utilizations as well. Currently we are seeing signs of stabilization.

However, the sustainability of this effect is still undetermined. Our **Siltronic** business experiences two specific effects. First, we saw significantly lower demand from the semiconductor market, which also resulted in price declines. Second, we saw significantly lower volumes and prices for materials sold to non-semiconductor applications.

We are coping with the difficult market environment through factory shutdowns, payroll cost reductions, with continuous efforts to reduce costs and improve productivity. To give you an example, we reduced personnel costs in **Siltronic** by 30 per cent in Q1 compared to the first quarter of the previous year.

As mentioned before, the highlight in the first quarter was once again our **POLYSILICON** segment. Despite more challenging market conditions, we report an increase of more than 100 per cent in sales and 136 per cent in EBITDA. Strong operational performance coupled with improved contract pricing and contributions from spot sales helped profitability in the quarter.

Our expansion projects in **POLYSILICON** are well on track.

To our benefit and as we predicted all along, material quality becomes an increasingly important differentiation factor in this market environment. Our leading quality and cost positions coupled with solid execution are supporting our strong market presence. Our strong portfolio of long-term contracts for polysilicon deliveries secures and stabilizes our growth and supports our customer's competitiveness.

Looking at our markets overall, the situation is still much too uncertain to allow for a full year view and guidance.

Now, I'd like to hand it over to Joachim, who is going to touch on our segment performance in the first quarter. He will also give you more detail on current trading conditions.

Dr Rauhut:

Thank you, Rudy.

WACKER SILICONES sales in Q1 came in 27 per cent below Q1 2008 at 265 million Euros, driven by volume declines in almost all regions and business segments. Q1 2009 EBITDA declined to 28 million Euros in the wake of a recession hitting most of our markets. While volumes stabilized for now on a low level, price competition is getting tougher. Positive effects on EBITDA included productivity improvements, as well as the effects of early capacity adjustments and cost saving measures, such as short time work.

Current trading conditions in **SILICONES** are challenging. Demand from the automotive, construction and general industry sectors continues to be at lower levels. While we are getting some relief from methanol and platinum, silicon metal costs are still higher than last year. Overall, we expect slightly higher volumes in Q2, with somewhat increased pressure on prices.

Q1 2009 sales at **WACKER POLYMERS** decreased by 13 per cent to 172 million Euros, as volumes came in at much lower levels than last year. Adjusting for the inclusion of APP, sales actually dropped by 22 per cent. EBITDA for the quarter came in 44 per cent below the level of the prior year, at 22 million Euros. Positive effects on EBITDA resulted from capacity adjustments and raw material benefits. We are currently seeing order intake seasonally improving.

Some signs of a recovery are coming from China. Overall, business trends in **POLYMERS** are difficult to judge, as on the one hand stimulus packages support construction, while on the other hand the industry is partially working through projects that were budgeted and financed last year before the crisis. **WACKER POLYMERS** continues to focus its activities on the most efficient units, effectively idling parts of its capacity.

In an effort to improve our cost position and at the same time meet rising demand from China, we are mothballing our dispersible powder plant in Zhangjiagang while we start up a larger, better integrated and thus more cost efficient site in Nanjing. Overall we expect to see seasonally increasing volumes into Q2. Pricing is under pressure, partially relating to raw material based contract pricing.

Sales in **FINE CHEMICALS** declined by 22 per cent with EBITDA coming in at 2 million Euros after weak demand for some chemical products, especially acetylacetone.

Our biologics expansion in Jena is fully on track. Our new patented ESETEC process based on E coli bacteria has met with considerable interest from the pharmaceutical industry.

Q1 2009 was another record quarter for our **POLYSILICON** business. Sales doubled to 315 million Euros and EBITDA grew by 136 per cent to 168 million Euros. This was driven by contract volumes with higher ASPs and high spot prices. Production performance was great. Earnings in Q1 were helped by a high single digit million contribution of our road salt business. With demand from the semiconductor industry being very low, more material gets sold to the spot market. This led to a decrease on spot prices. However, these prices are still above contract prices and our share of volumes to the spot market was comparable to the end of the year 2008.

Our current production run rate stands at 15 kilotons. In line with higher volumes sold out of the **Siltronic** contract, **POLYSILICON** paid 23 million Euros to **Siltronic** in Q1 under existing contractual arrangements.

The **WACKER SCHOTT Solar JV** is experiencing tough business conditions as prices decline due to the present overcapacity in solar wafers. This resulted in a small loss.

The JV is on track to reach a capacity of 275 megawatts in solar wafers by the end of the year.

Capacity additions for Poly 5 and Poly 8 are well on track and within budget. As a reminder, these capacities cover a smaller volume of a new granular, continuous technology of 650 tons by mid-year and another 10 kiloton addition from our expansion stage Poly 8 towards year-end. These projects add up to a year-end capacity of over 25 kilotons.

Current trading sees the overflow of poly from semiconductors into solar and difficult financing positions for some of our poly customers. Although the solar end market is not that strong particularly because of inventory in the value chain and although spot prices have declined over the past months, our success story in **POLYSILICON** will basically continue.

In the wake of slow demand from consuming industries and overcapacities, our semiconductor wafer business turned into a loss making position. Sales in **Siltronic** were 64 per cent down compared to Q1 2008 and thus came in at 126 million Euros and EBITDA came in at minus 60 million Euros.

Volume and price declines to solar customers, historically soft semiconductor wafer volumes, and high single digit wafer price declines were the major drivers of the unsatisfactory **Siltronic** results. The largest contributor to the change in profitability were price and volume declines in the non-area business with solar and equipment customers that had supported **Siltronic** throughout last year.

With semiconductor demand declining sequentially by 50 per cent in Q1, **Siltronic** saw wafering utilization levels drop below 50 per cent in this quarter.

Due to our partnership with Samsung, utilization levels for the **Siltronic Samsung Wafer JV** in Singapore were higher. The JV is on track to reach a capacity of 200 thousand Wafers per month by the end of the year, mainly supplying our partner, Samsung, with high quality material. Please note that due to the at-equity-consolidation of the JV, its revenues are not showing in our results.

We are seeing some improvement in wafer volumes in April, but it is not enough yet to lift industry utilization levels to a point where we would start seeing price stabilization. Overall, we expect the industry to see tough earnings conditions throughout this year.

Moving on to other parts of our P&L this quarter:

- Overheads, meaning **SG&A and R&D**, came down 6.6 per cent in the quarter, reflecting a number of personnel cost initiatives bearing fruit. Adjusting for the first time inclusion of APP in February 2008, SG&A and R&D would have declined by even 9 per cent. Please note that we are not cutting down on R&D efforts.
- **Other operating income and expenses** declined by -14.7 million Euros to -19.2 million Euros. Thereof 24 million Euros related to currency, while in the last year we saw a benefit of about 5 million Euros from currency translation. As a reference: the average exchange rate of the US Dollar to the Euro changed from 1.5 in Q1 2008 to 1.3 in Q1 2009.
- **Income from associates** declined by 12.9 million Euros, as continuing ramp costs affected earnings at our JV's in Asia.
- **Profit before Tax** in Q1 was 74 per cent below prior year, declining from 197.9 million Euros to 51.1 million Euros in Q1. The tax rate for the reporting period was 89 per cent; in the prior-year period it was 34 per cent. This very high tax rate is a result of losses at **Siltronic**, which could not be settled with profits in the chemical and polysilicon divisions. Going forward we are working at ways to improve the tax utilization of **Siltronic** results.
- Following the high tax charge, **earnings per share** declined by more than 90 per cent down to 17 Euro cents per share.

Capex for the first quarter was 177 million Euro, with about 100 million relating to the Polysilicon expansion in Burghausen and Nuenchritz. The remaining 77 million Euros were related to strategic projects in the other divisions, as well as process and efficiency improvements. In Q1 we received **prepayments** for future polysilicon deliveries of a total of 88 million Euros, growing the gross number of prepayments to about 950 million Euros.

Per the End of March, our **liquidity** position increased by 79 million to 385 million Euros. Our **net financial debt** resulted in a cash position of 101 million Euros at quarter end, compared to 33 million Euros at year end 2008. Despite the change in profitability and the high level of investments, **net cash flow** came in at 71 million Euros, resulting from prepayments and reductions in working capital. As we stated six weeks ago in the full year call, we are focusing capital on strategic projects only and are expecting to invest 800 million in 2009.

Rudy?

Dr Staudigl:

Ladies and Gentlemen,

As we reported previously, we are meeting the changing market conditions by reducing capacity whenever possible. We are taking a disciplined approach to capital expenditures, which means cutting back capex and concentrating only on strategic projects. Our commitment to productivity and continuous improvement remains unchanged and we are making good progress on our overall cost reduction measures. Our focus these days is clearly on cash and costs. For the whole group, we target a reduction of personnel costs by 15 per cent in 2009 and we are well on track to reach this. Also, we are moving headcount into the faster growing business in **POLYSILICON**.

Since we last spoke, the chemical segments are seeing stabilizing volumes, but will face more price competition, partially in line with lower raw material costs.

Siltronic records, for example, increasing demand for 200 mm going into Q2, but continues to see price pressures until the industry sees much increased capacity utilizations. As for **POLYSILICON**, we continue to see material being diverted from the semiconductor industry to the solar industry. Financial restrictions for some poly customers in solar add to a more challenging market. But as our strong Q1 shows, we can cope with these challenges.

POLYSILICON will remain a key factor to our performance. We are competitively well positioned. We are getting capacities to market reliably and with the highest quality. 2009 will be a challenging year for the downstream solar sector, as currently the solar industry is working through inventories in cells, modules and systems as other regional markets are catching up in the wake of the Spanish market decline.

Political support and pricing trends in Photovoltaics are promising more growth in the coming years. This supports our **POLYSILICON** business.

In summary, **WACKER** is financially strong and strategically well positioned. We are taking the right steps to address the situation in our various markets. We continue to navigate this challenging environment with care.

Our products, our market positions, technologies and engineering power, provide us the confidence to emerge out of this crisis strongly.

Now, Joachim and I are looking forward to your questions.

Hoffmann:

Operator, we are now ready for the Q&A session.