

Wacker Chemie AG
Conference Call
on the Second Quarter 2009

July 30th, 2009

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the second 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 a 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 on our website www.wacker.com under Investor Relations.

Now let me hand the call over to Dr Staudigl.

Dr Staudigl:

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

We have been reporting sales of 926 million Euros in Q2, 6 per cent above the first quarter, and 18 per cent below last year. EBITDA for the group was 170 million Euros, after restructuring provisions of 15 million Euros. This is 9 per cent above the first quarter 2009 and about half of what we have achieved last year. Our businesses have recovered nicely in volumes. We experienced increasing price pressures but on the other hand saw relief from raw materials. Against this background, we are satisfied with the results of our chemicals businesses this quarter and with the very good performance and the strength of polysilicon. Obviously we are not satisfied with the results of Siltronic, which is still suffering from reduced demand and overcapacities in the industry.

In general, the global economic downturn is far from over. We are addressing this with structural improvements to our businesses.

Our chemical divisions are performing quite well, considering the challenges of the market places. We are now reaping the benefits of our aggressive operational improvement program.

However, this is the time to review organizational structures, plant set-ups and market approaches to prepare for the future. This is why a restructuring program in our **SILICONES** division has been designed and is being implemented. A major feature of this restructuring move is the optimization of capacity utilization, allowing us to increase flexibility. This program also entails cost reduction measures, a review of smaller production locations, adjustments to the R&D organization, and other organizational changes. With this, we are adjusting marketing and sales structures for standard and specialty products, without losing our strong focus on customer needs.

This overall program results in a reduction of 330 positions, for which 7 million Euros have been provisioned in Q2. Up to 2010

we expect to spend another 15 million Euros on this restructuring initiative, including possible impairments on smaller production sites. Once fully implemented, this program will generate savings of 50 million Euros annually.

As you have also seen in our recent announcement, we are working diligently to further increase **Siltronic's** production flexibility. We have established a "Lead Site strategy", which in essence means that our most advanced units get preferential customer qualification and loading. In detail, Burghausen will become our lead site for 150mm wafers and will focus on 300mm R&D related tasks. In the 300mm segment, Freiberg in Germany and Singapore will represent our main production sites. For 200mm, Singapore will become the lead site with Portland and Hikari supporting. Going forward, this structural change will help to adjust capacities and costs rapidly to changing market dynamics without impact on customers. The market talks about 20 to 30 per cent capacity adjustments in smaller diameters in the industry. That's also the way we see it.

Our overall **Siltronic** strategy, which is to "grow with the market", remains unchanged. In the course of this restructuring program about 1,000 positions at **Siltronic** will be reduced, including 550 positions that were made redundant since mid of 2008. Our Q2 accounts include provisions of 8.7 million Euros. With this and other operational initiatives mainly focused on reducing costs in 300 mm, we expect to generate about 50 million Euros annual savings once everything is fully implemented. We expect full implementation to be completed by the end of 2010.

In addition, we have started a number of initiatives across the group to further reduce our cost basis. At the end of Q1, we communicated a target of 160 million Euros worth of personnel cost reductions for 2009 outside of the aforementioned programs at **Siltronic** and **SILICONES**. These efforts are well under way.

A key factor to our overall performance is the solid strength of our **POLYSILICON** division. The segment generates strong cash flows from high margins due to its cost performance. Our

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continuous productivity efforts on existing units have been very successful. During Q2 we have produced polysilicon well above design capacity, resulting in a much better than expected output and cost performance. We expect to continue producing at these higher rates, effectively providing more than 16 kilotons to the market this year with our existing equipment.

We have demonstrated in the past that we can execute Polysilicon projects within tight timelines. A side effect of this great engineering and production performance is now that we will have enough capacity to meet supply agreements, allowing us to cash optimize the ramp process of the Poly 9 expansion in light of the market development. Overall, this means Poly 9 will begin to ramp production in the second half of 2011. Due to this improved performance the new target of production including Poly 9 is now at around 40,000 tons.

This strength of our **POLYSILICON** business enables us to weather the economic downturn, compensate losses and keep our strategic investments going at the same time.

Significant additional work has to be done to improve results of our joint venture with Schott on solar wafers, but especially at Siltronic to fully recover to a profitable level.

WACKER is navigating its way through the economic crisis, with this year's Q2 results already showing improvement. The structural measures we are taking are essential, so that we can stay on our sound course, counter the impact of the economic crisis on our company and ensure **WACKER's** competitive strength for the future.

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

Dr Rauhut:

Thank you, Rudy.

I am going to walk you through the development of our segments in more detail. Before we begin, let me state first that we will always strive to disclose to you a clean set of numbers.

Restructuring is part of ordinary business and something that has to be done quickly when necessary. Therefore, we will not present numbers ex- or pre- so-called special charges. We will, however, name extraordinary expenses as they occur.

At sales of 305 million Euros **WACKER SILICONES** saw a 15 per cent increase over the weak first quarter of 2009 but remained about 20 per cent below prior year. Including a 6.3 million Euro Q2 restructuring provision, EBITDA in Q2 came in at 37.2 million Euros, up 34 per cent from Q1 but still 39 per cent below last year. Overall volumes were some 20 per cent below last year while price pressure on the commodity products increased during the quarter.

Main drivers for sales compared to the first quarter were a seasonal improvement in many industries, continued strong performance in the medical and personal care businesses as well restocking trends in some value chains.

Given the weak market environment, this is a strong performance particularly on cost management. A very important step was the improvement of yield performance in Siloxane production despite lower plant capacity utilization. In addition, the reduction in the cost of methanol and energy costs helped profitability.

Over the next two quarters, apart from the usual seasonal decline in Q4, visibility is still low. We have seen strong sales in July, close to last year's performance, but we stay cautious to extrapolate this to the full year.

Q2 2009 sales at **WACKER POLYMERS** were up 20 per cent compared to Q1 as the usual seasonal recovery after a strong winter took place. Sales in Q2 were 207 million Euros, 16 per cent below last year. Sales benefitted from a strong development in

external insulation finishing systems in Europe and Asia. At 43 million Euros EBITDA, the segment actually surpassed last year's results by 15 per cent and was twice as high as in Q1. This strong performance is the result of lower costs for ethylene and VAM as well as cost management.

With our new plant in Nanjing, China, we have now reached a total nameplate capacity of 280 kiloton's for Dispersion Powders. Owing to strong demand recovery, short-term work was stopped in late April. Prices are significantly below last year but have moved only slightly since Q1.

Looking forward, the third quarter has started promisingly; similar to **SILICONES**, but here also visibility is still low.

FINE CHEMICALS reported sales at 22 million Euros, which is about the same level as last quarter, but 9 per cent below last year. Profitability came back to 3 million Euros, at last years' level. While pricing and demand for major chemical products out of the segment is weak, the biologics and food ingredients businesses continue to move nicely. Executing our strategy, we have actively reduced the share of chemical products in the segment.

Going forward the **FINE CHEMICALS** segment will consolidate the gum base business, previously recorded under **POLYMERS**. Wacker's capabilities in food ingredients are evolving to help us offer complete product formulation services for the food industry. This should add about 10 million Euros in quarterly sales to the segment.

As Rudy already said, our **POLYSILICON** segment saw another successful quarter despite a significant decline in spot pricing for polysilicon and a difficult earnings environment for solar wafers. The absence of a winter road salt contribution also lowered sales and earnings.

Sales of 269 million Euros were 39 per cent above last year, but sequentially 15 per cent below Q1. The segment achieved an

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EBITDA of 136 million Euros in Q2, which is also 30 per cent above last year and 19 per cent below Q1.

While production output has reached record levels, we continue to sell all of our production at attractive price levels. We actually sold more than we produced in the second quarter, drawing some material from inventories. Also for July, we have sold all of our available production output.

During Q2, we have added three new long term contracts with prepayments with Asian and European customers. Further contracts with selected addresses are being worked on.

While spot prices for polysilicon came down, our improving good cost position helped to maintain margins above 50 per cent. As shown in Q1, **POLYSILICON** sold some of **Siltronic's** contractual polysilicon complement and shared an excess of 6 million Euros, down from 23 million Euros in Q1, with **Siltronic**.

Towards the end of the quarter, one very special prepaid long term agreement for polysilicon deliveries was terminated. This resulted in earnings of 19.7 million Euros in the segment as we have retained the prepayment. There were a few other adjustments to long term contracts, but these were not financially significant at all.

The **Wacker Schott Joint Venture**, whose results are contained in the polysilicon division, is having a hard time, as prices of wafers are falling during the ramp phase. The joint venture has contributed to segment earnings with a loss of 20 million Euros in Q2. Together with our partner, **Schott**, we are taking actions to improve results and cash flow going forward.

Going forward we expect to see **POLYSILICON** performing strong with EBITDA-margins slightly under 50 per cent, depending on the performance of the Wacker Schott Joint Venture and on the spot price development.

At **Siltronic** wafer volumes increased significantly during the quarter and capacity utilization improved. The wafer market grew in area by more than 80 per cent over Q1. Despite this, **Siltronic**

suffered from negative mix effects and slight price declines in nearly all diameters during the quarter. Wafer revenue increases were partially offset by reduced volumes of ingots and other material sold to solar customers. In total, sales rebounded by 22 per cent over Q1 to 153 million Euros, but reached less than half the level of last year. EBITDA came in at a loss of 58 million Euros. This result included restructuring charges of 8.7 million Euros.

Compared to the prior year, the decline in non-area business to the solar industry was notable. Sales into this sector decline to less than one quarter of what they were last year.

Following the implementation of our lead site strategy and a related assessment of the semiconductor wafer industry, we have impaired fixed assets belonging to the designated support sites by 121 million Euros. This charge is not tax deductible.

Overall, we are seeing stronger demand for 200mm than for 300mm, most likely following the stimulated consumer demand in some economies. Smaller parts of the business are reporting strong sales, almost on a level with last year, while other larger parts are still challenged by a lack of demand. However, today the market is difficult to read. A negative signal is that 300mm inventories are climbing again. On the other hand, there are also market rumors about increasing prices in 300mm starting from Q4, which we would welcome, but we remain cautious. Therefore, a short-term return to profitability is a tough issue. Nevertheless, we expect EBITDA in the second half to come in better than the first half. We are restructuring and working hard on lowering our fixed and variable costs per wafer, but it depends very much on which way prices for wafers are moving.

Before we move to other parts of our P&L this quarter, let me give you some explanation on "Others". This segment includes costs of headquarters and our centralized research facilities, as well as various site services. When modeling this segment, you should note that we strive to keep the segment at breakeven on an EBITDA level.

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

- Overheads, meaning **SG&A and R&D**, came in at 121 million Euros, 4 per cent above Q1, but 7 per cent below Q2 last year. As you can see, we continued to invest in R&D on the same level as in the previous year.
- **Other operating income and expenses** include the restructuring provisions of 15 million Euros and the 121 million Euro impairment on **Siltronic** supporting site assets.
- **Income from associates** has come down to minus 34 million Euros from a loss of 23 million Euros in Q1, representing ramp losses in China and weak results of our 50:50 joint ventures.
- **Income before Tax** reached a loss of 60 million Euros after the 121 million Euro impairment. Excluding this non tax deductible impairment, income before tax would have been about 60 million Euros positive.

This should serve to explain, why our reported tax rate exceeded 100 per cent. The statutory tax rate in Germany is just below 30 per cent, while in our overseas operations, we are taxed closer to 40 per cent. Our newly established profit transfer agreement with **Siltronic** had a positive impact of 40 million Euros on our tax payments in the first half. Forecasting this year's tax rate is not easy.

One complication stems from the fact that we are booking losses in ventures and some foreign operations, effectively leveraging the visible tax rate up.

Looking at the development of cash flows, our capital expenditures in Q2 2009 increased to 194 million Euros, mostly for polysilicon projects. In Q2, we received **prepayments** for future polysilicon deliveries of a total of 24 million Euros, growing the gross number of prepayments to about 978 million Euros. Net of repaid advances our balance sheet shows 887 million Euros.

The quarter saw a net cash outflow of 110 million Euros resulting in a net debt position of 82 million Euros. The cash outflow

included a 27 million euro increase in net working capital as well as an outflow of a part of the accrued bonus payments to the employees totaling 67 million Euros. 50 per cent of the major elements of bonuses will be paid out at a later stage.

We negotiated extensions and additions to our credit facilities this quarter at competitive rates. Overall, our committed credit facilities are now at 1.2 billion Euros, including a 180 million Euro German Schuldschein or promissory note placed during Q2 and a 400 million Euro loan from the European Investment Bank dedicated to the development of our Poly 9 site in Nünchritz. This 400 million Euro loan facility was signed on Monday.

In summary: as Rudy already said, our **POLYSILICON** and chemical businesses are showing a strong performance. Operational excellence in Polysilicon allows us to raise production targets. The semiconductor business requires structural improvement, which we have initiated, to get it back to profitability. Our balance sheet and financial position is strong and secured. This allows us to navigate through rougher waters.

Now, we are looking forward to your questions.

Hoffmann:

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