



Wacker Chemie AG
Conference Call
on the Second Quarter 2010

July 30th, 2010

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the **second quarter 2010** conference call on Wacker Chemie AG. This is Joerg Hoffmann, Head of Investor Relations. We have Dr. Rudolf Staudigl, our CEO and Dr. Joachim Rauhut, our CFO on the call today.

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 these 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. In addition, you will find the presentations given at our recent Capital Markets Day on the website. Please also note that a written version of today's speeches will be available on our website about half an hour after the call. All of this can be found on our website www.wacker.com under the caption Investor Relations.

Dr Staudigl?

Dr Staudigl:

Ladies and Gentlemen,

The last quarter has been very rewarding. Month after month, the order backlog in **SILICONES** increased with strong customer demand. At **Siltronic**, demand for silicon wafers keeps improving. **POLYSILICON** kept operating at capacity limits and Poly 8 reached full capacity. **POLYMERS** had a good start into the global building season.

All the markets we are operating in develop very nicely.

Today we reported sales of 1.2 billion Euros for the second quarter with a total EBITDA of 309 million Euros. This is our strongest second quarter on record.

A major event during the last quarter was the acquisition of the metallurgical silicon production site in **Holla**, Norway, for 65 million Euros. With a capacity of 50 thousand tons of silicon metal and the related know-how base, we are effectively backward integrating our value chain. This transaction was closed on July 1st and the integration process is successfully underway. The acquisition covers about one-third of our silicon metal needs and will help reduce the volatility of costs for this important raw material.

As you may have seen, silicon metal has appreciated over the last months due to high market demand. This influences the silicones industry more than other users of silicon metal such as aluminum alloys or polysilicon, because the share of silicon metal cost of the total production cost is higher for silicones than for polysilicon or aluminum.

The main benefit of this backward integration will therefore be with our **SILICONES** segment. There we have on the one hand a commodity segment, which can roll over changes in raw material pricing rather quickly. On the other hand, we have a high margin silicone business that is built on joint product development with our customers. In this important, know-how intensive part of the **SILICONES** business a high level of predictability of raw material costs is important for success.

Therefore, all in all, it was an important strategic move for WACKER to acquire the Holla site.

At the end of June we had our **Capital Markets Day** in Burghausen. Let me quickly summarize our main headlines and statements from that event.

1. **Market Leadership:** We are set to defend and expand our leading market shares in our businesses. We do this with a clear focus on our customer's needs, a proper selection of channels to market and exemplary

customer support. One very successful driver of this is our global WACKER ACADEMY, which provides systematic training and education on modern products to our customers and their customers.

2. Operational Excellence: At WACKER, we have set clear targets on productivity and performance. One of our most important targets here is the continuous reduction of specific operating costs by about 10 per cent annually.

This is a very aggressive goal, but we have demonstrated that it can be done using modern tools and by summoning the collective creative potential of all our employees. This has led us to become cost leader in many of our businesses, most pronounced though in **POLYSILICON**.

3. Innovation and Engineering: WACKER is an innovating company. We continuously reinvent ourselves and our portfolio follows those changes as we have demonstrated in the past. This process includes developing new materials and applications beyond our current core businesses.

We also derive considerable strength from world-class chemical engineering. This helps us being a well respected partner for our customers in terms of quality and volume delivery of our products. WACKER stands for reliability and performance. Specifically again in POLYSILICON, but also in our Chemicals and Siltronic businesses our focus on cost performance, reliable start-up of new capacities as well as uncompromised quality of material pays off.

And last but not least, our commitment to **sustainability** embraces our entire strategies.

And as these strategies are successfully playing out, we will continue to focus on return on capital and growth from innovation, leading to higher sales and profits that we generate for our shareholders. Sharing our success, we are targeting a long-term dividend payout ratio of 25 per cent, despite our large capex budgets.

Based on our good performance, we have updated our guidance. Assuming no major change in the economy and in exchange rates, we now target sales of 4.5 billion Euros this year. Our 2010 EBITDA result will exceed the 2008 level of 1,055 million Euros. Our increased capital budget of 750 million Euros is expected to be financed by own cash flows.

Now Joachim is going to talk about our segment performance, financial details and will give you more detailed guidance.

Dr Rauhut:

Thank you, Rudy.

WACKER SILICONES reported quarter over quarter sales growth of 11 per cent resulting in sales of 407 million Euros, 33 per cent over last year. This constitutes a new sales record for the segment. With positive currency effects and strong demand for high value added products, **SILICONES** EBITDA came in at 73 million Euros, almost twice as much as last year and 18 per cent over last quarter.

While Q1 demand was primarily driven by Asia, throughout Q2 and today we experience strong demand from all regions. Almost all of our units are operating at capacity limits and our order backlog has now reached 1.5 months. While order intake remains strong, we expect Q3 business to slow down somewhat during the summer holiday season in Europe, with a quarter over quarter decline comparable to the last years. For the full year, we now think that the segment can report up to 20 per cent higher sales than last year in a firm pricing environment.

In line with seasonal recovery in the building sector, **WACKER POLYMERS** reported Q2 sales at 225 million Euros. This was 31 per cent over Q1 and 9 per cent over last year. The building season came back strong in the quarter, supported by good demand from all regions. Despite some price pressure, margins stayed flat quarter over quarter, resulting in an EBITDA of 38 million Euros, 12 per cent below last year. Compared to last year, **POLYMERS** margins in 2010 are lower following the rise in raw material costs. Pricing pressure was actually less than we last guided. Please also note that last year the segment included gumbase and other product sales of 18 million Euros. So on a like for like basis, the segment actually grew its quarterly sales successfully over last year by 19 per cent.

WACKER BIOSOLUTIONS reported sales of 38 million Euros with a 20 per cent EBITDA margin. Growth drivers were Nutrition and Gumbase as well as pharmaceutical proteins. For the full year, we expect double-digit growth in sales and a higher level of profitability compared to last year.

Second quarter sales in **POLYSILICON** came in at 322 million Euros in a slightly improving pricing environment, measured in Euros. Sales were at the level of Q1 and 20 per cent over last year. EBITDA in Q2 was 175 million Euros. In Q2, one of our customers no longer needed the polysilicon ordered. As a result, the existing agreement was terminated. The retained advance payment from this customer amounted to 9 million Euros.

The reported EBITDA margin of the segment was 54 per cent. When excluding the retained advance payment, this results in a roughly 52 per cent EBITDA margin following another quarter of superior cost performance.

Demand for our product remains strong and advance payments are coming back. We have signed in recent weeks a number of multi-year contracts with advance payments again. Pricing for new polysilicon contracts is firm in Dollars and increasing in Euro terms. The flight to quality continues as cell manufacturers are now mandating much more stringent quality specifications for wafers than previously. Along the value chain the use of high quality polysilicon, the kind that we sell, helps customers reduce their costs while at the same time improving their product.

We are now essentially sold out for 2010. As you know, our production target for the year stands at more than 24,000 tons. We are currently making good progress in lifting further productivity potential with technical and process improvements. Our Poly 9 expansion is moving along nicely and is on schedule.

While we see strong industry demand in 2010, the volume of worldwide PV module installations for 2011 is less clear. From what we hear about 2011 from our customers, we think that the markets outside of Germany will show strong growth. In our view, even with the mandated Feed-In-Tariff cuts, the German solar market will remain attractive. Overall industry demand growth is largely contingent on the cost reduction progress further down the value chain, as the industry will likely compensate to a degree the decline in subsidies with price concessions.

We now expect the full year 2010 EBITDA margin in **POLYSILICON** at 50 per cent.

Currency, but also volume and price effects supported **Siltronic** performance in the second quarter. **Siltronic** reported sales of 256 million Euros in Q2, which is 67 per cent over last year and 17 per cent over Q1. At 18 million Euros, EBITDA was a full 76 million over last year and 17 million better than Q1. While the segment saw volume improvements particularly in 200mm and smaller diameters, 300mm volume was slow. Prices went up across the board, particularly in specialties such as EPI, and less so in 300mm and standard products. Although prices have improved, they have not returned to the levels seen before the financial crises particularly in 300mm.

Siltronic shows a rebound since last year's Q2. However, we know that the business can perform much better than it currently does. We continue to press on with our cost and productivity initiatives, with a focus on indirect labor, unit costs and plant flexibility.

During last year's financial crisis, our customers shelved a lot of their capacity expansions. This is now showing up in high utilization rates at their facilities. Especially smaller diameters remain highly utilized. Overall demand for the second half of the year remains strong, although one could expect some seasonality in volumes towards the end of the year.

While pricing sentiment remains firmly positive, some market segments show more upward momentum than others. As we have said before, we see the second half with better pricing and higher volumes than the first half of this year.

For the full year, we see **Siltronic** staying positive on EBITDA, but still below the performance of 2008 or 2007. Q3 profitability should see a further improvement over our reported Q2 results.

As we go on to discuss the group P&L, balance sheet and cash flows, please remember that last years' numbers were not only influenced by a much worse macroeconomic environment but also by the accounting effects of our restructuring efforts. Therefore, I will stick mostly to comparisons to the first quarter of 2010.

On a group level, sales increased quarter over quarter by 13 per cent, compared to Q2 last year the increase was 30 per cent.

At 205 million Euros, **EBIT** increased 33 per cent over Q1 and nearly 260 million over Q2 last year. This includes 14 million Euros of losses from associates, which essentially reflects the ramp and initial losses at our Asian joint ventures in **SILICONES** and **Siltronic**.

Income taxes increased in line with higher profits to an effective rate of 30.3 per cent. I suggest using a slightly higher 32 per cent number to model for the full year.

Net income for the period increased by 28 per cent over Q1 to 135 million Euros. This resulted in 2.71 Euros in **Earnings per share**.

Our balance sheet remains very healthy with 441 million Euros in **cash and liquidity** on our hands. Following strong sales growth, **working capital** for the June ending period increased by 10 per cent to 882 million Euros compared to the March period. **Net debt** for the quarter came out at 58 million Euros and our equity ratio computes to 44 per cent at the end of June.

Net cash flow for the first half was 110 million Euros after about 230 million Euros of capex mostly for polysilicon facilities. Capex for 2010 is now expected at 750 million Euros, including the Holla silicon metal acquisition. Despite the increased budget for 2010, we now expect to have a positive net cash flow for the full year.

As presented in our Capital Markets Day, we maintain standby lines of committed credit as backup for our multiple expansion projects. We have just renegotiated a portion of these lines, fixing conditions for a 200 million Euro syndicated loan with a favorable fee structure as part of this policy.

Given our high exposure to the US-Dollar, mainly in **Siltronic**, we follow a well-defined hedging policy. Every quarter we assess the net exposure of our businesses. We then hedge 50 per cent of this exposure monthly on a rolling forward basis for 12 months. This year, a one cent change in the annual average US-Dollar to Euro exchange rate results in a 5 million Euro effect on EBITDA before hedging. After hedging, the net effect is 2.5 million Euros on EBITDA annually.

During the second quarter, however, we have modified our standard hedging policy. In light of higher sales volumes in US-Dollars and low Euro-Dollar exchange rates, we decided to extend our hedging horizon into 2012. Compared to year-end 2009 this effectively doubled our hedging volumes.

Overall, this was a very successful quarter. The third quarter continues strong in all our businesses, with **POLYSILICON** and Chemicals operating at very high utilization rates, as **Siltronic** makes good headway in their improvement efforts. From today's perspective, we expect the third quarter to turn out at a slightly lower level than Q2 in sales and EBITDA, due to some seasonal effects. For Q4, let me remind you that some macroeconomic risk cannot be excluded.

Our good performance and current trading conditions lead us to an upgrade of our guidance for the full year. We now expect to report about 4.5 billion Euros in sales for 2010. For EBITDA, we will exceed the level of our highest annual result on record, which was our 2008 result at 1,055 million Euros. Looking at risks and opportunities concerning our full year EBITDA guidance, I think that our EBITDA in the second half could reach the level of the first six months.

Now, we are looking forward to taking your questions.