Wacker Chemie AG

Conference Call
on the Fourth Quarter 2009

March 24th, 2010

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the **fourth quarter** and **full year 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 annual report, a press release, an excel file detailing our quarterly data and a short presentation to accompany this call. All of these can be found on our website www.wacker.com under the caption 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.

2009 saw many challenges, like the financial crisis, the decline in the short-term polysilicon prices, massive reductions in 300 mm wafer prices and severe demand interruptions in the chemicals and Siltronic divisions. With these challenges, we focused on the three things that matter most in our businesses: customers, costs and cash. As a result, and supported by demand, our 2009 operational performance improved quarter over quarter.

WACKER CHEMIE ended 2009 with sales of 3.7 billion Euros, 13 per cent below 2008. EBITDA reached 607 million Euros, 42 per cent below last year. Our bottom line was influenced by a number of special items. These items had about 340 million Euros effect on EBIT and 161 million Euros on EBITDA. They include the exit from the **WACKER SCHOTT JV**, restructuring efforts and the reduction of developing balance sheet risks. But the most important result is the small change in net debt, despite high capex. In 2009, we spend 800 million Euros in cash for expansions and contributions to joint ventures. This is more than 20 per cent of sales in a difficult economic environment.

The fourth quarter showed a good performance given the underlying seasonal effects. **Polysilicon** saw no interruption in strong demand for their products. At 935 million Euros, Q4 sales in the **Group** were only 5 per cent below Q3 and about 6 per cent below prior year. Without the fourth quarter effects on EBITDA, profitability in the **Group** was approximately at the level of Q3, showing a much stronger performance than fourth quarters in prior years.

As the global economy recovers, we see continued improvements in our underlying business.

Siltronic is reporting steady improvements in volumes in a much more stable pricing environment than witnessed in prior quarters. With strong demand wafer prices should continue to improve.

The **Chemical** divisions are going to see some raw material cost inflation in 2010 but will have volume gains.

Polysilicon continues to increase production output. For the next weeks we are completely sold out as demand for our products remains very strong. Short-term pricing for our polysilicon products is currently very stable, but lower than last year's average.

We continue to make good progress towards our strategic targets. The underlying market trends that define our future are well intact and have come back forcefully from the economic troubles in 2009. Hence, our growth should well continue in 2010, with capex of 600 to 700 million Euros, focused mainly on **Polysilicon** as the other divisions currently have enough capacity available.

As you have heard today, we are proposing a 1.2 Euro per share dividend. We are committed to pay dividends to shareholders and would normally target a pay-out-ratio of about 25 per cent on net profits in the long run. Given our negative net earnings position in 2009, however, we decided to pay a dividend out of retained earnings. This is based on our views about the ongoing recovery in our underlying businesses.

The trends we saw in our solid fourth quarter performance continue and we are confident for this year. For the first quarter 2010 we now expect to achieve sales of more than 1 billion Euros with EBITDA reaching about 250 million Euros. For the full year 2010 we expect sales to exceed 4 billion Euros and EBITDA to come in significantly over last year, but as always, this is contingent on the development of the global economy.

Now, I would like to hand over to Joachim, who is going to touch on our segment performance in the fourth quarter. He will also give you more detail on current trading conditions and offer explanations on the one-offs that so skewed our performance in Q4. Joachim?

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Dr Rauhut:

Thank you, Rudy.

Before I am going to walk you through the development of our segments in more detail, cover some cash and balance sheet items, I would like to discuss the fourth quarter charges.

During our last call on November 3rd, I had pointed out that the fourth quarter would see some non-cash charges. At that time it was not clear yet what magnitude those items would eventually have. While the size of the impairments crystallized in December, reliable data on provisions for personnel matters was only available in January, reflecting actuarial calculations and discussions with organized labor. As the data was firm, we immediately set off to disclose these facts.

Now let me explain the pension provisions first. We are using the corridor method under IFRS for the valuation of pension provisions, this takes account of effects arising from changing assumptions in mortality rates and other valuation parameters, such as interest rates, and using the corridor method.

Only when a 10 per cent corridor is exceeded these divergences are recorded in the P&L to smooth out fluctuations in pension expenses. However, we believe a continuous increase in life expectancy can be expected in the future. Therefore, in our view, it does not make sense to smooth out the expenses for the biometric changes within the corridor any more. Following this, we opted for a conservative interpretation of mortality tables and going forward will post biometrics effects directly to the P&L as an increase in pension obligations. This change was recorded in the segment **Others** and led to additional expenses of €48 million in the fourth quarter.

In addition, we recorded in the fourth quarter charges for working-life accounts and for provisions relating to early retirements and phased-early-retirements in all segments. In communications, we summed this up under the caption “early retirement schemes”. You can see the break down of 40 million Euros charges incurred in Q4 in the call note published prior to this call. These provisions will help us cope with demographic change and will support productivity measures going forward.

Now, let’s get back to our operational performance in Q4 2009.

At sales of 325 million Euros **WACKER SILICONES** saw a 5 per cent decrease over the third quarter, or 9 per cent above Q4 2008. **SILICONES** Q4 EBITDA was positive at 24 million Euros, some 70 per cent below the third quarter, but about 42 million Euros better than in 2008. Shipments to Asia and mix improvements supported Q4 performance. EBITDA in the fourth quarter was reduced by 23 million Euro one-offs relating to restructuring and early retirement schemes. We also recorded asset impairments of 35 million Euros at sites in China and Germany during the fourth quarter. Taking all of these charges into account, Q4 performance was substantially better than in prior years.

2010 sales continue strong into the first quarter at levels close to Q1 2008 supported by all industries. We have been asked frequently, if that is a restocking effect. While we cannot rule out a restocking component, it appears that our customers are managing working capital closely. The higher order frequency and lower average lot sizes we observe would support this view. Looking forward, we expect sales growth mainly from Asian accounts. As the strong performance of Q4 continues into the first half we expect a good result in **SILICONES** in Q1 and Q2. For the remainder of the year visibility is lower. Profit development for the full year will be slightly impacted by some raw material inflation especially on Methanol and Platinum.

WACKER POLYMERS reported Q4 sales of 165 million Euros, 11 per cent below prior year and seasonally 18 per cent below Q3. Sales continued to benefit from a strong development in exterior insulation and finish systems in Europe and Asia. Q4 EBITDA came in at 10 million Euros, 33 million Euros below Q3, but significantly better than 2008. Polymers suffered non-cash charges of 7 million Euros in Q4 relating to early retirement schemes. Overall 2009 saw benefits from lower raw material costs, restructuring and cost improvements. Current trading in dispersible powders remains seasonally weak, as the construction season has not yet started. On the other hand, merchant dispersions, which make up about one third of sales, are performing better. We have streamlined the product portfolio in 2009, transferring the gumbase business into **BIOSOLUTIONS** and exiting the PVB business. In total, this takes 35 million Euros in sales annually out of the **POLYMERS** segment.

Looking forward, we see volume growth mainly in Asia, but expect a slowing European construction industry as stimulus package effects run out. Ethylene costs are expected to increase, which will have negative effects on our earnings expectations for the segment this year.

Since the IPO in 2006 the composition of the Fine Chemical segment has changed from a 70-30 mix between fine chemicals and biotechnology products to the reverse situation. In response to this changing mix we have renamed the former “FINE CHEMICALS” segment into **WACKER BIOSOLUTIONS**. The segment reported sales of 29 million Euros in Q4, with a positive EBITDA despite 2 million Euro charges in the fourth quarter. Demand for the cystein, cyclodextrins and food ingredients businesses is quite strong and we expect for 2010 double digit sales growth including gumbase with a corresponding increase in profitability.

Q4 Sales in **POLYSILICON** stayed at Q3 level, but 12 per cent above 2008 as a consequence of strong volume increases combined with prices being significantly lower than Q4 2008 and a bit lower than Q3 2009. EBITDA of 130 million Euros in the segment was impacted by Q4 non-cash charges of 10 million Euros relating to early retirement schemes, resulting in a margin comparable to the operational margin in Q3. Good cost performance of recent new capacities and benefits from improved loop management supported EBITDA margin despite slightly lower solar poly prices in Q4.

With regards to current trading conditions we can report sold out conditions in **Polysilicon** for the next weeks. With low inventories, strong demand from both solar and semi, short-term prices are currently stable around the levels of long-term contracts.

The ramp of our 10,000 ton expansion Poly 8 is well on its way and we expect to finalize the ramp half a year ahead of schedule in the second quarter. This should result in overall more than 24,000 tons of polysilicon production in 2010, somewhat depending on the product mix between semi and solar. Construction on Poly 9 is progressing as planned, leading towards a beginning of the ramp of that 10,000 ton expansion in the end of 2011.

We reported sales of 18,100 tons of hyperpure polysilicon in 2009. Some of you tried to calculate our average prices and average costs of the polysilicon division by dividing segment sales by our reported production output. Let me state that you should take into account that beside solar grade polysilicon, also

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semiconductor grade polysilicon, speciality polysilicon such as FZ rods, but also rock salt and silanes are part of the segment. This is a wide product range with product mix changing from quarter to quarter and huge differences in pricing per kg. A simplified calculation is therefore misleading.

Q1 is very good in volumes and we expect an EBITDA margin of close to 50 per cent primarily on the back of improved cost performance of our new units. We see full year 2010 EBITDA margins in POLYSILICON going below 50 per cent, but staying in the high forties.

There are some uncertainties about the demand levels in the second half of 2010 relating to the effect of Germany's feed in tariff decreases. While the tariffs decreases introduce an element of uncertainty, we do not expect this to result in a significant impact on our sales as other markets are developing nicely. In addition, the increasing need from semiconductors will have a positive effect on demand.

Siltronic ended the fourth quarter with a performance pretty much as guided on the level of the third quarter. Sales came in at 184 million Euros, 39 per cent below prior year and 6 per cent above Q3. EBITDA was a negative 23 million Euros, as prices were still low and performance was hit by the changing Euro-Dollar relationship in Q4. We saw further volume improvements with slightly increasing utilization rates. Wafer prices have stabilized since. Smaller diameters have recently been more dynamic than larger diameters.

Our joint venture with **Samsung**, as our youngest and most economic capacity in 300 mm, is highly utilized and EBITDA positive. Please bear in mind that due to the JV accounting treatment and the financial structure of the JV, **Siltronic** reported results are negatively impacted by the 50 per cent share in the JV net earnings.

Full Year 2009 saw asset impairments in **Siltronic** of overall 141 million Euros relating to disadvantaged assets in Germany, Japan and North America. Also, when comparing 2009 performance to 2008 you should bear in mind that 2008 saw about 25 per cent of **Siltronic** sales with pretty good margins directed to the solar industry. These solar sales were nearly absent from **Siltronic's** accounts for the last three quarters of 2009.

Looking into current trading conditions for **Siltronic** and the outlook for the next months, it is worth noting that since Q3 2009 prices and volumes started to increase quarter over quarter, except for 300 mm prices. Our assessment is that by now the pricing sentiment in the industry for all diameters is positive. Based on this we expect **Siltronic** to report a positive result for the full year 2010. Given what we see currently, we expect **Siltronic** to reach breakeven at the EBITDA level soon.

As you can see in the charts accompanying this call, we have listed which charges affected which segments. Overall, Full Year EBITDA 2009 was heavily influenced by one-off items. About 161 million Euros related to factors such as the Solar Wafer exit, restructuring in **SILICONES** and **Siltronic**, as well as balance sheet items, stemming from demographic change.

2009 Full Year EBIT suffered from a negative contribution in income from associates of 127 million Euros. This number is up 94 million Euros over last year as it reflects the Solar Wafer business with overall 75 million Euros, including the exit payments. The remaining balance relates mainly to start-up losses in the Asian joint ventures in **SILICONES** and **Siltronic**.

Depreciation in 2009 reached a level of 580 million Euros, including impairments of 176 million Euros. Excluding the asset impairments, depreciation would have been at about 400 million Euros. For 2010, I suggest modeling with 450 million Euros in depreciation.

Gross cash flow from operations came in at 768 million Euros, down about 24 per cent from the 2008 record year. This includes around 65 million Euros of payouts related to the solar Wafer joint venture exit. Following investments of about 800 million Euros, **net debt** effectively increased to 76 million Euros.

As Rudy mentioned, **growth capex** for 2010 is expected between 600 and 700 million Euros, to a degree depending on how fast we build to meet demand for our products. In your cash flow projections, you should consider us effectively amortizing prepayments with about 100 million Euros annually going forward.

From my point of view, one of the true success stories in 2009 was **working capital** management. As our markets recover, this is going to consume more cash again, but we are having a close watch on the development.

All said, we expect 2010 to result in **negative net cash flow**, increasing our leverage.

At minus 75 million Euros, **net income** was below the waterline in 2009, following some 340 million Euros of asset impairments and charges. **Earnings per share** dropped from 8.84 Euros per share to a negative 1.43 Euros per share. Clearly not a satisfactory position. We expect a significantly better result in 2010.

As Rudy already said, visibility on the global economic development is still uncertain for the second half of 2010. That’s why we don’t provide you with a full set of guidance today.

Absent full guidance on 2010, however, let me repeat that the first quarter 2010 looks strong. From today’s point of view, Q1 2010 should come in above 1 billion Euros in sales and we target EBITDA reaching about 250 million Euros.

Now, we are looking forward to your questions.

Operator?