WACKER

# Wacker Chemie AG
# Conference Call
# Q2 2012

## July 25th, 2012

Dr Staudigl, CEO
Dr Rauhut, CFO
Hoffmann, IR

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**Hoffmann:**

Welcome to the Q2 2012 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, an excel-file detailing our data and a short presentation to accompany this call. 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?

**Dr Staudigl:**

Ladies and Gentlemen,

Thank you for joining us for the call.

We concluded the second quarter with sales of 1.22 billion Euros and an EBITDA of 241 million Euros.

Meanwhile 44 % of WACKER's business is done in Asia.
The semiconductor industry has moved there already some years ago, the photovoltaic industry has followed.

With exaggerated subsidies in the past, the photovoltaic industry attracted too many players.

Significant overcapacities have been installed in the value chain.

With reduced subsidies and these overcapacities a fierce competition has been initiated, that is leading to financial problems for many players and to a shake-out in the industry.

It will take time to shut down or absorb the capacity surplus, even though the market keeps growing.

As always, the companies with the best technology and the lowest cost will survive and ultimately thrive.

In the **POLYSILICON** environment we experience similar characteristics. In the present market environment the task is to continuously work on cost reductions, to stay competitive pricewise without compromising quality.

It is also important to watch the market carefully to absolutely avoid customer credit risks, even on the expense of lower or slower sales sometimes.

This very fact has lead us to reduced sales at the end of the quarter with the effect of a declining Polysilicon sales in Q2 by 22 per cent compared to Q1.

As we speak, we are working with our customers to help them resolve their issues.

The tough competition in the PV market has also lead to antidumping and countervalence actions and complaints.

It has now reached Europe.

WACKER's position in these matters is, that from a trade war only losers will emerge.

The ultimate loser will be the consumer in America, Asia and Europe. Politicians and bureaucrats should keep that in mind when analyzing the situation.

Efforts would be much wiser spent, giving every respective company a fair chance in every regional market and letting such a fascinating technology like photovoltaic grow and take its place in the world energy supply market.

Best proof of photovoltaic becoming increasingly competitive is the fact that more and more solar farms are built without subsidies. Even major utility companies are investing in solar in the meantime. This all will increase the polysilicon demand.

Since WACKER is in the **POLYSILICON** business for many years, we will continue to defend our share and ultimately benefit from a growing demand and create value for our shareholders.

With **SILTRONIC** we are undergoing a phase of change:
For 200 mm wafers the Hikari fab has been shut down as planned in the last quarter, significantly reducing our capacity.

We are focusing our smaller diameter business in Burghausen. By the end of Q3 we will have taken the smaller diameter fab in Portland off-line. Actually we are experiencing almost no business loss by shutting down the Portland smaller diameter fab.

Both shut downs are significantly increasing capacity utilization in the remaining facilities.

We continue to grow capacity for 300 mm wafers in our Singapore Joint Venture, because it is world class in quality and cost efficiency.

Our **CHEMICAL segments** saw higher sales and improved earnings. They are developing steadily providing a stable and attractive base for our company with nice growth prospects. This year we are reaping the benefits of recent years' innovation activities in all areas, especially in **POLYMERS**.

Nevertheless macroeconomic uncertainties continue to exist with slower growth rates in almost all major economies. This together with the uncertainties in the photovoltaic market especially on the pricing side has lead us to lower our 2012 revenue expectations for the company to slightly below last year.

In this fairly uncertain but competitive environment it is important to keep the focus on the company's strengths: innovation in products and process technology, cost reduction and quality focus. And all of this with the customer in mind.

Joachim will now discuss segment results in more depth and provide further details on guidance. Joachim?

**Dr Rauhut**

On a Group level, **WACKER** reported sales of 1.22 billion Euros, slightly above the level of Q1, but mainly due to pricing of polysilicon, 100 million Euros lower than Q2 of last year. EBITDA for the quarter was 241 million Euros, up 14 per cent over Q1.

At 739 million Euros, Q2 sales for **Chemicals** came in 4 per cent above prior year level. EBITDA, however, improved by 24 per cent over Q2 last year to 112 million Euros, equally driven by **POLYMERS** and **SILICONES**.

**BIOSOLUTIONS** continues to report positive results from food ingredients. At **POLYMERS**, seasonal support of construction, demand from international markets and a strong dispersions business in North America provide growth beyond GDP. With robust business conditions and some raw material cost recovery we expect a similar performance for the next quarter.

At **SILICONES**, the dynamic development of markets in Asia and the Americas left Europe behind. Strong price competition defines this market, especially in China, where commodities and overcapacities weigh on earnings. Our approach to these challenges is to ship more high-value products that are manufactured locally.

Overall, **Chemicals** in total should see a better second half than last year in absolute terms and growth in all segments. This, however, is contingent on the overall economic development.

**POLYSILICON** reported sales of 287 million Euros, 28 per cent below prior year and 22 per cent below the first quarter. The decline of sales resulted from lower polysilicon prices than last year. Compared to Q1 the segment reported lower sales volumes as customers did not meet their contracted volumes partly due to financing. Following lower recorded sales, EBITDA fell by 20 per cent below the Q1 level to 120 million Euros. This equates to a margin of 42 per cent. Adjusting for retained prepayments and damages, EBITDA declined sequentially by 11 per cent to 101 million Euros. Excluding 19 million Euros of retained prepayments and damages, the Q2 margin was 35 per cent. With the held back volumes we increased inventories above prior quarter level. This contributed to our result positively. Considering the dynamic market development and shipping times to Asia, poly inventories are at manageable levels.
The segment reported capital expenditures of 170 million Euros, mainly for the Tennessee project.

Looking into the next quarters for **POLYSILICON**, we see growing demand for new PV installations with global installations expected over 30 Gigawatts in 2012. On the other hand, closing poly assets, financial distress at many players and relatively high inventory levels put pressure on polysilicon volume and pricing. As of this day it is not yet clear how demand growth and temporary inventory sales will eventually balance the poly market going forward. In anticipation of this we have reduced poly production slightly for this quarter.

Performance at **Siltronic** improved considerably compared to prior quarter. With 23 per cent sequentially growing sales to 247 million Euros, **Siltronic** reported 13 million Euros in EBITDA, up from minus 26 million Euros in Q1. Strong volumes, particularly in 300 mm at somewhat softer pricing defined the quarter. Utilization rates for **Siltronic** were in total at about 80 per cent, therefore higher than in Q1. The Singapore joint venture was operating at full capacity limits. Going forward, we expect H2 to be better than H1 due to the weak first quarter. There remains some uncertainty in Q4 due to global macroeconomic environment. In Q3 the positive EBITDA at **Siltronic** should continue to be supported by cost savings including the restructuring benefits.

**Net cash outflow** for the second quarter was 160 million Euros, better than the expected 200 million. The largest outflow was for investments in assets, mainly in Tennessee of about 240 million Euros. We also recorded out flows for the Hikari closure and bonus payments for 2011. These factors amounted to 140 million Euros. **Cash flow from Financing** included a dividend payment of 109 million Euros in May. At the end of the second quarter, net financial debt was minus 316 million Euros including **liquidity** of about 800 million Euros.

The reported **tax rate** came in at 36.1 per cent for Q2. The improvement versus the previous quarter results from a change in the contribution mix from different sources of taxable profits and losses, namely a better mix between results in Germany and China.

As already said by Rudy, we see full year sales now reduced, mainly due to lower polysilicon revenues. Full year sales are now expected slightly below prior-year level.

We expect EBITDA for the full year 2012 to be significantly below the previous' year figure.

Our expectation for depreciation for the full year is now 540 million Euros. Our tax rate is expected to be over 40 per cent with seasonal effects and progress on the Tennessee project in the second half of this year.