



**Wacker Chemie AG**  
**Conference Call**  
**Q3 2014**

**October 30<sup>th</sup>, 2014**

Dr Staudigl, CEO  
Dr Rauhut, CFO  
Hoffmann, IR

**Hoffmann:**

Welcome to the **Q3 2014** 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, and an excel-file detailing our data.

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](http://www.wacker.com) under the caption Investor Relations.

**Dr Staudigl:**

Ladies and Gentlemen,

Welcome to our third quarter 2014 conference call.

**WACKER** reports on a strong quarter. On a group level, sales in Q3 were at 1.23 billion Euros. Q3 EBITDA came in at 348 million Euros. Excluding special effects, EBITDA was higher than both last year and the previous quarter. This is the result of pricing efforts, high utilization rates across all businesses, very good operational performances including ongoing cost reduction programs. This strong quarter allows us to provide you with a more precise EBITDA Guidance of 1 billion Euro for this year.

There is good news to report as **Siltronic** has made substantial progress during this year. With Sales at 216 million Euros at the level of Q2, EBITDA in the quarter was over 33 million Euros or about 18 per cent better than in Q2. This is quite an achievement in light of 10 percent price declines for 300mm wafers year over year.

After essentially 3 years without growth in semiconductor wafers, we are seeing the return of demand as PC sales finally bottom. This relates largely to 300mm wafers. While in 2013 the monthly average shipment of 300mm was about 4 million pieces per month, we are looking now at 4.6 million wafers per month on average for 2014. Demand spiked in June and September with 5.0 and 5.1 million wafers respectively. Contrary to prior years, we are not seeing seasonal weakness in the fourth quarter. As a result, demand in Q4 should be better than last year.

For 2015, most market observers now expect overall wafer growth across all diameters at 3 to 5 per cent. The major drivers for growth are mobile devices like smartphones and tablets, as well as applications like automotive, healthcare and general industry as electronic capabilities become even more pervasive in everyday goods. Leading wafer users and equipment suppliers support this

positive view on the market. As industry utilization is high, competitors are already projecting potential price increases next year should area growth continue as forecast. We would certainly support this. Prices for 300mm wafers are currently substantially below reinvestment levels, capping supply in light of a dynamic demand development.

**Siltronic** has seen great progress on its cost roadmap. For the full year 2014, we expect again a further reduction in variable cost for 300mm of more than 10 per cent. Strong productivity growth allows us to transfer personnel to other **WACKER** group operations. As productivity growth at **Siltronic** continues next year, we expect to fill a number of open positions in other **WACKER** functions with skilled people from **Siltronic**. This should result in further reductions in direct labour cost in our wafer production.

Without going into the details of the other divisions of the group let me make a few overall comments:

- Polysilicon is well on track. Excellent operational performance and cost reductions strongly support the financial results.
- In the Chemicals Divisions we see a strong sales in dispersions and powders as well as good demand for silicone products. Growth in specialties applications support the results.
- All this demonstrates that our strategy deployment works.

For the future certainly macro-economic concerns, weak growth in the Eurozone, some excess capacity growth in China cannot be disregarded. Yet looking at the positioning of our businesses I am very confident about our capabilities and performance.

On Oct. 13<sup>th</sup> we have celebrated a hundred years of **WACKER CHEMIE**. In today's environment such an anniversary is certainly a rare occasion. Long-term strategies in our businesses, a strong

focus on customer needs based on innovative and high quality products have brought us this far. We will continue on the path of creating tomorrow's solutions today, in order to prepare for successful decades to come.

## **Dr Rauhut**

I will discuss our Q3 performance segment by segment and will provide some additional guidance.

**WACKER** Q3 group sales were 1.23 billion Euros, up 6 per cent over last year and at the level of the last quarter. Mainly growing shipments and product mix effects support this performance. Group EBITDA reached 348 million Euros. Excluding special effects from the retention of prepayments and damage payments of 92 million Euros, operational performance was about 11 per cent better than in the previous quarter. This reflects an improvement based on volume increases, pricing effects and the good progress of our various cost reduction efforts.

**Chemicals** saw an increase in sales to 781 million Euros, at the level of last quarter, but 7 per cent better than last year. Both **SILICONES** and **POLYMERS** reported new record levels of sales in September, after a weaker month of August.

EBITDA in **Chemicals** developed even better than sales at 123 million Euros, 13 per cent better than Q2 and 12 per cent over last year.

While especially inflation in VAM costs slowed profitability, good absorption of fixed costs was the main reason for this good performance.

**WACKER SILICONES** reported sales of 448 million Euros, at the level of last quarter and 4 per cent over last year. EBITDA in the segment reached 70 million Euros, about 21 per cent better than

Q2. This represents the best absolute result since Q1 2011 and reflects our strategy to move increasing amounts of products into higher value specialty applications. **SILICONES** saw this quarter strong growth in automotive, coatings and textiles, while sales to construction and personal care lagged. We expect full year 2014 sales in **SILICONES** slightly over last year, with an EBITDA just below last year due to the release of a loss provision in 2013.

**POLYMERS** saw sales of 288 million Euros, maintaining the good level of Q2 at 9 per cent over last year, driven by higher shipments mainly in Asia and the Americas. EBITDA at 48 million Euros was 11 per cent better than Q2 and 7 per cent over last year, following strong volumes and despite rising raw material costs.

Pricing improved during the quarter but did not fully compensate for the effects of the 30 per cent VAM cost increase year over year. As a result, the segment looks to implement a further price increase. In addition, our ethylene supplier to our own VAM operations in Europe has a turnaround in their plant. Synchronized with this event we have a turnaround in our own VAM operations. Therefore, we have to buy VAM in the spot markets. Overall, the gross effects of the turnaround and VAM inflation worldwide amount to about 35 million Euros this year. About 20 million of this effect will hit the fourth quarter.

For the full year 2014, we now expect **POLYMERS** sales growth over group average, driven by construction, adhesives and coating applications. Despite the negative effects of the VAM shortage and the turnaround, **POLYMERS** expects a full year EBITDA close to the level of last year, helped by price increases.

**BIOSOLUTIONS** reported higher volumes, especially in pharmaceutical proteins supported by the SCIL acquisition earlier this year. Sales in Q3 were 45 million Euros, while EBITDA came in at 5 million Euros. Negative effects on EBITDA were plant revisions

and higher VAM costs for gum base. For the full year, we now expect sales at 10 per cent over last year and an EBITDA result at the level of last year.

At 252 million Euros, sales in **POLYSILICON** came in below last quarter as a scheduled plant maintenance reduced output. In addition, the sudden insolvency of a customer during the quarter resulted in reduced sales as we recalled material en route to the customer. As a result, sales lagged Q2 by about 21 million Euros.

EBITDA in **POLYSILICON** reached 180 million Euros, supported by special effects of 92 million Euros. As previously guided, we retained prepayments and received damage payments relating to legacy contracts for solar polysilicon. In all of these cases, either original contract volumes were far higher than current demand or the respective customers stopped PV operations. Adjusting for these special items, performance in **POLYSILICON** was good, raising the adjusted EBITDA margin to 35 per cent, up from 32 per cent last quarter.

Positive pricing effects for solar material that began in early Q2 benefitted the full quarter. In addition, high utilization rates and our cost roadmap contributed to results.

Looking into Q4, our facilities in **POLYSILICON** continue to run at high utilization rates. Pricing for the remainder of the year appears stable.

A key issue in **POLYSILICON** apart from our ongoing focus on cost reductions is the construction of our Tennessee plant. The project is on track and we now expect to start the ramp in late 2015.

Additional volume from the new plant will be limited to less than 5kt in 2015, amplifying our need for new material from debottlenecking activities.

For the full year 2014, **POLYSILICON** should see higher shipments and sales than last year.

**Siltronic** sales of 216 million Euros came in at the level of Q2, but 10 per cent over last year. As Rudy already said, the industry observes strong demand, resulting in significant shipment increases. EBITDA at 33 million Euros was about 18 per cent better than in Q2, despite a similar soft pricing environment.

We are seeing a reduction in year over year price declines, as the industry operates at very high utilization rates. For Q4 we currently do not see a significant seasonal quarter over quarter decrease, thus indicating a strong demand environment. Pricing overall should remain on about the level of Q3. Demand for 300mm should grow, while 200mm faces stable demand.

All in all, **Siltronic** full year sales will exceed last year's reported number significantly following the full consolidation of the Singapore 300mm activities. Full Year EBITDA in the segment should increase significantly, coming in over 100 million Euros. This is close to the level of last year under full consolidation and despite about 10 per cent price decreases in 300mm year over year and scheduled maintenance in Q4. Our cost roadmap in **Siltronic** will yield over 10 per cent decrease in variable costs of 300mm in 2014 and we prepare to continue the program into 2015. Capex focus in **Siltronic** at about 40 million Euros in 2014 is on capability and not capacity as prices especially for 300mm are too low to justify investment in volume. In 2015, we plan to double our investments in **Siltronic** for capability, installing advanced crystal growing capabilities. Nevertheless, investment in **Siltronic** is below depreciation, which amounts to 150 million Euros in 2014 and to 100 million Euros in 2015.

**Net financial debt** at the end of the quarter was 906 million Euros, just below the level of last quarter's end. **Inventories** increased during the quarter as we prepared for the turnaround of our VAM facility and planned maintenance in **Siltronic**, yet overall **working**



**capital** stayed flat at 1.1 billion Euros quarter over quarter. We target full year **net financial debt** now below 1.1 billion Euros as **capex** in Q4 amounts to more than 200 million Euros. Full year 2014 **capex** should reach about 550 million Euros, below **depreciation** of about 600 million Euros. **Prepayments** at the end of the quarter were at 731 million Euros.

**Net cash flow**, which excludes the changes in prepayment levels, reached 178 million Euros, significantly higher than in Q2 despite higher capex as other liabilities and tax provisions increased.

The **tax rate** for the quarter was 34 per cent as domestic earnings grew substantially. For the full year, we now expect a tax rate of about 40 per cent.

**EBIT** more than doubled during the quarter to 196 million Euros, up from 82 million in Q2. As a result, quarterly **earnings per share** nearly tripled quarter over quarter to 2.43 Euros per share.

We are looking into Q4 with confidence. Our businesses are strong and performing well. While **Chemicals** may have to deal with macroeconomic disturbances, **POLYSILICON** remains strong at the level of Q3 as demand for high quality chunk material grows. Working capital financing for Chinese solar customers, however, remains challenging. **Siltronic** has positioned itself successfully to benefit from potential price improvements in the industry. Led by **Siltronic** and **POLYSILICON** the group continues to work on productivity improvements and cost reductions. On a group level and supported by special effects, we expect to meet our stated guidance of one-third higher EBITDA than reported last year. At about 1 billion Euros, **Group** EBITDA margin should come in higher than 20 per cent.