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Wacker Chemie AG

Conference Call

Q3 2013

October 31st, 2013

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:
Welcome to the **Third Quarter 2013** 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. Please note that the implementation of Standard IAS 19 Revised resulted in changes to the prior year numbers published previously. The excel file has the corrected data for all quarters.

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:

Ladies and Gentlemen,

Welcome to our third quarter conference call. We reported today sales of 1.17 billion Euros, about 3 per cent below last year and at the level of last quarter. Our EBITDA came in at 168 million Euros, primarily driven by pricing and purposely reduced production rates in polysilicon.

On the other hand: as a result of high sales volumes out of inventory and capex reduction compared to last year, **Net Cash Flow** for the quarter was positive at about 165 million Euros. Despite strong growth in volumes, essentially all segments reported weaker pricing with pressure mainly in standard products. We were successful in selling

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POLYSILICON this quarter. Q3 2013 saw historically high levels of polysilicon shipments for our company.

In addition, a strengthening Euro during the quarter and economic uncertainties both in Europe and in North America had some negative effects on our results also.

During our last Capital Market Day we talked about a shift in our strategy as we are about to conclude our capital intensive growth phase and are now moving forward to focus on growth through downstream products specialties. In line with this strategy we were able to reduce our capex budget for 2013 from 550 down to 500 million Euros. We also experienced a strong net cash flow in the quarter, which reduced our financial debt. Joachim Rauhut will provide more detail on this later during the call.
As you may know, this week saw the conclusion of the K-Fair. This is an important fair for the global plastics industry taking place in Düsseldorf every three years. WACKER **SILICONES** showcased a number of innovations at the fair. One major topic this year was specialty products targeting the automotive industry. For instance, a highly transparent and heat-resistant silicone elastomer for optical lighting and lenses was introduced.
Lenses made from our LUMISIL product were produced live at the fair. Other silicone applications for the automotive industry were elastomers with low temperature flexibility or excellent heat stability. In addition, new products for health care, energy and printing applications were presented. Our presence at the fair underlines our efforts to focus on specialties and to grow the specialties share in our portfolio with customer tailored specific solutions.

We are making good progress at our planned cost reductions in all businesses. Notable is the on-going improvement at **Siltronic**, resulting in a positive cash profile for this business in Q3 despite a weak pricing environment. Cost reductions in **Chemicals** and **POLYSILICON** are also well underway, overall contributing to our target of 200 million Euros in cost savings this year.

Let’s have a look at what happened during the last quarter. You will have noticed that our **POLYSILICON** margins have decreased sequentially. For one, this is a result of lower retained prepayments and damages compared to the previous quarter. On the other hand,

this is the direct result of an uncertain business environment at the beginning of Q3.
You will recall that during Q2 the market for solar silicon declined. This resulted from a high level of uncertainty related to the potential outcomes of the Chinese-European talk on the solar panel case.
In light of the slow demand in Q2 and faced with rising inventory levels into Q3, we decided then to lower our production rates.

Going into Q3, Japan, China, USA and emerging markets continued wide spread deployment of solar installations. In many cases these are backed by attractive feed-in-tariffs and large national installation targets. Then, by the end of July, the European Commission agreed to China's proposal of setting minimum prices and volume limits for products exported to Europe on a preliminary basis. Combined with the mounting global interest in solar power this resulted in a strong demand increase in August and September. We shipped more material during Q3 than we produced, despite production being back to full utilization at the end of the quarter. As a result, margins in **POLYSILICON** declined from inventory effects.

The EU has now presented a proposal for definitive measures to the member states, which confirms the agreement achieved at the end of July. According to media reports, EU member state representatives have approved this decision in a recent Anti-Dumping Committee meeting. While the final vote of EU member states is due in early December, I consider this news an important and encouraging signal for a lasting amicable solution of the EU – China solar dispute.

Our greenfield expansion project in Tennessee is on schedule. We have concluded most of the concrete and steel structures and are now starting the bidding process for the remaining engineering and installation services in order to start the ramp up by mid-2015. With shale gas spurning investment in Chemical plants in the US, cost inflation for these services is probable as many large projects compete for the same resources.

On the other hand, I am impressed by the good progress of technology development for Tennessee. As a result, we may see significantly better output and productivity when the plant will run full stream.

Our overall outlook for the photovoltaic industry remains favourable. While current pricing for solar silicon is still not satisfactory, we see good volume growth ahead. Loading and profitability at most of our customers is improving on the back of growing installations worldwide. For this year we now expect installations between 35 and 40 Gigawatts and for 2014 we are looking at global installations over 42 GW, potentially reaching 50 GW.

Looking at the full year 2013, we reiterate our last guidance. We are still facing uncertainties from macroeconomic effects, which may weigh on our **Chemicals** businesses. In summary, however, we expect sales at 4.5 billion Euros and an EBITDA below last year. With a very high tax rate, net income for the year should be just positive. Cash generation improves as capex for the full year is now expected at about 500 million Euros with a net financial debt of below 900 million Euros.

Dr Rauhut

I will discuss our quarterly results and provide some additional information including guidance on a segment level for the full year.

WACKER Group sales in Q3 were 1.165 billion Euros. This is at the level of the previous quarter and 3 per cent below prior year. Compared to last year, all segments saw contractions, with the largest declines price-driven in **Siltronic** and **POLYSILICON**. Compared to last year's Q3, Group sales increased by 112 million Euros following volume and mix improvements, but this was more than cancelled by price and currency effects. Group EBITDA in the third quarter was 168 million Euros, about 18 per cent below last year and 11 per cent below Q2. EBITDA in **POLYSILICON** benefitted in Q3 from retained prepayments and damages of 13.2 million Euros.

Sales in **Chemicals** were 2 per cent below prior year and last quarter. A weaker than expected economic environment in Europe did not support growth. Overall, currency headwinds and pricing pressures more than offset improvements in volumes and mix. EBITDA in Chemicals declined sequentially by 6 per cent to 110 million Euros. For Q4 visibility is not clear, resulting from macroeconomic distortions in North America and continuing weakness in Europe.

SILICONES reported sales of 429 million Euros, essentially at the level of prior year and 2 per cent below Q2. With high utilization of plants, sales in Europe and the Americas grew slightly while Asia came in just below last year. Segment EBITDA at **SILICONES** was 59 million Euros, following strong currency effects offsetting volume and mix improvements. Results in the Chinese siloxane JV declined as planned, following adjustments in the siloxane transfer price from the JV. Q4 in the segment should be better than last year, pending on currency effects, but supported by improvements in volume and mix year over year.

POLYMERS saw Q3 sales of 265 million Euros, 3 per cent below prior year and Q2. Currency effects and lower ASPs resulted in a year-over year decline of segment EBITDA to 45 million Euros. For the remainder of the year we see continued growth in construction markets outside of Europe. Volume growth in dispersible powders continues as a result. While VAE dispersions benefit from structural substitution opportunities, we see volumes in dispersions for 2013 on prior year level. Both parts of the business report lower pricing than last year.

Our smallest segment, **BIOSOLUTIONS**, reported Q3 sales of 38 million Euros, with 5 million Euros EBITDA. While chewing gum base and cyclodextrins saw volume improvements, this did not offset weakness in fine chemicals.

Q3 sales in **POLYSILICON** were 236 million Euros, 12 per cent below last year, but 16 per cent over Q2. EBITDA for the segment was 47 million Euros, supported by retained prepayments and damages of 13 million Euros during the quarter.
This result is heavily impacted by inventory effects as we saw large changes in inventory on hand during the quarter. As Rudy explained, we went into the third quarter on a very cautious note given the uncertainties of the political process relating to Solar panel case. As a result, we reduced production after adding to inventories during the second quarter. However, as this case came to an amicable resolution, the market for solar silicon saw a fast and sizable demand recovery which continued into October. In effect, we shipped more during the quarter than we made, despite ramping up production to full utilization towards the end of the quarter. This resulted in a net reduction of inventories and reduced earnings in the quarter but on the other hand supported our cash flow. Today, we are operating with very low inventory levels in **POLYSILICON**.

jAs I said, we saw strong demand in October, but visibility into the remainder of the year is limited. Difficult to predict are the effects of year-end working capital management at our customers.

As a positive, industry sources report lower inventory levels also at other major silicon producers. For Q4 we assume sales and production to be more balanced, which should benefit **POLYSILICON** EBITDA.

As expected, **Siltronic** reported Q3 sales of 197 million Euros, essentially at the level of Q2, but 16 per cent below prior year. While volumes were stable, pricing continued to be weak. At 5 million Euros EBITDA was about 5 million below last year, and 4 million Euros behind Q2 based on adverse price and currency effects. As a reminder, the Japanese Yen devalued by 16 per cent since the beginning of the year. **Siltronic** has shown a remarkable reduction in variable costs per wafer. Per today, we expect to see weaker shipments in Q4 as the semiconductor supply chain currently experiences a contraction.

Sales in **Others** amounted to 48 million Euros with an EBITDA contribution of 5 million Euros.

Net cash flow in Q3 was 165 million Euros. Gross cash flow increased from 116 million Euros in Q2 to 237 million Euros in Q3. This is significantly better than in Q1 or prior year. The cash contribution of lower inventory and accounts receivables was 57 million Euros, of which 45 million Euros related to **POLYSILICON** Depreciation was higher than investments in the quarter. This should be true for the full year as well, as capex for the full year is reduced to about 500 million Euros.

Net financial debt decreased by 132 million Euros quarter over quarter to 688 million Euros at the end of the third quarter. **Liquidity incl. securities** amounted to 788 million Euros, up 22 per cent from the end of the second quarter.

Net income for the quarter declined to 5.4 million Euros, following the contraction in operating earnings. Our tax rate remained high at 58 per cent for the first nine months of this year. As we said last time we expect a high tax rate for the full year as well.

We are clearly operating in a challenging environment. A strengthening Euro, weak economic performance in core markets, potentially changing market dynamics in major businesses are key facts for the rest of the year.

Despite this, our guidance stays the same as stated before: we see 2013 **group sales** at 4.5 billion Euros and **EBITDA** below 2012, but expect a small positive **net income** for the full year and we now expect full year **capex** at 500 million Euros. In addition, we now see **net financial debt** lower, targeting below 900 million Euros at year end and we expect a positive **Net Cash Flow**.