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Wacker Chemie AG
Conference Call
Q2 2015

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Dr Staudigl, CEO
Dr Rauhut, CFO
Hoffmann, CFA, IR

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Hoffmann:
Welcome to the Q2 2015 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 under the caption Investor Relations.

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Dr Staudigl:

Ladies and Gentlemen,
Welcome to our second quarter 2015 conference call.

It has been an exciting quarter. We successfully placed a substantial minority position in Siltronic at the stock market. This paves the way for a significant change in our portfolio. At the same time, our Chemicals businesses saw record results. On the other hand, **POLYSILICON** weathered lower prices and rising ramp costs with successful cost reductions.

For the second quarter, we report sales of 1.37 billion Euros and an EBITDA of 329 million Euros. Excluding special effects, our result was 6 per cent over last year and just slightly below Q1.

Since our last call, Siltronic went public at the Frankfurt Stock Exchange on June 11th. Today, about 42 per cent of Siltronic stock are now traded. This is a major step in the development of our portfolio. Siltronic now has direct access to the capital markets and more degrees of freedom to shape its future.
As **Siltronic** reported last Friday on its Q2, I will not expand on what they said and suggest looking into their investor materials. Allow me to say though that I am pleased with the operational progress we are seeing in this division. When adjusting for currency effects, **Siltronic** reports an around 20 per cent EBITDA margin even without underlying price improvements. Looking forward, I expect us to complete the portfolio transition step with a full deconsolidation of the business over time.

In **POLYSILICON**, we continue to drive down costs, work on productivity gains and complete the plant in Tennessee. The construction site today is already quite impressive with logistics and infrastructure setup installed. We are now carefully entering into the last stages before we can start up the plant.

Today we expect to have some material for customer specification in December and to ramp to the design run rate of 20kt per year in June 2016. We are well under way to reaching our target production capability of 80kt at the beginning of 2017.

The polysilicon industry saw a build-up of inventories and softening prices in Q2.
As solar power becomes more attractive, we expect to see global installations of about 56 GW this year. China will be the largest market with estimates ranging up to 18GW. Yet even with module installations accelerating in H2, we believe that polysilicon prices in the industry will remain depressed for some time given the current inventory overhang.

Strategy deployment in our **Chemicals** businesses is well on track. Customer involvement and customer access are a core competence in these businesses. To further enhance the interaction we have set up a global network of technical centers enhanced by additional R&D competence centers. At these facilities, we actively engage in networking with customers, distributor partners and **WACKER** experts in market and industry-specific seminar-style training and the transfer of expertise. As these centers are globally connected, they allow us to bring new developments into a range of local markets.

A good example on how effectively this works is in **POLYMERS** in India. There we are now shipping thousands of tons of material per month into a market that was much smaller a year ago.

Mortar modifiers initially developed for a different purpose in Germany now change local building practices in the Mumbai region, with astounding results. Customers report up to 30 percent raw material savings when using our technology.

Our current lead story for the quarterly report shows an innovation in **SILICONES**. Together with a customer, we have developed suitable grades of silicones to enable 3D-printing. This is an excellent example of how we leverage know how and customer intimacy into new, promising products.

Going forward, you should hear more about such activities. Bringing technology and innovation to our customers, we continue to reduce our capital intensity and focus on low capex growth options, while at the same time improving our product mix. This includes moving closer to customers for instance with additional tech centers and regional competence centers for specialized applications.

Our recent results confirm the validity of our strategic approach. Our businesses are well positioned and growing. Profitability and ROCE should further improve as our strategy unfolds. At the same time, we continue to find new ways to improve even further. According to our motto: Creating tomorrow's solutions - today.

Dr Rauhut

I will provide you now with more detail on our segments and other items.

Our **Chemicals** businesses set new record levels this quarter in sales and earnings. In total, the three **Chemicals** businesses reported Q2 sales of 874 million Euros, this is 13 per cent over last year and 8 per cent better than Q1. Profitability in Chemicals improved even more. EBITDA for our Chemicals segments amounted to 144 million Euros in Q2, 5 per cent over Q1 and 32 per cent over Q2 last year. The sequential improvement over Q1 is largely a result of strong volume growth. A weaker Euro supported year over year comparisons.

Sales in **SILICONES** came in about 15 per cent higher than last year and almost 7 percent over Q1. Sales of 506 million Euros set a new quarterly record level. We have never achieved sales over 500 million Euros in this segment before. Positive effects from currency translation and strong volume growth are the prime reasons for this success. In addition, the segment was successful in raising prices in some markets.

SILICONES EBITDA in Q2 was 77 million Euros, 14 per cent over Q1 and 35 per cent over Q2 last year. Quarter over quarter, accelerating volumes was the main driver of this improvement. Strong volumes in electronic and medical applications contributed to this, while automotive and general industry markets were sequentially slower. Raw materials had both positive and negative effects as silicon metal became more expensive and methanol decreased in price. The net effect from raw materials, however, was slightly negative.
Our plants for fumed silica and siloxane operated at full utilization during the quarter. The product mix shift towards a higher share of specialty applications is well on track, with specialty product sales outgrowing the overall segment.

For the remainder of the year we expect to see continued volume growth, with a strong contribution from South East Asia. While we continue to drive efficiency measures and focus on the product mix shift, we should expect somewhat negative earnings effects in the coming quarters from currency effects in raw materials, especially in silicon metal. Our view on the full year 2015 is unchanged, as we expect to see sales growth of about 10 per cent with improving margins.

POLYMERS reported Q2 sales of 315 million Euros, 10 per cent better than last year and 11 per cent over Q1. Sales were

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driven by pricing, FX and volume growth. At 57 million Euros EBITDA, segment earnings were just below Q1, but 31 per cent higher than last year. As currency benefits declined sequentially, strong volume developments supported this result year on year. Some difficulties at a Calvert City dispersion reactor in Q2 held sequential results back. All regions and product groups contributed to volume growth, but dispersible powders especially in Asia witnessed a 25 per cent sequential increase in shipments over Q1. A new reactor in Calvert City and production units in Burghausen added capacities for powders and intermediates. These new assets relieve a tight raw material situation for some specialty products in the next quarter.

Therefor the next quarters, we expect further growth in volumes, supported by our new reactor in Calvert City. Earnings should improve over last year due to volume growth and productivity gains. Overall, we expect **POLYMERS** to generate about 10 per cent sales growth at improving profitability.

At 53 million Euros, Q2 sales at **BIOSOLUTIONS** increased sequentially by 6.6 per cent. Earnings of 9 million Euros EBITDA in Q2 were just above the level of Q1, but about 17 per cent better than last year. Volume growth supported the result. For the full year, we continue to expect substantial increases in sales and EBITDA. H2 , however should come in lower than H1 due to seasonality of some products.

With solar installations at strong levels, polysilicon demand slowed due to inventory in the value chain that was stacked up during Q1. As a result, volumes decreased in **POLYSILICON** and sales declined at slightly softer prices sequentially. The segment achieved 261 million Euros of sales in Q2 after record shipments in Q1. With 87 million Euros in damage payments and retained prepayments, quarterly reported EBITDA reached

161 million Euros. Excluding special effects, EBITDA was 74 million Euros, or about 29 per cent margin and essentially at our guidance of 75 million. Cost reductions and inventory effects supported this quarterly result. Prices in US-Dollar terms have stabilized over the last weeks at lower levels.

About 80 per cent of the Group's second quarter capex went to **POLYSILICON**. As we said before, we expect only small production volumes in Tennessee towards year-end.
We continue to target about 25 million Euros of EBITDA per month for the remainder of the year. However, this monthly target is getting more and more difficult to reach as ramp costs rise. We expect full year ramp costs now at about 100 million Euros, for H2 this implies almost twice the level of what we expensed in H1.

Investors have asked us frequently whether we expect a poly price recovery in the second half of the year. The value chain is now full with excess inventory that will need some time to be absorbed by ongoing market growth.

We may see the inventory burn last into the end of the year, probably resulting in some permanent shutdowns of less competitive and smaller capacities and limiting upward price movements.

Siltronic reported its Q2 results last Friday on July 31st. The segment reported sales of 247 million Euros supported by volume growth and currency effects. Quarterly EBITDA came in at 31.4 million Euros, resulting in an EBITDA-Margin of about 13 per cent. Excluding hedging effects, this margin could have been over 20 per cent. For more detail, I suggest to refer to the **Siltronic** documents and transcripts.
Looking forward, some customers appear to have increased wafer inventory levels in H1. As a result, order intake in Q3 is somewhat slower especially in Logic. The good news is that

pricing is quite stable with some actual price increases over Q2. In our Group planning and in line with **Siltronic** management, we expect for the full year 2015 a significant EBITDA increase over last year.

Sales in **OTHERS** were 50 million Euros with a negative EBITDA of 7 million Euros, largely the results of our hedging activities.
As you know, Siltronic is its own legal entity and therefore their segment results include hedging effects, while for the remaining business these effects aggregate in **OTHERS**.

Year over year **currency effects** contributed 100 million Euros to sales in Q2. Contrary to Q1, the transaction effects of accounts receivable did not support Q2 earnings, as the Euro remained rather stable sequentially. Overall, the negative effect on earnings from currency amounted to 30 million Euros for the Group, of which around 18 million relate to Siltronic. For the full year 2015, we expect a net positive impact on EBITDA from currency of 70 million Euros.

Net cash flow in Q2 amounted to 21 million Euros. This reflects capex of 199 million Euros. **Working capital** actually declined quarter over quarter despite sequential sales growth.

Net financial debt decreased to 939 million Euros, as we accounted for the cash inflow of the Siltronic IPO, which generated a net 362 million Euros inflow. The translation effect of the year over year weaker Euro was about 60 million, driving debt levels up.

We now expect **capex** for the full year of about 775 million Euros reflecting progress in Tennessee and US dollar appreciation.

With a slightly **positive net cash flow**, we now expect year-end net financial debt at the level of last year, so that is just over one billion Euros.
Prepayments decreased to 566 million Euros, a result of regular amortization in our ongoing business and settlements with defaulting customers.

Financial result came in slightly better than last year at about minus 20 million Euros. It includes construction related interest of 5 million Euros and other factors including interest-bearing elements of pension liabilities and other provisions. When modelling the financial result, I suggest to apply the 20 million for the next quarters as well.

The Q2 **tax rate** came in at 35.6 per cent. Special effects increased earnings in our German subsidiaries, reducing the effect of non-tax deductible start-up costs and losses at overseas subsidiaries. For the full year, we expect a tax rate of slightly above 50 per cent, as non-deductible expenses for the ramp in Tennessee increase through the year and with lower special effects in the second half.

While last quarter saw a substantial rise in pension benefit obligations, we had the opposite effect in Q2.
The defined benefit obligation alone decreased by 582 million Euros, as the discount factor increased to 2.7 percent and reduced actuarial losses. As if to prove a point, the swings in discount rates since the end of the year illustrate rising volatility of equity due to the impact of pension revaluations.

In Q2, our **equity** increased by 741 million Euros or 38 per cent to 2.7 billion Euros over the values at the end of Q1. This results in an equity ratio of 36 per cent. Apart from the change in pensions, the delta comes from the net income of the period, currency translation effects and the Siltronic IPO. The Siltronic

IPO added in total 362 million Euros. Of these 165 million Euro relate to minority shareholders in Siltronic.

Net income for Q2 was 108 million Euros, significantly higher than last year. Earnings per share were 2.21 Euros after minorities.

Looking into the full year, we remain confident. We expect to report a sales increase of some 10 per cent to over 5 billion Euros in 2015. Growth will come from both the chemicals segments and Siltronic.
Prices for semiconductor wafers and polysilicon should remain rather stable for the remainder of the year. EBITDA excluding special effect should come in slightly over last year.
We expect overall full year special effects below the level of last year, as far as we can see today. Please remember that positive effects from currency will reduce in the course of the year and that ramp costs in Tennessee may rise towards the end of the year, bearing on our **POLYSILICON** result.
Macroeconomic effects such as a continued crisis in Greece and Ukraine can still put pressure on these expectations. However, our well-established competitive businesses, our effective cost reductions and productivity gains should help us weather any potential negative impact from those factors.

Let me repeat what we said here last quarter: we believe that we can reach one billion Euros in reported EBITDA for 2015.