



Wacker Chemie AG
Conference Call
Q2 2014

August 1st, 2014

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the **Q2 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 under the caption Investor Relations.

Dr Staudigl:

Ladies and Gentlemen,
Welcome to our second quarter 2014 conference call.

WACKER saw a strong second quarter on the back of robust demand for our products, leading to sales of 1.24 billion Euros. This is 8 per cent over last year and 7.4 per cent better than in Q1. In terms of EBITDA margins **Chemicals** lagged somewhat behind last year. Both **POLYSILICON** and **Siltronic** delivered good results. Q2 EBITDA came in at 230 million Euros, 22 per cent better than in 2013. Given that this Q2 saw no special effects, this performance compares favourably against Q1 this year, showing a 34 percent improvement in underlying EBITDA.

Contributing to this progress was mainly **POLYSILICON**, which saw high capacity utilization through the quarter and price appreciation as demand for high purity material increased. In addition, we are making good progress on our cost roadmap.

Overall, demand for solar products continues to be healthy. Reported installation numbers for the first half of the year were lower than originally expected, especially in the Chinese solar market.

Globally, solar gains versus other sources of power due to declining cost per watt for solar system. We are seeing strong demand in the U.S. supported by net metering in many states, despite still higher system costs compared to other regions. In other places governmental support, such as in China drives growth. In line with other market observers, we still expect global PV installations for the full year in the range of 44 to 50 gigawatts. A source of uncertainty, however, comes from various trade disputes, which could potentially have disturbing effects on demand.

Technology improvements support the long-term trend in solar PV installations growth. In our prepared slides, you will find an assumption on technology migration towards higher conversion efficiency cells and modules. It is our strategy to compete in all these market segments with our material, thereby addressing 100 per cent of the total market opportunity. This also explains our focus on quality while maintaining an industry leading cost position. In addition, we strive to maintain our market share in this fast growing environment. To this end, we add capacity at our new site in Tennessee and utilize debottlenecking opportunities in our German plants. All these activities should lead to capacities of at least 80 kilotons in line with market growth. Operationally, we continue to focus on increasing reactor output and on further cost reductions.

Siltronic saw strong demand and good progress on cost reductions as well. For the first time PC and tablet sales as a major source of demand did not decline quarter over quarter. With this, 300 mm wafers grew as much as 9 per cent in the same period. Industry shipments reached about 4.7 million wafers per month. This is a level very close to industry equipment capacity. Pricing for 300 mm wafers, however, reached historic lows in Q2. Many market observers report that in their view prices should go up in 2015. We would certainly welcome that, but we focus on our cost reductions to remain in place.

Our **Chemicals** businesses were impacted partially by raw material cost inflation in Q2. Particularly VAM has seen significant cost increases since the end of the first quarter. In response, our **POLYMERS** division announced and implemented price increases. Price adjustments are possible, but their scope is limited by competitive forces.

Silicon metal has seen spot price increases over the last weeks, as power shortages in Brazil and pollution control efforts in China reduced global supply. Given our partial backward integration into

silicon metal and our focus on long-term supply relations, there should be only a minor impact from this on our **SILICONES** results in H2.

Methanol supply on the other hand relaxed considerably since the end of March this year, with spot prices going back to average 2013 levels. Overall, raw materials will have no negative cumulative effects on our **SILICONES** results in H2.

As you saw, we increased guidance for the Group now over 900 million Euros in EBITDA for the full year 2014, which means at least one-third higher than last year's number.

Jochen will give you more detail on risks and opportunities embedded in this guidance. There is certainly a big contribution from non-operational factors such as damage payments and retained prepayments, but it also reflects a substantial improvement in underlying operational performance over last year. Some of this comes from better market conditions, but we also see the results of our group wide efforts to reduce costs and continuously improve operational excellence.

While we maintain some conservative assumptions in our outlook, I am optimistic about our results for the full year.

Dr Rauhut

I will discuss our Q2 performance and try to provide you with some detail on segment guidance. Please understand that I will focus in discussing Siltronic and Group results mainly on quarter over quarter developments, due to the change in consolidation scope.

Group sales were 7 per cent over Q1. Year over year, volume contributed to sales growth with 10 per cent, price was flat and currency had a negative effect. EBITDA in Q2 was 230 million

Euros, 55 million Euros less than in Q1, which contained a 114 million Euro special effect. The quarterly result in Q2 contained no special effects. Excluding special effects in Q1 EBITDA improved sequentially by 34 per cent from Q1 to Q2. Better pricing in **POLYSILICON** compensated weaker pricing in **Siltronic** and in **Chemicals**.

Sales in **Chemicals** improved by 10 per cent quarter over quarter to 773 million Euros, about 3 per cent better than last year. EBITDA in the **Chemicals** segments amounted to 109 million Euros, behind the record level last year, but 23 per cent better than Q1.

SILICONES reports Q2 sales at 441 million Euros and an EBITDA of 58 million Euros. Despite currency headwinds, sales were higher in Q2 than both in Q1 and prior year. Strong volumes in fumed silica, industrial and automotive applications supported this and compensated softer shipments in personal care, paper and power applications. Effects from plant turnaround, currency and pricing, however, masked the underlying operational performance and volume improvement. **SILICONES** kept its utilization high during the quarter at about 85 per cent, despite the turnaround in Nünchritz. We continue to pursue the announced price increases, especially in standards.

Looking forward to the full year, our guidance remains unchanged from last quarter. We continue to expect a full year mid-single digits sales growth in line with our targets and a full year EBITDA slightly below 2013. Effectively, we guide for an EBITDA around the level of last year, but adjusted for the 13.7 million Euros relating to the reversal of loss provisions for Siloxane booked in Q4 2013.

POLYMERS saw a significant rebound in Q2 sales to 286 million Euros, up 20% quarter over quarter and about 4 per cent better than last year. **POLYMERS** reported higher volumes both quarter

over quarter and over last year. Included in this is volume growth at powders in excess of 10 per cent.

Despite the volume increase, **POLYMERS** EBITDA stayed at the level of last year's Q2 at 43 million Euros. This result was influenced by higher raw material costs, VAM, and partially adverse currency effects. Selling prices started to move up, beginning to compensate the profitability impact of VAM tightness. For the full year, we continue to expect a full year EBITDA slightly below last year, due to higher VAM prices despite good sales volumes.

Q2 sales at BIOSOLUTIONS were 47 million Euros, about 15 per cent higher than last year and quarter. Segment EBITDA was 8.1 million Euros, supported by consolidation effects, good demand for gumbase and cyclodextrins. For the full year, we expect some sales growth with an EBITDA at the level of 2013.

Following strong demand and high utilizations, **POLYSILICON** achieved 273 million Euros in sales, supported by better ASPs versus prior quarter and last year. This is 34 per cent better than last year and 4 per cent over Q1. Segment EBITDA was 88 million. This translates into a 32.2 per cent EBITDA margin. This is significantly better than Q1, which saw a 25.2 per cent EBITDA margin when adjusting result for Q1 special effects. Better pricing, good utilization rates and ongoing cost reductions support this.

As you have heard, we will record positive special effects of about 90 million Euros from retained prepayments and damages in Q3. All of these relate to cases where customers either went out of business or decided to adjust their volumes down, as their original solar growth projections did not materialize. Full year operational EBITDA in **POLYSILICON** should be significantly better than last year.

Sales at **Siltronic** improved quarter over quarter by 3 per cent. Progress on our cost roadmap and positive effects from the Singapore integration compensated for declining ASP's and adverse currency effects. Supported by utilization rates between 75 and 90 per cent depending on the diameter, **Siltronic** EBITDA was 28 million Euros. This is better than Q1, considering also costs relating to the JV integration. As Rudy said, the industry saw good demand for 300 mm wafers, yet prices for 300 mm could be better. Given stable or good demand for small diameters and 200 mm wafers, and an industry drive for 300 mm we expect high utilization through Q3. We expect EBITDA for the third quarter to continue on the current run rate. In summary, this is a very positive development for our certainly challenging wafer business.

OTHERS reported sales of 40 million Euros with an EBITDA of 4 million Euros. Overall, we expect the result in **OTHERS** to be neutral.

Full Year **depreciation** will be at about 600 million Euros, of which about 80 million Euro relate to the Singapore JV. Depreciation next year should stay at about 600 million Euros, as our depreciation in Singapore declines and new assets in Tennessee start depreciating. Our **investments** this year will be about 550 million Euros with next year at about the same level. Most of these are towards our new Tennessee site.

After **investments** of 101 million Euros, mainly for the Tennessee plant, **net cash flow** in Q2 amounted to 50 million Euros. Please note that our investments will accelerate in the second half of the year to reach the 500 million Euros.

For the full year, we expect a positive **net cash flow**, but due to smaller working capital effects and higher investments somewhat lower than last year. **Net debt** at year-end 2014 should be about 300 million Euros higher than at the end of last year, with the

increase relating to the integration of the Singapore JV and reduction of prepayments. Overall **Prepayments** were at 843 million Euros at the end of Q2.

Our **tax rate** expectation remains for the full year at over 50 per cent, as non-tax deductible losses in foreign operations weigh on Profit before tax.

As stated in our message on July 22nd, we now expect to exceed last years reported EBITDA by at least one third and including about 90 million Euros in Q3 special effects from retained prepayments and damages. Adjusting for special effects this implies an improvement in operational performance by at least 20 per cent. While this projection looks conservative to some of you, we should keep in mind the risks from potential inventory swings in some of our industries and trade disputes on some of the markets we serve. Nevertheless, we are making good progress on our cost roadmap and the overall market environment is supportive.