

Momentive Performance Materials Inc.
FY2007 Earnings Conference Call
April 1, 2008
9:00 a.m. EDT

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fiscal year 2007 Momentive Performance Materials earnings conference call. My name is Erica, and I'll be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of this conference.

(OPERATOR INSTRUCTIONS)

I would now like to turn the presentation over to your host for today's call, Ms. Diana Sousa, Global Communications leader. You may proceed, ma'am.

Diana Sousa - Momentive Performance Materials - IR

Good morning and welcome to the fiscal year 2007 earnings call for Momentive Performance Materials. Before getting started, let me remind everyone that any redistribution, retransmission or rebroadcast of this call in any form without Momentive's expressed written consent is strictly prohibited.

As you know, some of our comments today may contain forward-looking statements. These statements are subject to known and unknown risks, uncertainties and other factors that may cause Momentive's actual results and performance in future periods to be materially different from any future results or performance suggested by these statements.

Such factors include but are not limited to our substantial leverage; limitations on flexibility in operating our business contained in the documents governing our indebtedness; changes in production costs; and risks associated with our separation from the General Electric Company. Other potential factors that could affect our results are included in our 10-K for the year ended December 31, 2007, filed with the SEC. All information discussed on this call is as of today, April 1, 2008, and we undertake no obligation to update this information to reflect future events or circumstances.

On today's call, we will utilize certain non-GAAP financial measures in discussing the Company's performance. Reconciliations of those non-GAAP measures to the GAAP measures we consider most comparable can be found in our earnings release.

Yesterday, March 31st, we issued our earnings release and our 10-K, both of which are posted on the Investor Relations Financial Results page of Momentive's website at www.momentive.com. As quickly as possible, we will post the transcript of this call on that investor page of our website. And now I'd like to introduce our President & CEO, Jonathan Rich. Jon?

Jonathan Rich - Momentive Performance Materials - President & CEO

Thanks, Diana, and good morning, everyone, and thank you for joining our call. All of us at Momentive want to take this opportunity to thank our customers, our suppliers and our investors, including our friends at GE, for helping us to make 2007 a successful first year in business.

In 2007, we achieved a couple of important milestones. As a new company, we celebrated our first birthday. Many of the things that companies take for granted -- payrolls being met, taxes being paid, financial reports being filed, new technology being developed, new people being hired and many more were executed to plan as we disconnected from GE.

I want to thank every employee of Momentive for successfully launching our company and simultaneously growing our sales, EBITDA and generating positive free cash in our first year. In 2007, we also celebrated another important milestone, the 60th anniversary of the launching of the silicones business by GE in Waterford, New York. Sadly, we also experienced the passing of Dr. Charles Reed, the first General Manager of GE Silicones and one of the true pioneers of the silicones industry.

Now before commenting on our 2007 results, let me reiterate the key strategic goals that are the foundation of our plans for 2008 and beyond. Our first objective is to accelerate our growth. To achieve this objective, we're focused on several key activities. First, we are creating innovative products and services that will provide solutions to our customers that help them to grow their sales and profits. In order to facilitate this innovation, in 2007, we organized the Company into six global product marketing organizations that will lead the creation of new innovation from the market back.

We've aligned our global R&D and regional sales organizations to mirror this new marketing organization to create a seamless interface to our customers. The result will be a customer-driven company that can quickly create solutions and provide a competitive advantage to our customers.

Our innovation pipeline continues to be robust. Examples from 2007 include -- a new silane coupling agent that has the potential to create more fuel-efficient tires and reduce production costs while eliminating most ethanol emissions; a new silicone microsphere for the personal care sector that delivers enhanced soft-focused benefits in skincare and color cosmetic products; and a new two-component room temperature curing silicone adhesive for applications ranging from solar panels to kitchen appliances.

Now in addition to driving growth through new technological innovations, we strive to increase the overall percentage of our specialty products relative to core silicones. During the past five years, we've increased our specialty product mix from about 50% to 63% of our total sales. As we pursue this specialty strategy, we also intend to grow our total market share.

We recognize that capacity constraints over the last two years have limited our ability to grow total share. However, debottlenecking activities and the investment in new siloxane capacity in China will facilitate our ability to achieve these goals. We will also continue to substantially grow in the emerging markets of Asia, Eastern Europe, the Middle East and Latin America.

In 2007, we grew our sales in these markets by more than 15%. Today, the per capita consumption of silicones in the emerging market countries is only one-tenth of the developed countries. We continue to invest in these regions with new factories and R&D infrastructure.

In the past year, we've completed a new technical center in Shanghai, and this year, we will open our new specialties plant in Nantong. In 2007, we also announced new manufacturing facilities in Chennai, India, and a 50,000-ton basic siloxane plant in Jiande together with Xin'an Chemical. That plant will start up in 2009.

An additional leg of our strategy is to reduce our overall cost structure. In 2007, we started to achieve synergies by globalizing Momentive. In Q3, we announced a business transformation process with a goal of achieving \$50 million to \$75 million in cost savings on a run-rate basis by the end of 2008. I'm pleased to report that we are on track to achieve these savings.

We continue to believe that there are significant opportunities for improved productivity through global synergies. We're focused on optimizing our global sourcing and supply chain activities, finding more efficiencies from operating as a global standalone business versus the prior JV structures and achieving improved material efficiencies and productivity in our sales and distribution channels.

At Momentive, we are clearly focused on cash management. In 2007, we did an excellent job in reducing our overall operating working capital by about \$150 million, achieving in one year a two-year goal that we had set out for the Company. We define operating working capital as trade

receivables plus inventories less trade payables, excluding the effects of purchase accounting. We believe that there continues to be significant opportunities to further reduce operating working capital in 2008.

Now let me turn to some of our financial results and key accomplishments for 2007. I will provide a global market overview of the trends that we see in price, raw material inflation and demand for our products. And then I'll turn the call over to Steve Delarge, our CFO, who will discuss our financial performance for fiscal year 2007 in more detail. And then we'll have time for a Q&A session.

Our results and adjusted EBITDA for the fiscal year ended December 31, 2007, were \$2.5 billion and \$447 million respectively versus \$2.4 billion and \$428 million for the fiscal year 2006. The annual adjusted EBITDA increase of 4.5% was driven by higher sales revenue and improved cost productivity.

Overall, we grew revenues in silicones by 6% for the year. Our quartz revenue was up 2% year over year as we experienced softening in the semiconductor sector. We ended the year with approximately \$249 million in cash on our balance sheet, a positive net cash flow and surpassed a previously announced annual operating working capital target of \$75 million, reporting \$150 million in reductions.

Now let me talk a little bit about what we're seeing in the marketplace. While predictions of a potential recession in the U.S. were the headline news, our customer's demand for Momentive products remains strong globally. We continue to see growth around the world in many of the sectors we serve. In 2007, we experienced significant economic growth in the fast-growing economies.

Now let me take you through some of our results by region. For silicones in the Americas, in 2007, Momentive experienced double-digit growth in Latin America across all product segments, especially personal care, healthcare, home care and agriculture. In the U.S., we continued to be negatively impacted by softness in the residential housing and automotive sectors.

In Europe, the Middle East, Africa and India, our revenue growth was primarily driven by construction, automotive, energy and the oil and gas segments. The overall demand for silicone products in the region remains stable, and our business was helped by favorable currency exchange. We experienced particularly strong growth across all segments in India, Russia, the Middle East and Turkey.

We achieved double-digit growth in the Asia-Pacific region driven by greater local consumer spending for electronics, automobiles and consumables, such as personal care products. The recent investments made by Momentive in the region enabled the Company to serve the rapidly growing demand.

Finally, for quartz, our business primarily serves two major industries -- semiconductor capital equipment and lighting. In 2007, the quartz business was negatively impacted by the anticipated cyclical downturn in demand for semiconductor capital goods. We expect the market to recover in the second half of 2008. Demand for products in the lighting segment remains strong.

Now let me talk a little bit about what we're seeing with raw material costs. Like most material companies, we faced rapidly rising raw material and energy costs in 2007. In addition, the supply of some key raw materials, such as silicon metal, was very tight. Overall, we experienced 4% inflation on our production related costs for manufacturing facilities worldwide. While we have been able to pass on some of this inflation with price increases, we've not been able to recover 100% of these additional costs.

We expect further raw material inflation in 2008. To combat this inflation, we're pursuing a multiprong strategy to offset these costs as much as possible, including -- the creation of a new sourcing organization that will leverage our global purchases of key raw materials, such as silicone and methanol; a globally coordinated transportation, warehousing and logistics plan to increase productivity and simultaneously improve product delivery; and improved utilization of materials in Momentive's factories through continued use of lean and six sigma tools, as well as the implementation of new process technology improvements. For 2008, we have concluded contracts for adequate supplies of all of our key raw materials.

So while we're tackling inflation, we've also been transforming our internal organization to better serve our customers. As we discussed on the Q3 earnings call, Momentive launched a global business transformation process with a goal of achieving \$50 million to \$75 million in cost savings on a run-rate basis by the end of 2008.

These savings will be derived from, first, approximately \$10 million this year from labor reductions by realigning our commercial organizations; second, by yielding \$25 million from indirect cost savings in transportation, outside services and other indirect expense items; and third, realizing \$15 million of anticipated cost savings from our material efficiency programs. Now I'd like to turn it over to Steve Delarge. And he'll take you through more of the specific results. Steve?

Steve Delarge - Momentive Performance Materials - CFO

Thank you, Jon. I'll begin this morning by discussing some of the specifics regarding the results for the fiscal year ended December 31, 2007. Net sales in the fiscal year ended December 31, 2007, were \$2.538 billion compared to \$2.414 billion for the same period in 2006, an increase of 5.1%. The increase in revenue was driven primarily by increased sales volume, higher selling prices, as well as exchange rate fluctuations primarily with the euro.

Cost of sales in the fiscal year ended December 31, 2007, was \$1.635 billion compared to \$1.583 billion for the same period in 2006, an increase of 4.4%. This increase in cost of sales is primarily due to higher raw material, energy and labor cost. In addition, our cost of sales were impacted by the sales volume noted above, unfavorable exchange rates and the reversal of a purchase accounting step up related to inventory of \$27.7 million.

Restructuring and other costs in the fiscal year ended December 31, 2007, were \$40.1 million compared to \$10.8 million for the same period in 2006. Costs in 2007 related to restructuring were primarily concentrated from restructuring and standalone activities, primarily consulting services, compared to costs in 2006 that were related to severance costs for the transfer of production to a new facility and the sales force realignment in Europe.

Gross profit in the fiscal year ended December 31, 2007, was \$885 million compared to \$831 million for the same period in 2006, an increase of 6.4%. The increase is primarily due to the effects described above in cost of sales. Adjusted EBITDA, as defined in our indentures, was \$447 million for fiscal year 2007 compared to \$427.8 million for the same period in 2006, an increase of 4.5%.

As Jon mentioned earlier, at the close of the year, we had approximately \$240 million of cash on our balance sheet. We continue to make excellent progress on our working capital initiatives, and for the year, we reduced our working capital by \$150 million.

Now let me make a comment on our business outlook. Over the course of the first quarter of 2008, Momentive experienced a continuation of the trends that impacted fourth quarter 2007 performance. In particular, our business performance was adversely affected by elevated silicon metal prices, the downturn in the U.S. domestic housing and automotive sectors and year-over-year declines in our quartz division. These conditions have been partially offset by strength in our silicones business throughout Asia and other developing regions.

In light of these patterns, the Company expects first quarter 2008 revenue in the range of \$640 million to \$670 million, GAAP operating income in the range of \$33 million to \$39 million and adjusted EBITDA in the range of \$100 million to \$110 million. Momentive expects to have total quarter debt net of cash of \$2.9 billion compared to \$2.940 billion at the end of the first quarter of 2008. With that, I'd now like to turn over back to Jon.

Jonathan Rich - Momentive Performance Materials - President & CEO

Well thanks, Steve. In 2007, we accomplished our goals, delivering record sales as well as EBITDA growth, positive cash flow from operations and operating working capital reductions. Our customer-led growth strategy and business transformation plan that created an integrated standalone global enterprise is clearly working.

We recognize that 2008 will present challenges with higher raw material prices and potentially weaker market conditions. In light of these challenges, we will redouble our efforts to provide our customers with technologically advanced products that demonstrate our advantage as a global specialty materials producer. And we will intensify our efforts on productivity and cost savings. We thank you for your continued interest in Momentive, and now we are pleased to address any questions that you might have.

QUESTION AND ANSWER**Operator**

(OPERATOR INSTRUCTIONS)

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Your first question comes from the line of Bo Hunt. You may proceed.

Bo Hunt - Banc of America - Analyst

Hi, guys. How are you?

Jonathan Rich - Momentive Performance Materials - President & CEO

Hi, good morning.

Bo Hunt - Banc of America - Analyst

Obviously, 2007 gross CapEx was a little higher than usual. And I was just hoping you could provide a little detail on what your largest growth CapEx buckets were for the year? So for example, how much you spent on Nantong or any debottlenecking CapEx, any understanding of this number would be helpful.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, well in terms of Nantong, I think what you'll see is that our expenditures on Nantong were between \$35 million to \$40 million, \$23 million of that financed through increased debt. And in terms of the bottlenecking, we continue to work across all the plants in terms of identifying those initiatives. And it's difficult to estimate. But I would say it was in the range of \$5 million to \$10 million.

Bo Hunt - Banc of America - Analyst

Okay. That's very helpful. And there's no R&D capitalized in this number, right?

Jonathan Rich - Momentive Performance Materials - President & CEO

I know, that's correct.

Bo Hunt - Banc of America - Analyst

Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

It's less than \$3 million.

Bo Hunt - Banc of America - Analyst

Got you. Okay. That's fine. And then you clearly have a pretty large cash balance on your books right now. I don't know if you can comment on any plans to how you want to use this.

Jonathan Rich - Momentive Performance Materials - President & CEO

Well look, we think it's prudent in the current economic environment, with the uncertainties that we're seeing in marketplaces, particularly here in the U.S., to keep a little extra cash on our balance. We don't have any specific plans at the moment for that.

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Bo Hunt - Banc of America - Analyst

So no voluntary debt pay downs?

Jonathan Rich - Momentive Performance Materials - President & CEO

At this point, we think we're taking the steps that are prudent for the Company.

Bo Hunt - Banc of America - Analyst

I had to try, at least. And then I wanted just one last question, sorry. Obviously, I'm sure you're aware a lot of industry consultants are calling for pretty significant downward movement on methanol prices in the back half of the year. Just wondering how quickly -- any detail you can give on how quickly that will be reflected in numbers, how quickly your contracts or however much is bought on contract, how quickly those reset.

Jonathan Rich - Momentive Performance Materials - President & CEO

I think, Bo, you know we typically purchase methanol on monthly or quarterly contracts, depending on the region where we purchase it. Obviously, over the last 12 to 24 months, methanol prices have been very volatile and so it's difficult for me to predict where they're going. As part of our operating plan, we had anticipated some reductions in methanol prices. The year proceeded. And so far, I wouldn't say that we're way off track. But our ability to forecast that in the future is no better than anybody else's.

Bo Hunt - Banc of America - Analyst

I see. But we should expect that methanol's purchased on a quarterly to monthly basis. So if it did move up or down in one direction, it should flow through in sort of a one to three month time horizon.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes.

Bo Hunt - Banc of America - Analyst

That's very helpful. Thanks. I'll get back in line.

Operator

Thanks. Your next question comes from the line of [Terry Kamet]. You may proceed.

Terry Kamet Analyst

Morning, guys.

Jonathan Rich - Momentive Performance Materials - President & CEO

Good morning.

Terry Kamet Analyst

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Any update on the start up of the timing of the new facility in China?

Jonathan Rich - Momentive Performance Materials - President & CEO

Which one? As you know, we've got a number of investments in China. The investment that we've made in Nantong is nearly complete and will start up in the very near future. The timing of the investment that we're making together with Xin'an in Jiande is the back half of 2009.

Terry Kamet Analyst

Back half 2009? And then on the cost saving program, you said in the 10-K that you think you'd achieved about \$26 million on an annual basis so far. Any update on when you would expect to see the balance of that achieved, whether that's a sort of first half '08 or second half or evenly through the year?

Steve Delarge - Momentive Performance Materials - CFO

Yes, I think the \$26 million that you're seeing in the 10-K relates to the standalone structure, as we talked a little bit on the road show. The cost to build the standalone organization was less costly than the prorated assessments we received from GE for those services. So the \$26 million, we've realized.

In terms of the incremental \$50 million to \$70 million that Jon talked about in terms of the business transformation savings, we're starting to see some of those in the first quarter. But they will reach full ramp rate in the second half of the year.

Terry Kamet Analyst

Okay. Great. Thank you very much.

Steve Delarge - Momentive Performance Materials - CFO

Yes.

Operator

Your next question comes from the line of Roger Spitz. You may proceed.

Roger Spitz - Merrill Lynch - Analyst

Thanks, guys. Can you bridge Q4 '07 EBITDA to either Q3 '07 EBITDA or Q4 '06 EBITDA, providing guidance perhaps in the deltas of the main items, perhaps price volumes, cost savings and cost of sales and SG&A in a little more detail?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, Roger. I think we can put something out there that does that bridge in detail. But I will tell you that the major bridge between Q3 and Q4 really relates to the additional inflation that we incurred, inflation primarily around methanol and a little bit around silicon metal. Related to the SG&A rates, the SG&A Q3 versus Q4 was down slightly to flat. There was a little bit of impact of inflation on the C&B offset by the cost savings initiatives.

Roger Spitz - Merrill Lynch - Analyst

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It looked like your SG&A from Q3, about \$197 million, was down -- I thought that was down maybe \$30 million. I know in Q3 about \$7 million may have been related to transitional costs or adding to that. But it still seems like you did very well with the SG&A coming down from Q3 to Q4 when I looked at the restated information.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, one of the things we've got to strip out of there for you is the impact of some F-Ex and the F-Ex hedges that we do. So we can take that apart for you.

Roger Spitz - Merrill Lynch - Analyst

Okay. Can you provide silicon's volume and price growth in Q4 '07 versus Q4 '06, that comparison?

Jonathan Rich - Momentive Performance Materials - President & CEO

We typically don't break out specifics on what our purchase prices are for silicon metal. I mean, I think as we stated, our overall production costs were up about 4% for the year. And I think for competitive reasons, we're not going to comment on the specifics of what we're paying for silicon metal.

Roger Spitz - Merrill Lynch - Analyst

Actually, I was referring to the silicone's pricing, the products you sell.

Jonathan Rich - Momentive Performance Materials - President & CEO

In terms of where we are on pricing.

Roger Spitz - Merrill Lynch - Analyst

Yes, you gave a pricing -- you gave the 2007 full year versus 2006 full year silicone's volume growth and implied price growth. I was wondering whether you might compare the Q4 '07 versus the Q4 '06 for silicone's product volume growth and price growth.

Jonathan Rich - Momentive Performance Materials - President & CEO

We haven't broken that out in the past, and I don't think we're going to start doing that now.

Roger Spitz - Merrill Lynch - Analyst

Okay. Can you provide any insight into the price implementation of silicone's product pricing that you've been able to get out in the marketplace since January 1st?

Jonathan Rich - Momentive Performance Materials - President & CEO

Well, let me make a couple comments with regards to where we are on price, because I know that's a frequent question. In November of 2007, we communicated to our customers the price increase that was effective January 1st this year in the range dependent on the specific products that they bought.

We've also just recently increased our prices again, effective April 15th. Again, those price increases will be based on the specific products that customers purchase. But the ranges will be somewhere from 5% to 15%.

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Roger Spitz - Merrill Lynch - Analyst

That's for the April 15th. Could you remind us what -- I'm sorry?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, go ahead.

Roger Spitz - Merrill Lynch - Analyst

What was the price for January 1st, the range of that pricing?

Jonathan Rich - Momentive Performance Materials - President & CEO

Again, it was similar. Again, depending on specific product.

Roger Spitz - Merrill Lynch - Analyst

Can you provide any guidance on how much you were able to achieve in those price?

Jonathan Rich - Momentive Performance Materials - President & CEO

I think we wanted to provide to you some comments on what we were seeing in the Q1 results. We wanted to give you some perspective on what we're seeing in the first quarter. I think with regards to more details on the first quarter, we'll give you a more complete report on that when we talk about the Q1 results sometime in May.

Roger Spitz - Merrill Lynch - Analyst

Wacker on their call was indicating that their silicones pricing contracts for the products that they sell is typically for many products set for one full year. Do you do it similarly? Obviously, you're increasing prices again on April 15th. So maybe there's an opener there. But conceptually, are your prices typically set under one-year fixed price contracts? Or is it a different mechanism?

Jonathan Rich - Momentive Performance Materials - President & CEO

Well, I'm not going to comment with regards to anything the competitors might be doing. But let me talk a little bit about what we're doing. We do have, of course, a mixture of annual contracts and business that we sell on the spot, more or less.

I will tell you that we've been very focused this year on making sure that our contracts have reopeners in them for price increases, which we think is prudent, given the inflationary environment that we're in. But I think, Roger, your question related to the silicon metal we purchased?

Roger Spitz - Merrill Lynch - Analyst

I hadn't gotten to silicon metal. But I'd be interested in any comments you might make.

Jonathan Rich - Momentive Performance Materials - President & CEO

Sorry, I opened it up.

Roger Spitz - Merrill Lynch - Analyst

But I guess one question I might ask is have you -- can you -- historically for Germany and Europe, you entered into predominantly one-year fixed price contracts. Could you say that for the 2008 period that again you entered into one year as opposed to some other term, either longer or shorter?

Jonathan Rich - Momentive Performance Materials - President & CEO

These are on contracts to sell to our customers?

Roger Spitz - Merrill Lynch - Analyst

No, these are silicon metal that you purchase.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, for silicon metal that we purchase, again, the vast majority of that is purchased on a one-year contract basis for specific volumes and price. Now usually, if those volumes aren't completely utilized, that contract rolls over until those volumes are complete. But the vast majority of our purchases of silicon, with the exception of the Asia region, is done on a one-year contract basis.

Roger Spitz - Merrill Lynch - Analyst

Did you get any benefit from Q1 from some percent, maybe 5% or 15% or different percent silicon metal?

Jonathan Rich - Momentive Performance Materials - President & CEO

Again, we're not going to comment on Q1 results yet. But the answer is that is very small amount.

Roger Spitz - Merrill Lynch - Analyst

Great. Thank you very much, gentlemen.

Jonathan Rich - Momentive Performance Materials - President & CEO

Thank you.

Operator

Your next question comes from the line of Kristen McDuffy. You may proceed.

Kristen McDuffy - Goldman Sachs - Analyst

Yes, hello. Do you still expect the combination of price increases and cost reductions in '08 to offset your rising raw material costs?

Jonathan Rich - Momentive Performance Materials - President & CEO

I'm sorry, Kristen. You're breaking up a little bit. Could you repeat the question for us?

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Kristen McDuffy - Goldman Sachs - Analyst

Sure. Do you still expect the combination of your price increases and your cost savings programs to offset your raw material cost increases in 2008?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. How much will your EBITDA benefit from the startup of your Nantong facility in 2008?

Jonathan Rich - Momentive Performance Materials - President & CEO

I don't think it'll be -- we have certain startup costs that we have to incur, offset by the higher output that we'll enjoy in China. So I would say in the first year of startup, it'll be breakeven.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. And you mentioned that your overall production costs were up about 4% in 2007. Do you have a sense for how that will trend in 2008?

Jonathan Rich - Momentive Performance Materials - President & CEO

I don't have a specific figure for you. But as I said in our statement earlier, we expect inflation for silicon metal and oil-based raw materials to continue into 2008.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. Can you also give us a sense for what level of cash you might be able to squeeze out of working capital in '08?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, we've set a goal on operating working capital reductions for 2008 that's similar to the goal that we had in 2007.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. Which was -- was that -- was the goal about \$150 million or half of \$150 million?

Unidentified Company Representative

It was half.

Unidentified Company Representative

Half of \$150 million.

Kristen McDuffy - Goldman Sachs - Analyst

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Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

\$150 million goal was over two years.

Kristen McDuffy - Goldman Sachs - Analyst

Got it.

Jonathan Rich - Momentive Performance Materials - President & CEO

The goal we have for '07 is similar to the original goal we had in -- the goal for '08 is similar to the original goal in '07, which we exceeded significantly. But we think that's a reasonable amount to achieve this year.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. And your inventory optimization efforts, can you quantify how much they impacted your EBITDA in the fourth quarter?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, there was no impact in the fourth quarter.

Kristen McDuffy - Goldman Sachs - Analyst

And then just lastly, can you give a little more detail on how you differentiate between your specialty products and your core silicones products? Definitionally, what's the difference between those types of products?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes. Generally, we consider core products to be core RTV fluids and heat-cured elastomers, where our products would be similar to those offered by competitors. And our specialties are generally those products where we think we have some unique features or benefits that differentiate us from competitors.

Kristen McDuffy - Goldman Sachs - Analyst

Okay. Thank you.

Operator

Your next question comes from the line of [Michael Baum]. You may proceed.

Michael Baum Analyst

Hi. One quick follow up on the working capital -- is the number that I should be assuming around a \$75 million inflow for the year?

Jonathan Rich - Momentive Performance Materials - President & CEO

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That was the goal that we had in 2007. And our goal for this year is similar.

Michael Baum Analyst

Okay. Fine. And the second question, can you just run me through what maintenance CapEx is in this business and also what you expect to spend on CapEx in 2008, please?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, we don't typically break out the maintenance budget by category. But I think you're referring to maintenance in AHS. I think we've always talked in the business and reflected on the road show a number between \$65 million to \$80 million of maintenance CapEx.

Michael Baum Analyst

Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

And I would say for '08, our CapEx expenditure level would be consistent with '07.

Michael Baum Analyst

Yes, so around \$180 million.

Jonathan Rich - Momentive Performance Materials - President & CEO

I think \$180 million included some one-time standalone costs.

Michael Baum Analyst

Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

I think it'll be lower than that in '08.

Michael Baum Analyst

Okay. Thank you.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes.

Operator

Your next question comes from the line of David Troyer. You may proceed.

David Troyer - Credit Suisse - Analyst

Hi. One more working capital question -- is it fair to say that, as you reach the end of taking excess working capital out of the system, you might expect to see a little more seasonality builds and reductions as we go through the year?

Jonathan Rich - Momentive Performance Materials - President & CEO

Well, we certainly have some seasonality to the business, with Q2 sales typically being stronger than Q1. And so with regards to inventory, Q1 we typically build a little more inventory than we do in the other quarters. And I think that's been the historical result. That's, I think, what you'll see for this year.

David Troyer - Credit Suisse - Analyst

Okay. And I guess I'm a little bit curious --

Jonathan Rich - Momentive Performance Materials - President & CEO

Look, it's not a significant amount. I can tell you that.

David Troyer - Credit Suisse - Analyst

Okay. Well, will lead into my second question then. The increase in debt from the year end to the end of the first quarter and what's not a coupon quarter on the bonds, just wondering if you can provide any more guidance as to why that is occurring.

Jonathan Rich - Momentive Performance Materials - President & CEO

In the first quarter?

David Troyer - Credit Suisse - Analyst

Well, you've provided net debt guidance at the end of the first quarter, which is up from the end of the year.

Jonathan Rich - Momentive Performance Materials - President & CEO

I think the biggest factor that's impacting our debt at the moment is that we have some euro-denominated debt. And the F-Ex impact is causing the net debt of that to go up. That's the biggest factor.

David Troyer - Credit Suisse - Analyst

Okay. Thank you.

Operator

Your next question comes from the line of [Maryann Cushner].

Maryann Cushner Analyst

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Hi. I have a few questions for you. First of all, I wanted to clarify what was the \$22 million or actually \$22.7 million in other expenses reported on the income statement in Q4? I guess, in other quarters that item was pretty immaterial.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, that's basically -- we have a number of hedging programs in place related to the euro debt. And it was a combination of the unrealized and realized F-Ex losses we incurred on those hedges.

Maryann Cushner Analyst

Okay. So you don't take out unrealized hedges. You just, for the purpose of just calculating the value, just include all of it?

Jonathan Rich - Momentive Performance Materials - President & CEO

For adjusted EBITDA, we would only include realized.

Maryann Cushner Analyst

Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

But on the financial statement in the 10-K, there would be both realized and unrealized.

Maryann Cushner Analyst

Okay. All right. And also, regarding working capital improvements, the biggest improvement came from extending trade payables. I think it was \$150 million improvement in 2007 and about \$52 million in Q4. I was just wondering if you could provide more color on this. Is that sustainable?

Steve Delarge - Momentive Performance Materials - CFO

Yes, it came from a number of things. Okay? First of all, it came from, one, tradeoffs we made in terms of taking early payment discounts versus going to term. We made those tradeoffs as we looked at our cost of capital and the discounts that were being offered by the vendors and made the economic choice. To your point, I think those are pretty much done and would not be sustainable.

The other item that was the bigger driver was renegotiation of terms of vendors. We put forth a program to renegotiate all the terms with our key suppliers. And we've completed the first round of the top vendors. What we plan to do in '08 to help drive the \$75 million improvement that Jon talked about is that we plan to have a second round with the large vendors. And more importantly, we plan to extend that to the smaller vendors. So that will be the initiative, in a way.

Maryann Cushner Analyst

Okay. And the second largest improvement was in accounts receivable [data] collection. Is that also similar in negotiation with customers that you had?

Jonathan Rich - Momentive Performance Materials - President & CEO

I think it's two things. It's a negotiation with customers, as you mentioned. But more importantly, it's ensuring that the customers pay us according to contractual terms. In effect, paying us on time.

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Maryann Cushner Analyst

Okay. Okay.

Jonathan Rich - Momentive Performance Materials - President & CEO

So it's a combination of both.

Maryann Cushner Analyst

All right. And then the last question I just wanted to clarify because I think there were a few numbers mentioned. So year to date, how much cost savings have been achieved? And could you clarify again at what run rate you expect to be at the end of '08?

Jonathan Rich - Momentive Performance Materials - President & CEO

I think what we mentioned in the pro forma -- as you look at the pro forma table, you can see the cost savings related to the standalone activity. And the additional \$50 million to \$75 million, we talked about achieving that run rate in the second half of the year.

Maryann Cushner Analyst

Okay. All right. Thank you.

Operator

Your next question comes from the line of [Barry Eon]. You may proceed.

Barry Eon Analyst

Yes, just a question on your raw materials. You mentioned that you've hedged them all out for '08. I'm just wondering which ones exactly you're talking about. And also, how does that reconcile versus increased prices in the first quarter? I think that if you've already priced everything out for the year, it really shouldn't -- fluctuations really shouldn't matter unless you're talking on a year-over-year basis.

Jonathan Rich - Momentive Performance Materials - President & CEO

Well, let me make a couple comments on that. First, with regards to silicon metal, we buy primarily in the Americas and Europe on one-year contract basis. And the vast majority of that got implemented in the first quarter. In Asia, we buy silicon metal on the spot. And so we will continue. Whatever happens to silicon metal prices throughout the year will impact us in Asia, as we purchase the material.

On methanol, as I said before, we buy that primarily on a quarter or monthly basis. And so we'll be impacted by the fluctuations in methanol as they go ahead. For all other raw materials, most of them are either oil based or agricultural raw material based intermediates. And we're subject to whatever happens in those marketplaces throughout the year.

Barry Eon Analyst

So only things you really -- sorry.

Jonathan Rich - Momentive Performance Materials - President & CEO

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No, I was saying, as we talked about the first quarter and the statement I read, basically, we were referring to increased silicon raw material prices year-over-year.

Barry Eon Analyst

Okay. But when you mentioned that for '08 you've purchased all your needs for raw materials, are you referring to other things then, because it sounds like you buy some of the stuff on the spot still and methanol you buy quarter to quarter.

Jonathan Rich - Momentive Performance Materials - President & CEO

On silicon metal, we've got annual contracts for silicon metal in the regions where silicon metal is tight without going into a long discussion on duties and so forth that impact the supply and demand. In Asia, the supply of silicon metal is sufficient. So we don't feel that it's necessary to have annual contracts there.

Barry Eon Analyst

Okay. And then you mentioned earlier on your working capital, you said typically the first quarter is where you sort of build. Is that where you get the seasonal peak in your revolver borrowings, if you have any revolver borrowings throughout the year?

Jonathan Rich - Momentive Performance Materials - President & CEO

I'm sorry. Can you repeat the last part of your question?

Barry Eon Analyst

You said that the first quarter is typically your seasonal working capital build. So is that where you reach your peak in your revolver borrowings?

Steve Delarge - Momentive Performance Materials - CFO

We've never had a revolver.

Jonathan Rich - Momentive Performance Materials - President & CEO

We don't draw on a revolver.

Barry Eon Analyst

So you don't draw on it at all. Okay. All right, then you also mentioned that working capital, you expect to get an incremental \$75 million improvement this year. Is that right?

Jonathan Rich - Momentive Performance Materials - President & CEO

That's our goal.

Barry Eon Analyst

Okay. And then final question on CapEx. What's your CapEx target for the year?

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Jonathan Rich - Momentive Performance Materials - President & CEO

I think last year in CapEx we spent about \$180 million, which included some one-time startup costs in there. I would expect our capital expenditures for this year to be about the same net of the one-time cost that we don't have any more.

Barry Eon Analyst

So what would that be then?

Jonathan Rich - Momentive Performance Materials - President & CEO

I think around \$150 million to \$160 million.

Barry Eon Analyst

Okay. Thank you.

Operator

Your next question comes from the line of [Carlos Ryerson]. You may proceed.

Carlos Ryerson Analyst

Hi, guys. Thanks for taking my call. Just -- I don't mean to harp on this, but just for the silicon metal, I would like to get a sense as to how much of your silicon metal is actually contracted for in 2008, at this point. In other words, how much is locked up from a price and volume standpoint?

Jonathan Rich - Momentive Performance Materials - President & CEO

Essentially, all the volumes that we require in the Americas and Europe are contracted for. In Asia, we purchase on the spot and because silicon metal is in plentiful supply in Asia. And so --

Steve Delarge - Momentive Performance Materials - CFO

Yes, if you want to divide our sales by three, they are equally split pole by pole.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, our production volumes are similar in all three.

Steve Delarge - Momentive Performance Materials - CFO

You could say that --

Carlos Ryerson Analyst

You could say that two-thirds of it is locked up.

Jonathan Rich - Momentive Performance Materials - President & CEO

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Two-thirds of it.

Steve Delarge - Momentive Performance Materials - CFO

Two-thirds of it is locked up.

Carlos Ryerson Analyst

Okay.

Steve Delarge - Momentive Performance Materials - CFO

But I think with a clarification, when we say we purchase on the spot, we price based on spot. But we have vendors that have committed to supply us with the metal.

Jonathan Rich - Momentive Performance Materials - President & CEO

Right.

Steve Delarge - Momentive Performance Materials - CFO

It's just the pricing that moves.

Jonathan Rich - Momentive Performance Materials - President & CEO

Right. That's right.

Steve Delarge - Momentive Performance Materials - CFO

And that was Jon's comment when he said that we have secured all our supply. We have firm sources of supply for everything that we need.

Carlos Ryerson Analyst

Okay. Okay. Well, just a related question on China -- is Momentive bringing in any silicon metal into the U.S. from China, pursuant to the new shipper reviews?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, pursuant to the new shipper review.

Carlos Ryerson Analyst

Okay. And just given that the antidumping tariff rate on that material is being appealed, is there any accounting that you guys are doing or accruing for any potential liability to Momentive if the appeal is successful and the 140% tariff rate is applied retroactively?

Jonathan Rich - Momentive Performance Materials - President & CEO

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Yes, we think that, with regard to that risk -- we think that we'll be successful in that.

Carlos Ryerson Analyst

Okay. But is there any accrual being done? Or is it you guys are pretty comfortable that you'll be successful in the appeal?

Jonathan Rich - Momentive Performance Materials - President & CEO

We're not accruing for it at this point.

Carlos Ryerson Analyst

Okay. All right. Thanks, guys. This has been very helpful.

Operator

Your next question comes from the line of [Rogul Argulwal]. You may proceed.

Rogul Argulwal Analyst

Hi. Thanks for taking my question. I think it's my turn. Before I ask my questions, could you just expand on the last question that was asked, the possible duties? I just don't know the issue involved.

Jonathan Rich - Momentive Performance Materials - President & CEO

I think that might be beyond the scope of the time we have on the call. But there are dumping -- there are -- there were duties implemented in the early '90s on silicon in Europe and the U.S. I think if you Google that, you can get a complete assessment of what that is. So the duties have been in place for a number of years, both in Europe and the Americas, which have some impact on the movement of silicon around the world.

Rogul Argulwal Analyst

I guess, my second question ties into this first one. From the comments you were making about the fact that you're contracting in Americas and Europe and you buy spot pricing in Asia, it seems like silicon metal is more abundantly available in Asia and is more limited in Europe and America. One, is that a fair statement? And two, if it is, then what kind of price differential is there in the metal in (inaudible) in Asia? And the reason I'm asking is, I mean, is there a risk, at some point, everything moves to Asia, I guess?

Jonathan Rich - Momentive Performance Materials - President & CEO

Well, the answer to your first question is, that's true. The second one is, the price differential is a number that you can look up publicly. And it's better to get it there than from me. Public information, you can look it up.

Rogul Argulwal Analyst

Okay. This topic has been asked again and again on this call, the fact that you had silicon metal contracted for last year. And then the contracts were reset this year. So as silicon price is going up and you were increasing the price for your product, you were sitting on a, say, a fixed price contract on silicon. Is that a fair statement over the last year?

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes.

Rogul Argulwal Analyst

And could you give us some idea of the competitive landscape out there? How are your competitors in U.S. and Europe set up? And the reason I'm asking is how much drag would we see from a silicon metal price increase in 2008, the benefit of the price increase of which you've already realized in 2007?

Jonathan Rich - Momentive Performance Materials - President & CEO

I'm not going to make any comments on our vis-a-vis competitors.

Rogul Argulwal Analyst

But can you give us some idea as to how silicon pricing has moved in your contracts between the two years now?

Jonathan Rich - Momentive Performance Materials - President & CEO

In terms of -- ?

Rogul Argulwal Analyst

The fixed price contract that you had in '07 versus what you must've re-signed now in the beginning of '08.

Jonathan Rich - Momentive Performance Materials - President & CEO

Yes, the only statement I'm going to make there is the one that we made before, which is we're seeing about 4% increase in our total production cost. I'm not going to comment on the specific prices that we pay for silicon because that would be competitive information.

Rogul Argulwal Analyst

Understood. The 4% number that you stated, is that primarily because of silicon?

Jonathan Rich - Momentive Performance Materials - President & CEO

Again, I think we've stated before that silicon metal is about 20% to 25% of our total purchases. You can back calculate it from there.

Rogul Argulwal Analyst

Okay. Last one on this topic. How much of a price increase that you had in last year 2007 can we attribute to the silicon metal pricing increases in the general environment, while you didn't see that price increase because of your contracts?

Jonathan Rich - Momentive Performance Materials - President & CEO

Again, we think that we're market-backed pricers. And our price of materials in the marketplace reflects the value that we think we're delivering to customers.

Rogul Argulwal Analyst

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Okay. The last one. As these pricings for methanol is at all-time high, and I think you said you expected it to go down. But if it stays where it is and silicon is going up, what kind of substitution risk do your products see, if any?

Jonathan Rich - Momentive Performance Materials - President & CEO

In terms of substitution of silicone products for something else?

Rogul Argulwal Analyst

Yes.

Jonathan Rich - Momentive Performance Materials - President & CEO

I mean, that's something that goes on all the time. I think it's more related to product performance and the value that we think that gets delivered to customers, as opposed to raw material pricing.

Rogul Argulwal Analyst

So there's nothing out there that you've seen that would make you stop and think?

Jonathan Rich - Momentive Performance Materials - President & CEO

Nothing abnormal.

Rogul Argulwal Analyst

Okay. Thank you.

Diana Sousa - Momentive Performance Materials - IR

All right, operator, we're going to wrap up the call now.

Jonathan Rich - Momentive Performance Materials - President & CEO

Again, let me just reiterate again that, again, in 2007 we're proud of our accomplishments, achieving record sales as well as EBITDA growth and positive cash flow. We thank all of you for your interest -- continued interest in Momentive. And we look forward to talking to you again in May.

Steve Delarge - Momentive Performance Materials - CFO

Thank you.

Jonathan Rich - Momentive Performance Materials - President & CEO

Thanks, everybody.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. And have a wonderful day.

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