

**Q1 2008 Momentive Performance Materials Earnings Conference Call
May 15, 2008**

- Peter Cholakis Momentive
Head of Investor Relations
- Jonathan Rich Momentive
President and CEO
- Steve Delarge Momentive
CFO
- Bill Hoffman UBS
Analyst
- David Troyer Credit Suisse
Analyst
- Tarek Hamid JP Morgan
Analyst
- Roger Spitz Merrill Lynch
Analyst
- Bill Hand Banc of America Securities
Analyst
- Melinda Newman First Advisory Group
Analyst
- Alexi Olinot West Mellon Asset Management
Analyst
- Bradley Commat AIG
Analyst
- Marianna Cushmere Nomora Asset Management
Analyst
- Michael Ainge TIAA Cref
Analyst
- Amy Levine Shenkman Capital
Analyst

- Ricardo Cardona Fortis Investments
Analyst
- Adrel Asque Harvard Investments
Analyst

Presentation

Operator: Good day, ladies and gentlemen, and welcome to the Momentive Performance Materials First Quarter 2008 Conference Call. My name is [Silvana], I will be your coordinator for today. (OPERATOR INSTRUCTIONS)

I will now like to turn the presentation over to your host for today's call, Mr. Peter Cholakis. You may proceed, sir.

Peter Cholakis: Thank you. Good morning and welcome to the first quarter 2008 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 express 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 and operating our business contained in the documents governing our indebtedness and changes in production costs. Other potential factors that could affect our results are included in our reports filed with the SEC, including our 10-K for the year ended December 31st, 2007. All information discussed on this call is as of today, May 15th. And we undertake no obligation to update this information to reflect future events or circumstances.

On today's call, we'll 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, May 14th, we issued our earnings release and our 10-Q for the quarter ended March 30th, 2008. Both of which are posted on the Investor Relations financial results page of Momentive's website at www.momentive.com. We will post a transcript of this call on the Investor page of our website later today.

And now, I'd like to introduce our President and CEO, Jonathan Rich. Jon?

Jonathan Rich: Well, good morning, everyone and thank you for joining our call. I want to start out today by welcoming Pete Cholakis to our conference team. In his role as Investor Relations Head, Pete's ready to help answer your questions regarding Momentive. We're certainly pleased to have Pete in this role.

On the call this morning, I'll walk you through some of our major business highlights from the first quarter, comment on demand for our products and update you on raw material trends, pricing and our strategic initiatives. Then Steve Delarge, our CFO, will discuss our financial performance for the quarter, which will be followed by a Q&A session.

In the first quarter, we grew our sales in adjusted EBITDA in line with our previous forecast. These results were achieved in the face of challenging market conditions, especially in the U.S. automotive and housing markets and despite rapidly rising raw material and energy costs. The increases were driven primarily by a combination of better price, mix and productivity in the silicones business, offset by lower sales and earnings in our quartz business.

Our strategy of focusing on high margin, valued added products and continuing to shift our mix from core to specialty served us well in Q1. As we look forward and face a period of potentially uncertain markets and rising raw material costs, we are convinced that this strategy is the right path for Momentive.

Now, first, let me give you the highlights of our results. Our revenues and adjusted EBITDA for the first quarter ended March 30th, 2008 were \$656.6 million and \$105.9 million respectively, versus \$608.2 million and \$103.4 million for the first quarter 2007.

Overall, we grew revenues in silicones on a year-over-year basis by approximately 10.3% in the first quarter. About 5% of this gain was due to favorable foreign exchange rates. Other factors contributing to the increase were higher pricing, new product introductions, a shift in the volume mix to higher margin products and double digit revenue increases and fast growing economies such as Russia, Brazil, China and India. Our quartz revenue was down approximately 8.9% as we experienced continued weakness in the semiconductor sector.

We ended the first quarter with approximately \$257 million in cash on our balance sheet. As anticipated, operating working capital increased in the first quarter primarily as a result of our build up of inventory due to the planned maintenance shut down of our Waterford, New York facility in April, unfavorable foreign exchange rates and higher raw material costs. We continue to believe that we will achieve our target of \$75 million of operating working capital reductions in 2008.

Now, let me talk a little bit about what we're seeing in the marketplace. Despite challenging market conditions, especially in North America, customer demand in the global silicones markets remains strong. We continue to see growth around the world in

many of the sectors we serve. In Q1, we achieved revenue increases on a year-over-year basis in all regions except the U.S. and Canada.

Now, let me take you through some of our specific results by regions. In the Americas, during the first quarter of 2008, Momentive experienced double digit growth in Latin America across all segments. The personal care automotive, home care, construction and agricultural markets in Latin America were particularly healthy and have solid fundamentals for future growth.

In the U.S., silicon demand was down about 2% year-over-year with softness in segments supporting residential housing and automotive sectors. Recent pricing actions in the Americas to offset inflation in raw materials contributed to improved operating margins in the region.

In Europe, the Middle East, Africa and India, our revenues in the first quarter was driven by double digit growth in the emerging economies of Russia, Turkey, the Middle East and India where we saw strong performance across all sectors, especially in the construction, automotive and energy segments. In Western Europe, a highly competitive market negatively impacted our results.

In the Asia Pacific region, we continued to see robust growth driven by emerging nations, including China and the Southeast Asia countries. Our specialty product lines in those countries turned in strong double digit increases with domestic demand related to consumer electronics, personal care and infrastructure leading the way. Overall, product line margin growth in the entire region outpaced revenue growth, which reflects our efforts to increase our specialty products mix.

Our quartz business continued to experience significant year-over-year declines, primarily due to the cyclical downturn and demand for semi-conductor capital goods. It appears that this downturn will last somewhat longer than originally expected. We do not anticipate seeing improvement in this market before the fourth quarter of 2008.

Now, overall, our global strategy remains the same. We'll focus on driving growth through technological innovations, the introduction of more specialized products and expansion in the emerging markets of Asia, Eastern Europe, the Middle East and Latin America while streamlining our overall cost structure. We will also provide our customers with the core silicones that they have used for decades and continue to depend on for their applications.

Now, let me talk a little bit about raw material costs and pricing. We incurred significant increases in our raw material and energy costs on a year-over-year basis in the first quarter of 2008. We expect further raw material inflation in 2008 at a higher rate than we experienced in 2007. While we have been able to pass on some of this inflation with price increases that we instituted in January and April, we've not been able to recover 100% of these additional costs.

We continue to pursue a multi-pronged strategy to offset these costs, which include purchasing our key raw materials from new sources in low cost countries throughout the world and improving utilization and materials in our factors through continued use of lean and six sigma tools, as well as the implementation of new process technology improvements.

We also recently received some good news on the regulatory front. In late March, our Waterford, New York facility was approved by the U.S. Department of Commerce for subzone status under the Foreign Trade Zone Act, which will help us stay globally competitive by allowing us to export silicon products on a more economical basis. We expect to begin realizing benefits from our FTZ status late in the second quarter of this year.

As I mentioned in earlier conference calls, Momentive has a global business transformation process. Based on progress made to date, we now anticipate achieving approximately \$60 million in cost savings on a run rate basis through actions taken by the end of 2008. The cost savings from these initiatives include approximately \$32 million from indirect cost savings and transportation, outside services and other indirect expense items, \$20 million from our material efficiency programs and \$8 million from labor reductions by realigning our commercial organizations.

We expect approximately \$45 million of these cost savings to be captured in 2008. Our reported EBITDA for Q1, prior to adjustments, already includes \$5 million of the cost savings or \$20 million in cost savings on a run rate basis for the year.

Now, I'd like to turn it over to Steve Delarge and he'll take you through more of our specific results. Steve?

Steve Delarge: Thank you, Jon. I will begin by discussing some of the specifics regarding the results of the first quarter ended March 30th, 2008. Net sales in the fiscal three month period ended March 30, 2008 were \$656.6 million, compared to \$608.2 million for the same period in 2007, an increase of 8%. The increase was primarily due to increase in volume of 1%, an increase in selling prices, and foreign currency exchange rate fluctuations of 4.5%.

Cost of sales, excluding depreciation, in the fiscal three month period ended March 30, 2008 was \$433.1 million compared to \$492 -- \$409.2 million for the same period in 2007, an increase of 5.8%. The increase was primarily due to inflation on raw materials, energy and labor costs, offset by inventory fair value step up costs related to purchase accounting of \$23.4 million, recorded in 2007. In addition, cost of sales was impacted by the sales volume noted above and changes in foreign currency exchange rates.

Restructuring and other costs in the fiscal three month period ended March 30, 2008 were \$4.3 million, compared to \$5.6 million for the same period in 2007, a decrease of 23.2%. The decrease was primarily due to a decrease in consulting and other services, which have been provided as part of our transition to a stand alone company.

Gross profit in the fiscal three month period ended March 30, 2008 was \$223.5 million compared to \$199 million for the same period in 2007, an increase of 12.3%. The increase was primarily due to growth in net sales, partially offset by the increased cost of sales. Adjusted EBITDA, as defined in our indentures, was \$105.9 million for Q1 2008, compared to \$103.4 million for the same period in 2007, an increase of 2.4%.

As Jon mentioned, at the close of the first quarter, we had approximately \$257 million of cash on our balance sheet. We continue to make progress on our working capital initiatives and are on plan to meet our goal of \$75 million of operating working capital reductions in the year 2008.

Note, we define operating working capital as trade receivables plus inventories, less trade payables, excluding the effects of purchase accounting. In addition, the business remains well positioned to generate additional cash flow as we focus on implementing our strategies for sales growth, cost productivity and working capital management.

I'll now turn it back over to Jon.

Jonathan Rich: Well, thanks, Steve. Now, despite a challenging inflationary environment and softness in certain areas of the global economy, our team is executing on plan and overall, I would say that we are pleased with our progress made in Q1. As we look forward, we anticipate that the combination of raw material inflation and the volume softness in key domestic markets, as discussed earlier, will adversely affect our performance in the second quarter.

We will continue to work towards offsetting these trends with further cost initiatives and price increases where applicable. The entire management team is focused on creating innovative products and services and stepping up our sales mix to more specialized products while still proving our customers with the core product they -- with the core products they need.

We thank you for your continued interest in Momentive, and now, we're pleased to address any questions that you might have.

Question and Answer Session

Operator: (OPERATOR INSTRUCTIONS).

And the first question comes from the line of Bill Hoffman from UBS. You may proceed.

Bill Hoffman: Hi, good morning.

Jonathan Rich: Morning, Bill,

Steve Delarge: Morning, Bill.

Bill Hoffman: Jon, I wonder if you could just talk a little bit about -- more about the core versus specialty mix. I mean, to me it seems like one of the things we had talked about before was your strategy of continuing to push up even core volume as well the regains of the market share opportunities and maybe it's because of the North American markets are soft, but I guess we would like to see whether there's further upside potential on top line here.

Jonathan Rich: Yes, again, Steve, you might comment specifically on the top line and volume, and then I'll address the mix issue.

Steve Delarge: Yes, Bill, year-over-year in the silicones business, our specialty sales increased approximately two points. So, the mix improved by two points in the shift towards specialty.

Jonathan Rich: Bill, I think in the first quarter, we were pleased with the top line growth that we got, primarily driven by price and mix. I think we are seeing the effects on volume, especially in certain parts of the market in the Americas and we'd like to see that more robust, but I think we're seeing the same effects that many others are.

Bill Hoffman: I guess the other question then is why, in this kind of environment where we see a lot of competitive products having a lot more pricing power, why you don't think you guys have been building the same kind of pricing power in the markets?

Jonathan Rich: I think with regards to price, we went out and increased prices on certain products effective January first and then again on April 15th. And while the price increases only offset a portion of the costs in Q1, overall I think we're being as aggressive as we can in the marketplace and there is a natural lag between the rate at which the inflation hit us and the rate at which we're seeing price increases pas through. But overall, I'd say we're pleased with the progress that we're making there.

Bill Hoffman: Can you help quantify the April increase?

Jonathan Rich: Again, it depended on products and I would say it was in a range and I can't -- somewhere between 5% and 15%. But it was dependent on specific products.

Steve Delarge: Products and region.

Jonathan Rich: And regions. So, the general increases were between 5% and 15%.

Bill Hoffman: Okay. And then, finally, just the [course] business, we knew we were going to hit a downturn, do you think you're kind of at a bottoming level here at this point, or do you see further softness [breaking it] down.

Jonathan Rich: Yes -- yes, that's a -- the quartz business serves two segments for us, the biggest piece by far is the semiconductor capital goods and the smaller piece is the

lighting business. The semiconductor capital goods piece is -- has been very cyclical and is in a cyclical trough. We had expected that that trough would turn up in the third quarter, we're seeing that delay out probably one or two quarters, but we're still anticipating a recovery, kind of in the late fourth quarter period of this year.

Bill Hoffman: Okay. Thank you.

Jonathan Rich: So, it's probably one or two quarters later than we thought.

Operator: And your next question comes from the line of [Sergie Vasmitzel] from Lehman Brothers. You may proceed. Mr. Vasmitzel? Your line is open and if you will remove the mute button to ask your question, please.

In the case that we're not able to hear him, we're going to go to the next question. And the next question comes from the line of David Troyer from Credit Suisse. You may proceed.

David Troyer: Good morning.

Jonathan Rich: Good morning, David.

David Troyer: Another question on the price initiatives, is it -- is it that the initiatives that you asked for were sufficient to recover higher raw material costs at the time, but material costs rose more rapidly, resulting in a shortfall or was there -- was there just push back so that full implementation was not achieved?

Jonathan Rich: I think the biggest issue is timing, David. Again, we went out with -- we started to experience inflation, significant inflation, especially in the fourth quarter last year and moving in to the first quarter this year. We think we've moved aggressively with increases on January 1st and again in mid-April. I think the lag, especially as the increases flow through our inventory and so forth. I think the lag is the main short-term issue, but I would say overall that we're pleased with our ability to have customers recognize the value of our products in the marketplace. So, I think it's primarily timing.

David Troyer: Okay. Also on quartz, now that you -- that you realize that it is going to be a little more prolonged, is there any way to kind of hunker down and maybe adjust the cost structure on the short-term or the interim term to create the kind of trough profitability until the recovery begins?

Jonathan Rich: Yes, our quartz business has and continues to be very aggressive in terms of trying to take out costs as rapidly as they can, especially variable costs. But as you know, we're a manufacturing company and have fixed costs leverage. So, I think they are and continue to take very aggressive steps, we've down sized workforces in our manufacturing operations as is our typical response to these kind of cyclical downturns and we will continue to be very aggressive. But, I think again, we will get some negative impact in that business until we see demand come back through the cycle.

David Troyer: Okay, and actually, I forgot to ask one back on initiatives, on prices, are there any additional initiatives on those -- specific on the table right now, beyond April 15th?

Jonathan Rich: Well, we continue to always try to be as aggressive as we can to capture the maximum value that we think our products deserve in the marketplace and we will continue to do that throughout the remainder of the year. I'm not going to comment on any specific plans at the moment.

David Troyer: Okay. The -- you've always dealt with volatile raw material costs and competitiveness and changes in demand, but this step up in raw material costs on a percentage basis here is probably greater than you've ever seen and the first quarter was somewhat successful, or was successful. I'm just wondering if you have seen any kind of shift in kind of the way the game is played here, beginning January 1. I mean, are you or maybe some of our competitors adopting practices, sales practices beyond your raising prices that you've never dealt with before?

Jonathan Rich: Again, let me make a couple comments on that, being old enough myself to remember the '70s, I would say that while this is certainly the kind of hyperinflation that we don't like, I wouldn't say that it's completely unprecedented and having been around back in that timeframe, when energy costs go up dramatically, as they did in the '70s and as they are doing now, silicon metal prices have spiked up rapidly. So, while I would say that the current situation is unusual, I would not describe it as unprecedented.

Silicon metal, which is our key raw material is very energy intensive and as energy costs go up, our suppliers have their costs going up. I think our response to that has been the effective responses that we should take, which are trying to capture the value of our products in the marketplace, being very aggressive on cost and perhaps, most importantly, sticking to our main overall strategy, which is continuing to leverage technological innovation by shifting our mix to higher value added product.

I think that strategy will serve us well in the current environment and in future environments, but I don't think that we're experiencing any kind of economic transformation that is unprecedented. So, I think our steps are the right steps to take.

David Troyer: Last question, would you care to further define adversely impact our performance in the second quarter?

Jonathan Rich: Well, I think since the quarter is only five or six weeks in here, we're clearly taking aggressive steps. Again, I think the primary issue is just the timing issue as we look at the rate of which we're experiencing raw materials and the timing through which we're passing that through or mixing up. So, don't have anything other than that to comment about it.

David Troyer: So, we couldn't interpret this as to say you -- you expect necessarily this second quarter of '08 to be below the second quarter of '07?

Jonathan Rich: I'm not going to -- you can draw your own conclusions on that.

David Troyer: Okay. I'll try. Thank you.

Operator: And the next question comes from the line of Tarek Hamid from JP Morgan. You may proceed.

Tarek Hamid: Good morning.

Jonathan Rich: Yes, good morning.

Tarek Hamid: In the past, you'd spoken to a goal of being able to fully offset cost inflation in 2008 between pricing and cost increases. I guess now that we're sort of sitting here in May, crude is at \$124 a barrel, how do you feel about that goal now? Both for 2Q and as well as just for the rest of this year?

Jonathan Rich: Well, I will start out by saying that my ability to forecast where oil prices were no better than flipping a coin. So, I have no further insight into where future oil prices or energy prices will go than anybody else.

I will say that I think we -- I think the first half of the year, we're experiencing this perhaps expected lag between our ability to recover raw material increases and pass those through. Again, I do believe that the rate of those increases in raws will tend, by natural reasons, to slow in the back half of the year simply because raw material prices started to rise rapidly in the back half of '07.

So, I think we will begin to see ourselves with the ability to narrow that gap or -- and hopefully close it all the way up in the back half of the year. So, I anticipate at least that problem to be more challenging in the first half than the second half. Qualifying that by saying, there's always the potential for unanticipated further increases in raw materials that may change our view on that down the road.

Tarek Hamid: Sure. Do recent results sort of change the way you're thinking about the right level of cash to keep in the business, and otherwise, post this next interest payment, how do you feel about the current cash balance?

Jonathan Rich: We're -- our -- I think our decision to retain the cash is more a function of what we see externally than internally. We can see, obviously, and you guys are very familiar with the situation in the credit markets.

So, what we want to do is we want to maintain the utmost in flexibility. So, we've made the decision to retain our cash based on the credit markets more and provide that

necessary -- that necessary buffer that we need. So, like I said, it's more external than internally, in terms of the consideration.

Tarek Hamid: Okay, and then, finally, for me, given sort of -- I mean, you see two and a - - 2.5% roughly pricing in the first quarter, given sort of your next large price increase, understanding there's a huge amount of SKUs involved, how would you gauge customer push back, feedback, et cetera?

Jonathan Rich: Well, again, I think -- I think you're right with the large number of -- first of all, the large number of customers that we have and the large number of SKUs that we have, we have to kind of look at that in the aggregate.

Overall, I think customers still appreciate the value of the products that we deliver to them and that it adds to their businesses. I think they understand the inflationary environment that we're in, nobody likes to -- no customer likes to get price increases at the same time -- including us by the way, with our suppliers. But at the same time, I think I'm pleased with our ability to achieve our objectives so far with regards to what we're trying to do to capture more value for our products.

Tarek Hamid: Okay, and then, actually one last question, anything you can give us to help us think about what the potential impact of having Waterford subzoned would be? In terms of sales or overall capacity?

Jonathan Rich: Yes, again, I think certainly we think the -- we think the approval of the Waterford facility as a subzone under the FTZ will certainly help us be more competitive. With the FTZ, status we'll have the ability to import raw materials tariff free, including up to 10,000 metric tons of silicon metal that we can bring in on a duty free basis for re-export. We can use up to that volume this year. We expect to begin doing that here in the second quarter. And so, we'll try to be as aggressive as we can to maximize -- maximize the ability to leverage the FTZ status that's been granted to us. So, that should give you a sense of some size of the magnitude of it.

Tarek Hamid: Great. Thank you, very much.

Operator: And the next question comes from the line of Roger Spitz from Merrill Lynch. You may proceed.

Roger Spitz: Thank you and good morning.

Jonathan Rich: Morning.

Steve Delarge: Morning, Roger.

Roger Spitz: Do you find it easier or harder to pass through higher raw material costs in your relatively more commoditized silicon products or your more specialty silicon products?

Jonathan Rich: Again, I think the way I would answer that is so far, we have been pleased that the marketplace has recognized the value of our products, both core products and specialty products and so, I would say that we've been pleased across the board.

Roger Spitz: Okay, meaning no differentiators in pushing prices through?

Jonathan Rich: Again, there's thousands of SKUs and products, so you have to look at it in its aggregate. But overall, I would say we're pleased in both areas.

Roger Spitz: You have \$215 million of cash at your non-guarantor subsidiaries, are there any issues standing in the way of having the guarantors accessing that cash or any material cost or others repatriating that cash to the U.S.?

Jonathan Rich: No, Roger, the structure was set up such that through a number of instruments, we have the ability to move that cash back into the U.S. and make that cash available. So, there's no issues.

Roger Spitz: Excellent. Your foreign exchange hedging gains and losses have been having a material impact on your financial performance, which is certainly understandable during the period of volatile [four ex] rates. Can you provide us with the strategy behind your four ex hedging strategy? Is it that you have certain fixed costs in to nominate in foreign currencies and you're simply trying to hedge those costs in U.S. dollar terms or is there something else going on?

Jonathan Rich: No, the major instrument that we have in place is a set of hedging contracts that allow us to repatriate euros and those were entered into a while ago when the euro situation was dramatically different from what it is now. So, as a result, when we do repatriate the euros, basically to service the debt, due to the strength of the euro currently, there are significant effects losses that we take and that's kind of the only element, the major element that we have in place.

Roger Spitz: Okay. So its not -- it's not to hedge your foreign denominated fixed cost structure?

Jonathan Rich: No, it's not.

Roger Spitz: It's more to repatriation.

Jonathan Rich: Yes, yes.

Steve Delarge: And in terms of our overseas cost structure, we're pretty well balanced, self hedged with assets and demand being about the same size in all regions. We're pretty closely in balance.

Roger Spitz: Okay, thanks for giving me a better understanding of that. And lastly, on the Chinese silicon metal, I don't know if you have any thoughts on either the Chinese government clamp down on certain heavy industries, don't know if that includes silicon metal. During the summer Olympics on silicon metal availability and it probably is too early to tell, but I understand a number of dams in Europe may have been washed away in the current unfortunate earthquake. Do you have any sense of how this may impact Chinese silicon metal pricing or availability?

Jonathan Rich: Again, I don't -- with regards to the Olympics, I don't think that's a significant factor in terms of running the business. With regards to the unfortunate situation with the earthquake in China, we are trying to assess that ourselves as we speak with the situation being so recent and I think at this point speculating on what the impact of what that would be probably isn't prudent.

But I would say, overall, we have seen the costs of Chinese silicon and silicon in Asia in general go up. I think that's more driven by supply/demand factors than it is local events. But certainly, the price of Asian silicon has risen significantly here in the last couple of quarters. I think it's probably just normal business factors more than external factors.

Roger Spitz: Well, thank you very much, gentlemen.

Jonathan Rich: Thank you.

Operator: And the next question comes from the line of [Bill Hand] from Banc of America Securities. You may proceed.

Bill Hand: Hi, guys. I just want to make sure that I'm clear about the demand softness you were mentioning that you were seeing here in the States. You're referring to continued weakness in U.S. auto and construction markets, right? Not fine deterioration in other domestic markets?

Jonathan Rich: That's correct. Again, we have seen softening in the -- in the kind of residential construction market and in the sectors that we serve tier two and three suppliers to automotive. Other parts of our business that serve more consumer product goods and so forth continued to be strong and kind of typical demands and we're pleased by that.

Bill Hand: Okay. And regarding your price increases on silicones, did your price increases take effect gradually over the course of the first quarter, in other words, were you at higher average selling prices in March than in January? And should we expect that trend to repeat itself with the April price increase?

Jonathan Rich:: Yes.

Bill Hand: Okay. That's easy.

Jonathan Rich: Yes.

Bill Hand: I realize Momentive was a very different business back in the '70s than it is right now, but you mentioned it so I'm going to ask about it. What did you see happen to EBITDA back when you saw a similar raw material inflation back in the '70s?

Jonathan Rich: Again, I think I've spoke publicly about it before, that this is a terrific industry which by and large does very well because of its diversity of products and so forth in economic downturns. I don't have the specific data in front of me for those years. But I think we did see some marginal drop in sales during those downturns.

I will also say that as we looked at the data, there were dramatic spikes up in raw material costs and at some point in time, equally rapid drops. So commodity prices, again, people who have the ability to forecast those are smarter than me.

Bill Hand: All right. Fair -- I took a shot there. and then, let me just ask, according to some consultants methanol prices have been on the decline since about January of this year, I don't know if you've seen the same thing, but has Momentive seen any benefit from that in the first or second quarter?

Jonathan Rich: Yes, we've -- again, we've had some marginal favorability on methanol as prices of methanol have dropped in the first quarter and again, like silicon metal and oil prices and others, methanol prices tend to be fairly volatile. But the short answer to your question is yes, we saw some slight favorability to that in the first quarter.

Bill Hand: Okay. And just one last thing, any weakness in demand or softening of demand outside of the U.S. so far? In a way, particularly, I'm really asking about Western Europe, since you already addressed the emerging markets.

Jonathan Rich: Our demand in Europe and Asia and Latin America and others continues to be strong.

Bill Hand: Sounds good. Thank you.

Operator: And the next question comes from the line of Melinda Newman from First Advisory Group. You may proceed.

Melinda Newman: Good morning.

Jonathan Rich: Good morning.

Melinda Newman: I wanted to go back over, given that the outlook is a little opaque, when your silicon contracts at. My understanding was that for -- basically for North America and Europe, you get a price for the year and you've already gone through that and that was effective first quarter and that Asia you're more exposed to the stock market.

Jonathan Rich: Yes, I mean let me, again, as I've discussed in the past, we buy silicon metal in the Americas and in Europe primarily on one-year contracts. These contracts are primarily already in place. And in Asia, we buy at the current market price, kind of consistent with our volumes.

I think in the Americas as we have -- as we look forward and utilize the FTZ and as we discussed last time, the creation of some new ship or exemptions from the duties, we will have some exposure, although small to Asian silicon in the Americas and in the European region, where we buy -- where we export volumes out of Europe, there is a duty drawback if we buy Asian silicon in Europe, but generally those are relatively small.

Melinda Newman: Right. And given the differential in pricing, I mean, that should be beneficial to the company. What I'm trying to ascertain is just we understand the volume environment and competitive pressure, but I think you've given us color -- pretty good color on what kind of price increases you were trying to get through. We can all surmise from the numbers what we think you got through in the first quarter. It doesn't sound like you've given anything back and in two thirds of the markets you're operating in for silicones, your silicon metal price is set and methanol has gone down.

Jonathan Rich: Yes.

Melinda Newman: So, I'm just -- what I'm trying to do is back into how seriously to take the adverse -- the comments about adversity in second quarter '08.

Jonathan Rich: I think I already commented earlier today that I think we -- there's a lag as this price increase --

Melinda Newman: Sure.

Jonathan Rich: -- and mix effects take in and with the assumption that the rate of increase of raw materials may slow some in the second half of the year.

Melinda Newman: Right. But what I --

Jonathan Rich: Internal factors notwithstanding. We anticipate the back half of the year to be better, I think, than the first half.

Melinda Newman: Okay. I appreciate that. That's helpful. I guess I just want to confirm that there's been no change to the method in which your silicon metal is -- in your price set or anything like that.

Jonathan Rich: No, no fundamental change.

Melinda Newman: All right. I really appreciate it. Thank you.

Operator: And the next question comes from the line of [Alexi Olinot] from West Mellon Asset Management. You may proceed.

Alexi Olinot: Hi, good -- good morning. It was almost Alexi Olinot from West Mellon Asset Management.

Jonathan Rich: Morning, Alexi.

Alexi Olinot: Good morning. I have two questions, first regarding your financial policy, after Q4, you gave guidance for Q1 in terms of sales EBITDA and net debt range. You didn't do that for Q2. Can you give us an explanation for that?

And my second question relates to your net debt. If we look at your cash flow statement, you have cash flow from operation -- from operating activities is similar to the cash flow from investing activities and despite that, your net debt is up around \$130 million and I wanted to have an explanation for that.

Jonathan Rich: Yes, let me comment on your first questions and then I'll have Steve Delarge comment on the second part of your question. As a general rule, we don't provide earnings guidance. Our last earnings call for the fiscal year ended 2007 occurred after the end of Q1. So, we thought that it was appropriate to make a statement about our Q1 results since Q1 at that time was already complete and we had a clear view of it. Since the second quarter has not yet closed, we don't think it's appropriate at this point to provide a specific forecast.

Alexi Olinot: You are -- so I understand that you saying -- challenging outlook, I don't know the one you use, is due to the lag between price increase and (inaudible) price increase.

Jonathan Rich: Yes, I think, my comment was that we anticipate the combination of raw material inflation and volume softness in key domestic markets to adversely affect our performance. you can draw your own conclusions after that, I think. The rest of it was your statement, not mine.

Alexi Olinot: Okay --

Steve Delarge: And then, Alex, I think on the cash flow statements your questions, if you look at the prior period April ended April 1st, 2007, you can see that we are operating -- our cash from operating activities was \$81 million and the investing activities was \$30 million. The \$81 million, if you look down the page, you can see the most substantial drivers were basically reductions in working capital.

When you look at the period ended March 30th, 2008, your point is correct that cash from operating activities is very close to or equal to cash used in investing activities and the differential again, is the changes in working capital.

As Jon mentioned, in the first quarter as a result of the Waterford shut -- planned shut -- planned maintenance shut down, we needed to increase inventories to take us through that shut down, so we did increase inventories in the first quarter of this year to accommodate that plan versus last year where we reduced our inventories.

And lastly, on the change in the net debt. I'll give you a comparison, I have here a comparison between the fourth quarter as we look at net debt to the first quarter. Fourth quarter of '07 to the first quarter of '08.

Two drivers for that change in net debt increasing, the biggest one is the euro, the euro going from in the fourth quarter of 145 to about 156 at the end of the first quarter. That was almost \$70 million of appreciation of that debt. And secondly, we did take some additional borrowings of around \$20 million to finance the construction of our facility in Nantung, China. So those are the two biggest drivers in the change of the net debt.

Alexi Olinot: That -- if you have found new borrowings, it does not change your net debt because you have on reserves more cash.

Steve Delarge:: Well, the cash was paid out to finance the construction.

Alexi Olinot: Because the -- but it is normally the investment you have done for that, is a new CapEx or purchase of intangible assets.

Steve Delarge: Yes, that's true. That's true.

Alexi Olinot: So, in the \$130 million of increase of net debt, you have \$70 million for depreciation of dollar against euro and the \$60 other million? Is there --

Steve Delarge: The \$130 million? You're comparing what two periods again?

Alexi Olinot: I compare Q4 against Q1. You are the 2847, end of 2007 and now you have 2974, which is around \$130 million more.

Steve Delarge: Yes, we'll have to -- I don't see those numbers, but I can -- we can take a follow-up item and get back to you. The other thing I -- obviously you know is the appreciation of the seller note, you should be able to see that, but -- and that's \$12 million offset by a slight change in the cash balance.

Alexi Olinot: So if you have, you can follow up with that would be nice.

Steve Delarge: Yes, I can follow up with that one.

Alexi Olinot: Okay, super. Thank you very much.

Operator: And the next question comes from the line of [Bradley Commat] from AIG. You may proceed.

Bradley Commat: Hi, a couple of questions. One, if you could provide any estimate for CapEx and cash taxes for 2008 please.

Jonathan Rich: Yes, I think the CapEx number will continue to report on is approximately \$150 million.

Bradley Commat: One-five-zero?

Jonathan Rich: One-five-zero.

Bradley Commat: Okay.

Jonathan Rich: And the cash taxes we would expect to be between \$25 million to \$30 million.

Bradley Commat: \$25 million to \$30 million. Okay. And then, the -- the other expense net line in your Q1, the \$13.6 million, can you give any sort of break down on that and it appears that you're not added all of that back in calculating your adjusted EBITDA, I'm just trying to figure out what was in there that was added back and what wasn't.

Jonathan Rich: Yes, the \$13 million -- the \$13 million was the unrealized effects related to those European hedge contracts that we have related to our debt that I spoke about early.

Bradley Commat: And is that -- so all of it's unrealized effects?

Jonathan Rich: For the first quarter, yes -- for the first quarter of '08 the answer is yes.

Bradley Commat: Okay, and --

Steve Delarge: Now, some of that -- and it's not fully added back in the adjusted EBITDA table because there is also some -- the way the debt is transacted, the way the debt is maintained on the balance sheet, some of the debt actually gave us favorability. Which -- and that favorability would appear in SG&A. So, the two kind of offset, but when you look at footnote F of the adjusted EBITDA table, the bulk of that is the unrealized effects on the debt.

Bradley Commat: Okay. And what -- what was the favorability in SG&A, I'm not clear on that?

Steve Delarge: The way the debt is revalued.

Bradley Commat: Okay.

Steve Delarge: If there is any favorability on the revaluation of the debt, it would appear in SG&A and it wouldn't appear on any other income expense line.

Bradley Commat: Okay. And -- I guess another stab at -- at Q2, isn't -- is Q2 your seasonable -- seasonally best quarter that accurate?

Jonathan Rich: We have some very marginal seasonality to the business with Q2 and Q4, typically being stronger than Q1 and Q3, but it's not a huge -- not a huge seasonality. And most of that seasonality traditionally was in the -- in the home construction market. And that, as you know, is kind of flat for us right now.

Bradley Commat: Okay. So Q2 versus Q1, there should not be much seasonal difference.

Steve Delarge: Typically, a marginal improvement in Q2 as people do home repairs and as the construction season picks up, typically --

Jonathan Rich: Consumer products.

Steve Delarge: Consumer products and so forth. Typically, Q2 is stronger than Q1, but it's not a dramatic seasonality.

Bradley Commat: Okay. And any sort of estimate as to the magnitude of cost inflations sequentially from Q1 to Q2?

Jonathan Rich: Q1 to Q2? I --

Bradley Commat: Yes, just sort of the -- trying to get sequentials -- sequentially, what kind of headwinds you're facing.

Jonathan Rich: Yes, I think you could assume that -- the only increases we would see traditionally would -- or the only increases we would see would be an increase in the Chinese silicon metal prices. But to someone's earlier question or earlier point, that should be offset by the methanol price reductions.

Steve Delarge: Yes, I think similar is -- Q1 to Q2 should be fairly similar.

Bradley Commat: Okay, great. Thanks, guys.

Operator: And the next question comes from the line of [Marianna Cushmere] from Nomora Asset Management. You may proceed.

Marianna Cushmere: Hi. I was wondering, are there any seasonal patterns in working capital, how it's [spelled], meaning if there are some construction-related segments of your business, perhaps you had to build more working capital in first quarter because, I actually was looking for more cash flow generated from working capital. So, may you can explain what happened.

Jonathan Rich: Yes, what happened in the first quarter, like we mentioned, was the -- we had a planned maintenance outage in our Waterford New York facility. So as a result, and that outage was in April. As a result, at the end of the first quarter we had to build inventory to cover us for that planned outage. So, I think that would be the major impact on the -- on the inventory balance in the first quarter.

In terms of seasonality going into the second quarter, we'll have slightly higher receivables on these slightly higher sales. But we'll also be able to burn off that inventory that we built for the maintenance period. So --

Steve Delarge: We have a -- we have a stated goal of achieving the \$75 million reduction in working capital for the year and we thin we're on plan as planned to achieve that goal.

Marianna Cushmere: Okay. Thank you.

Operator: And the next question comes from the line of Michael Ainge from TIAA Cref, you may proceed.

Michael Ainge: My questions have actually already been answered, thank you.

Jonathan Rich: Michael, we're having a hard time hearing you.

Operator: He inform us that his question has already been answered. And the next question comes from the line of Amy Levine from Shenkman Capital. You may proceed.

Amy Levine: Yes, hi. I'm just -- sorry, but I'm still a little confused about your outlook because it is so opaque, but it seems like your margins did compress year-over-year in the first quarter, and based on everything you've said, it sounds like that gap should actually narrow, not widen in the second quarter. Is that fair?

Jonathan Rich: Actually, I don't know if I can make a specific comment on that. I think, we anticipate -- the main problem is the lag. Right? So pricing -- raw material increases are hitting us, we're passing those through as aggressively as we can, we anticipate that will start to catch up more in the back half of the year and we'll kind of hit, I think, a challenge in Q2 as we've stated.

Amy Levine: It doesn't sound like it's going to be more challenging than you had the lag in the first quarter. Yes? No?

Jonathan Rich: I don't -- I don't know, Steve, you got a comment on that? I don't know if it will be more challenging than we -- I don't have the number right in front of me. I don't know if I could say that it would be more challenging than the first quarter.

Steve Delarge: I think one of the things that we -- and we talked about this on the first quarter call was we talked about the silicon metal prices and the fact that in the first

quarter, we do get some favorability on silicon metal as we continue to buy off the prior year contracts. Okay? And that is we get kind of a rollover effect.

So, we would say that our raw material cost increase in the first quarter will probably be slightly less -- were slightly less than the second quarter, because in the second quarter we'll be buying totally off '08 contracts and we'll be buying at [Chinese] -- China metal at higher prices. So, that's one element that's going to impact our material costs.

Amy Levine: Okay.

Steve Delarge: Now, to the extent methanol can offset that? That would be advantageous for us.

Amy Levine: Okay, that's helpful. And then, just thinking about the demand side, you did have volume increases globally in the first quarter. It also sounds like you're not seeing further -- the demand situation in North America continues to be weak and the housing and auto sectors, but it sounds like you could still have sort of a similar 1% year-over-year increase in the second quarter as well, because it's not getting any worse.

Jonathan Rich: Again, I think outside of the U.S. region, we're still seeing good demand for all of our products and I wouldn't argue with your statement. I think one thing about Q2 to remember too, is that I think the quartz business will continue to face challenges in Q2 and we talked a lot about the silicones business. But I think the quartz business won't begin to see recoveries until Q4 and I do think the quartz business will contribute to the challenges that we have in Q2. We've talked a lot more about silicones and quartz.

Amy Levine: Okay. That's helpful. Thank you.

Operator: And the next question comes from the line of Ricardo Cardona from Fortis Investments. You may proceed.

Ricardo Cardona: Hello, good morning.

Jonathan Rich: Good morning.

Ricardo Cardona: I have two questions. One related to your housing exposure internationally. We have a pretty good idea on what is your housing exposure in the U.S. Could you comment, what is this exposure outside the U.S. and the second one is, the \$20 million borrowing on the non-term facility, is that -- did that come out of the revolver? And what is your balance on the term loan?

Jonathan Rich: Yes, let me take the first question, then I'll have Steve answer the second question. With regards to the construction industry, outside of the negative impacts that we've seen in the U.S. consumer market, the rest of the business around the world continues to be good. So, whether it's commercial construction or residential outside of

the U.S. region, we continue to see that business performing well. So, it's primarily a U.S. and perhaps Canada-related phenomena at the moment.

Ricardo Cardona: But my question is in the vendor housing market in Europe for example slows down, what would be the impact on your business, like what is your exposure to construction market in Europe, for example.

Jonathan Rich: Again, it's on a proportional basis lower than what we have in the U.S.

Ricardo Cardona: Okay.

Jonathan Rich: But even then, you have to keep in mind that our exposure to the residential construction business, even in the U.S. as a proportion of our Americas' business is not -- not a huge number in terms of the diversity of our product line.

Ricardo Cardona: Okay. Thank you.

Steve Delarge: In terms -- in terms of your second question. The term loan balance is [11/22 million, 11/22 million].

Ricardo Cardona: Okay.

Steve Delarge: And in the first quarter, our borrowing for Nantung were \$20 million.

Ricardo Cardona: Was that funded out of the revolver?

Steve Delarge: No, it was funded out of a project financing --

Ricardo Cardona: Okay.

Steve Delarge: -- arrangement.

Ricardo Cardona: So, your revolver isn't [run] right now?

Steve Delarge: Yes, the revolver is undrawn.

Ricardo Cardona: Okay. Thank you.

Operator: And your next question comes from the line of [Adrel Asque] from [Harvard] Investments. You may proceed.

Adrel Asque: Yes, when you talk about the recovery in quartz in the fourth quarter, I mean what assumptions are you making in that analysis, what do you see out there to drive that?

Jonathan Rich: Well, again, I think the -- we look at the cycle fairly carefully for semiconductor capital goods. There was an announced delay in certain capital, large capital projects in the Asia region, but we anticipate those projects to still go ahead. We think they're going to be delayed a couple of quarters. Of course, that's the major part of the business, so we track that down to the capital project announcements and we know that fairly well.

I think the other thing is the lighting business has been somewhat softer in the first quarter than before. Although not dramatic and we expect that that will also continue to pick up here towards the end of the year.

Adrel Asque: Okay. And then another question, it relates to the tariff on silicon metals that you guys are -- that's coming out, how big is that a tariff on a percentage basis?

Jonathan Rich: Well, there's two different kinds. In the U.S. there's an anti-dumping duty, which is I believe is 136% -- 139%. It's a penalty duty, so there's no drawback on that. In Asia, there's a 50% duty on Asian -- in Europe there's -- in Europe -- let me qualify that, in Europe there's a 50% duty -- 57% to be exact -- 57% duty in Europe, but there is a drawback on that for exported goods out of the Europe region. So, that's the two duty situation.

Adrel Asque: Okay. Thank you.

Operator: And at this time, we don't have any further questions. I will pass the call over to Mr. Jon Rich for closing remarks.

Jonathan Rich: Well, again, we want to thank everybody for your continued interest in Momentive and participating on our call today and we look forward to speaking with all of you again with the second quarter conference call. Thanks, everybody.

Operator: Thank you ladies and gentlemen, this concludes the presentation for today. You may now disconnect.