

WACKER Chemie AG
Conference Call
on the First Quarter 2007

May 08, 2007

Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Ladies and Gentlemen, welcome to the first quarter 2007 conference call on WACKER Chemie AG. My name is Joerg Hoffmann, Head of Investor Relations. It's a pleasure to have with me today on the call Dr Peter Wacker, our CEO and Dr Joachim Rauhut, our CFO.

As a reminder, let me state that during this call we may make forward-looking statements based on current assumptions and estimates of WACKER's Executive Board. Although we assume that the expectations in these forward looking statements are realistic, we cannot guarantee that they will prove to be correct.

These assumptions may harbor risks and uncertainties that could cause actual results to differ considerably from the forward-looking statements. WACKER may not update those risk factors or the forward-looking statements made during this call, nor does it assume any obligation to do so.

We have published today our quarterly report, a press release, an Excel file detailing our quarterly data and a short presentation on Q1 to accompany this call on our website WWW.WACKER.COM under Investor Relations.

With this let me hand the call over to Dr Wacker.

Dr Wacker:

Thank you, Joerg, and thank you all for joining us on this call.

Let me start with an overview of our strong first quarter and some observations on selected drivers for growth. Joachim will then give some more detail on the numbers and I'll wrap up with a summary of our outlook.

I am happy to report that we had a very successful first quarter.

- Strong Sales rising 18% over Q1 2006 to 944 million euros
- EBITDA increasing two and a half times as fast at 45% to 266 million euros.
- EBIT margin closing in on the 20% mark and our net income 73% higher than last year.
- Earnings per share growing by 54% to 2.3 euros per share.
- Net debt declining by more than 50% during the three months.

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This is clearly a very strong start supported by strong demand in Polysilicon, 300mm growth and stable pricing in Siltronic and a mild winter boosting sales of construction chemicals.

Since we last spoke, the Photon Solar conference was held in Munich, and I think it's worth commenting on some of the issues that were discussed there. Our view that polysilicon will be very tight until 2010 was confirmed. However, despite a flurry of forecasts, the visibility into the poly world after 2010 is not clear. At this point, we expect poly capacity from new entrants to hit the market somewhat later than some analysts expect. On the other hand, we are also seeing major existing suppliers accelerating their expansion plans. At the same time, the demand situation after 2010 is difficult to read because of an overhang of installed module capacity currently seeking more supplies that could swing a balancing poly market back into tightness.

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I would also like to remind you that the ultimate driver for success in solar will be the cost competitiveness of photovoltaic systems compared to other sources of electricity. In addition, quality is becoming more and more important in solar, as the efficiency and projected lifetime of cells are important factors in the economic feasibility of solar installations.

Whatever the scenario after 2010 will be, WACKER has increased its contracted poly sales, including supplies to Siltronic, to over 80% of capacity through 2015.

Proof of a continued tightness in the market is to us the fact that we continue to see strong demand for polysilicon from semi and solar customers, asking for long term contracts with attractive pricing and offering substantial prepayments.

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High quality, leading cost positions and speed of capacity delivery are decisive success factors in competing in the poly market long-term. We feel that we are solid cost leaders in polysilicon. When comparing cost positions it is important to look at the entire process, from gas generation to deposition. Especially with regards to the crucial factor of energy consumption for the whole production process we at WACKER feel most comfortable comparing ourselves against any competitor's technology.

Siltronic reported a strong EBITDA margin of 35 percent this past quarter. I know that some observers are concerned about the volatility in the wafer business, but a number of factors have in fact made this a much more stable business with more consistent growth rates, even in a very dynamic environment.

For one, the market for wafers has seen relatively stable growth rates in silicon area. Silicon area has increased over the last three years with an average annual growth rate of 16 per cent.

Now looking at the supply side, we see that, the number of competitors has consolidated significantly. Only a handful of players can provide 300mm technology.

This consolidation has had a beneficial effect on supply stability. Also, increased awareness of the importance of inventory control across the industry may be helping to reduce price swings.

From a demand perspective, the share of wafer demand dependent on the PC has come down significantly. Today demand is much more diversified than at the beginning of this decade. Next, even though the share of 300mm is growing rapidly, 200mm demand has stabilized as smaller volume production for some shorter life cycle applications is economically more feasible on this diameter than on 300mm.

And finally, people tend to underestimate the dampening effect of solar silicon demand on semi wafer pricing. With growth rates far ahead of semi, silicon suppliers have a choice of where to direct their material; this option was not as significant five years ago.

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In summary, we will still have differing growth rates quarter over quarter, but we don't expect deep demand drops year over year, like the industry saw in the past.

With our strong link into the production of polysilicon, we have a firm commitment to the semi wafer market. Within WACKER our Siltronic business is a dedicated semi wafer company, whereas our Polysilicon business is serving both the solar and the semi industries.

But there is much more to WACKER than Poly and wafers. Our Polymers business is a good example of substantial growth where we leverage knowledge of our markets, chemical and process know-how to better serve our customers globally. The Polymers business is well placed to respond to mega trends such as energy saving via building insulation or water conservation by helping to reduce water loss in water delivery systems.

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This is a WACKER business where productivity improvements drive performance substantially. For example, Polymers was able to expand its available dispersible powder capacity last year substantially via debottlenecking up to 170 kt.

The dispersible powders or construction business has seen growth rates of around 13 per cent annually over the last couple of decades and should continue to grow fast. Leading know-how and a unique skill set about process development coupled with our in-house engineering capabilities help WACKER maintain a solid lead over our competitors.

WACKER is internationalizing rapidly. Our sales outside of Germany have grown at a rate of 18 percent per year since 2004, and today we are selling more in Asia than in Europe excluding Germany. Given our investments in the region, you should expect WACKER to become more of an Asian company quarter by quarter. Supporting this development is our strong technological base.

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In dispersible powders, we have opened three new tech centers in Asia in the past 12 months. These help us develop new dispersible powder markets and create substantial growth opportunities for WACKER.

At the same time we are establishing bridgeheads with silicones in a JV with Dow Corning. With this we have access to a key intermediate at low cost, enabling us to participate in the strong growth of the Chinese silicones market. In addition, Siltronic's sales to Asia are increasing rapidly, as our customer industries are growing the fastest in this region. We believe that this overall trend is going to continue with strong growth in all regions outside North America.

All of these factors, the regionalization, the strong market in Polysilicon, growth in construction chemicals and a strong wafer business were relevant for our strong results in the first quarter.

Now I'd like to hand it over to Joachim.

Dr Rauhut:

Thank you Peter,

I am going to touch on our segment performance in the first quarter and then go into some more detail concerning our financials.

We saw strong sales growth at Silicones of 8 per cent which was boosted by volume and mix effects. Currency and raw materials weighed on the segment keeping EBITDA at the level of last year. Products for the construction sector saw strong demand following mild winter conditions. Methanol prices peaked during the quarter. These prices are easing and we expect some relief in the next few quarters. We continue to work on further improving our product mix, substituting standardized products with higher value added products. Sales growth in the segment is expected above 5% for the full year, taking the weakening of the US dollar into account.

We expect Silicones EBITDA margin somewhat below the average of 2006 as a result of mix effects, raw material costs, and currency factors as well as some additional cost allocation from our segment Others.

In our Polymers segment, productivity improvements and capacity growth over the last year are driving results as price increases take hold. Sales went up by 22% to 149 million euros. EBITDA increased by 44% to 34 million euros. A mild winter coupled with healthy demand from global construction and an accelerated substitution away from traditional formulation towards dispersible powders helped generate impressive volume gains. The strongest regional growth was recorded in Eastern Europe and in China. With our strong growth rates we are reaching the capacity limits of our integrated production chain. We are in the process of expanding our capacity, but today we are buying additional dispersions from our joint venture with Air Products in the US.

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Going forward, this will somewhat weigh on earnings, but it will provide us with the necessary material to help our customers grow. Overall we expect Polymers sales growth of about 15 per cent this year, with an improving EBITDA margin over last year.

In Fine Chemicals; sales to agro campaigns helped to keep revenues at the level of the prior year despite lower contributions from exclusive synthesis. Sales in the segment reached 35 million euros, and due to mix effects, EBITDA was actually lower at 4 million euros. Our food ingredients and biologics businesses are growing well, while reorganization at our exclusive synthesis business is progressing as planned. For the full year we expect sales due to the reorganization to shrink slightly. EBITDA is expected at about the same level as in 2006, and EBIT should be somewhat better than last year.

In Polysilicon; sales went up by 8 per cent while our EBITDA margin stayed at about the prior year level of 36 per cent. Due to the mild winter, the first quarter reported only small sales of de-icing salt, which were very strong in Q1 2006. More important: year over year sales of hyper pure polysilicon increased by 35 per cent. The strong price trend in polysilicon continues. Beginning in January, as expected, the segment had to absorb substantial increases in energy costs from a mark to market in transfer pricing of electricity and by higher gas costs. The ramp-up of our Poly 6 unit for solar has begun, and we expect the unit to be fully operational in early Q4 this year, with most of the volume coming on-stream at the end of the ramp-up period. As the poly shortage continues, we received prepayments for future deliveries of polysilicon of 105 million euros in Q1. For the full year we expect to receive about the same amount that we collected in 2006. As of today more than 80% of our planned volumes are sold under contract through 2015. This includes poly sales to the Siltronic group.

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We expect full-year sales in the Poly segment of 400 million euros with an EBITDA margin in the mid thirties.

Q1 sales at Siltronic increased by 32% over last year and by 9% over the prior quarter. The first quarter EBITDA margin was nearly 35%, up from Q4 and significantly higher than a year ago.

Despite a strong Euro, EBITDA increased by 88% over Q1 2006 and by 13% over the prior quarter, supported by strong volume growth in 300mm and improved ASPs. Quarter-over-quarter

pricing was stable and should remain stable in Q2 with overall volumes up in the mid single digits as the industry climbs out of its inventory correction. We continue to see strong growth in 300mm coupled with improving demand for 200mm and smaller diameter wafers. We are currently operating at very high utilization rates.

Because we are reaching the limits of our current capacity, we are expanding our 300mm site in Burghausen, which needs a larger building. The expansion of this building in Q3 will result in temporarily reducing our 300mm capacity as we will have to run a variety of equipment in a warmdown-mode.

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This construction effort will modestly reduce our effective capacity in Q3 and Q4 before output can be increased at the end of the year. Assuming the market continues to grow through the end of this year, this will translate into slightly lower 300mm market share.

Now, let's have a look at the environment. Gartner has not updated their forecast for the full year yet. Their volume forecast is still at about 10 per cent growth with an expectation of a stronger second half. Overall we agree with the view that the wafer market for the rest of the year will be stronger than the first quarter. Memory unit demand in the first quarter continued to grow unabated, keeping the 300mm wafer market strong. In addition, foundries are guiding for higher utilizations in Q2, and an even stronger second half of the year.

Our competitors and customers are guiding towards sales increases between 10 and 20 per cent for the full year.

Although our visibility is limited to 3 to 6 months, and despite the weaker US dollar, we see Siltronic participating in this positive market environment.

Now let's look at our Others segment, where we record infrastructure and engineering services, corporate costs and sales to site partners. We have changed two transfer pricing items to better reflect market reality:

- First we require all of our infrastructure services to earn interest on their capital employed, and this results in higher service charges to the segments beginning in Q1. This especially affects Silicones.
- Secondly, as we grow out of self-sufficiency in electricity, we have to start buying electricity from the outside. We have changed the transfer prices of electricity from our own cogen and hydro power plants essentially marking them up to market.

This and the year over year increase in energy cost especially weighed on Polysilicon results. While Silicones and Polysilicon had to digest higher costs, our Others segment actually benefited from this starting in January. Given this structural change, I would suggest that you model the Others segment for the full year going forward with an EBITDA of up to negative 10 million Euros.

Now let's have a look at cash flow. For the full year 2007 we expect total depreciation for the group to stay on the level of the previous year.

We received 105 million euros in prepayments in Q1 and expect more to come in over the remainder of the year. From today's perspective we expect our net cash flow for 2007 to be clearly positive, despite capital investments of roughly 600 million Euros.

Peter emphasized the growth aspects of our regional expansion; let me talk about currency implications. While our regional growth and investments outside the Euro zone help broaden our cost base and thus create a natural hedge, our transactional exposure still increases. Today we have the highest net currency exposure to the US-Dollar in Siltronic where about 75% all of our sales are transacted in Dollars.

This compares with virtually no exposure in Polysilicon where essentially all our contracts are based on the Euro.

However, under our reporting regime, swings in currency have a lesser apparent impact on Siltronic because Siltronic does its own hedging. In Chemicals, for instance in Silicones, segment reporting gets hit with the full currency effect, because the offsetting hedge gets recorded on the group level. Given our strong growth outside the Euro zone, our currency exposure is actually going up.

In 2007, a one cent change in the average yearly exchange rate between the US dollar and the Euro should have an unhedged impact of about 7 million euros on EBIT. We usually hedge 50 per cent of our net exposure using various instruments.

Looking out into the rest of the year there are some things to keep in mind when you do your models for the EBITDA result:

- As mentioned, in Q1 the exchange rate was Euro 1.31 per dollar versus about 1.36 today. The stronger Euro is a burden which we have to carry into the next quarters.
- Our visibility in Siltronic is limited to 3 to 6 months.
- Furthermore, as you saw in '05 and '06, Q4 is usually not so good in Chemicals.
- On top of that, this year we are facing either foregone sales or direct hits to EBITDA from some special situations:
- We have a plant turnaround scheduled in Polymers in October during which we will work on expanding capacity,

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- The ramp-up of an additional 3,500 tons of solar poly capacity at Polysilicon will have some effects on results
- Our expansion activities at Siltronic will cut into our available 300mm capacity during the warmdown in the third quarter.

You will understand that with such a large number of moving parts it's difficult to pin down definitive full year guidance for EBITDA today. What we see, however, is that the first quarter trend continues into Q2. And for the full year our EBITDA should grow faster than our sales growth.

With this let me hand it back to Peter for some closing words and a summary of our guidance.

Dr Wacker:

Thank you, Joachim.

As you see we are making good progress on our strategic road map. We continue to invest as scheduled in capacity expansions that will yield high returns. Our cash flow is expected to be very strong, supporting our expansion strategy.

We are confident about our performance this year. Our businesses are well positioned to meet global market trends and challenges, supporting our long-term growth prospects.

Let me summarize what we've told you today

- Silicones: sales up about 5 per cent, margin somewhat below 2006
- Polymers: sales up 15 per cent, margin better than last year
- Polysilicon: sales up 23% to about 400 million euros, margin mid-thirties

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- Fine Chemicals: sales below last year, EBITDA at last year's level
- Siltronic: competitors and customers expect 10 to 20 per cent growth. Stable pricing and volumes up mid single digits into Q2.
- And for the whole group based on current exchange rates, we expect group sales for the full year to grow over 10 per cent with a higher EBITDA margin than last year.

Over all we are in the comfortable situation that we facing balanced to very tight markets in all of our businesses, and I think that 2007 will be another record year for WACKER.

I think this is excellent news for all shareholders of Wacker Chemie.

Now, Joachim and I are looking forward to your questions.

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Operator?