

Wacker Chemie AG
Conference Call on the 2nd Quarter
2006

Final, 21.08.2006

Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann

Ladies and Gentlemen, Welcome to the second-quarter 2006 conference call on Wacker Chemie AG. My name is Joerg Hoffmann, Head of Investor Relations. It's a pleasure to have with me today Dr Peter Wacker, our CEO and Dr Joachim Rauhut, our CFO. Both will comment today on our recent results and will be available for questions afterwards.

As a reminder, let me state that during this call we may make forward-looking statements for the future based on current assumptions and estimates of WACKER's Executive Board. Although we assume 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 may cause the actual figures to differ considerably from the forward-looking statements. WACKER does not plan to update those risk factors or the forward-looking statements made during this call, nor does it assume any obligation to do so.

We have provided a number of materials on our website today, including our quarterly report in English and German, the press release, an excel file detailing our quarterly data and a short presentation on Q2 to accompany this call. Please look at our website at WWW.WACKER.COM under Investor Relations.

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

Dr Wacker

Thank you Joerg, and I would like to welcome you all to our call. As we have been emphasizing since before our IPO, our primary objectives are to grow WACKER with high margins. At this point, we're about 18 weeks out from our IPO, and I can report on good progress on all of our strategic projects. Let's review our status on these one by one:

In Silicones, after some delay, we have been granted the business license for the Zhangjiagang joint venture with Dow Corning in China, and now we can begin the next steps in the engineering and construction of the upstream units. The project itself is taking somewhat longer than we previously anticipated. As of today, we are looking forward to have the upstream siloxane part of the complex at the site in operation by the end of the decade.

Silica, which is a material needed for our downstream activities, is still expected to start production as originally planned. Our downstream conversion and compounding capacities are partially in place and are going strong.

In our Polymers segment, the announcement of a 30 thousand ton powder dryer in Burghausen underlines our extremely strong position as the world leader in this growing business. We are also talking with Air Products concerning their divestiture plans involving their polymer activities. We are supportive of their efforts and our business interests in the joint ventures are contractually secured. If their divestiture results in a new partner for WACKER, this could potentially create additional opportunities for us in the business. And we will evaluate this later.

We are restructuring some of our Fine Chemicals activities that were underperforming mainly due to competition from China and India. We are focusing our efforts. Although will may be an annual reduction in sales of about 20 million euros in the next years, we expect our 2007 EBITDA margins to recover to the level of 2005.

In Polysilicon, you know that we are currently working on three projects in parallel. In the first project, we are adding 1,000 tons in existing facilities by the end of this year. Secondly, we are adding 3,500 tons in a new facility by the end of 2007. Third, we are adding another 4,500 tons in a new plant by the end of 2009. In total all these three projects add 9,000 tons of polysilicon to our existing capacity. This effectively triples our capacity by the end of 2009.

You will find us delivering on these expansions rapidly, giving us an edge in supplying a market that is in great need of additional material. In summary, our customers are looking for a reliable high-quality long term source of supply, and in turn, they are sharing in the capital cost of our new facilities.

Most of the latest expansion of 4,500 tons is scheduled to support the solar sector. We are looking to lock up about 60% of the volume with prepaid contracts with a time frame of around four years. The pricing for this expansion stage is clearly on a higher level than a year ago, when we started contracting for our 3,500 ton expansion.

Concerning the poly market, let me say that selling prices, especially to the solar sector, are very strong. We expect demand for polysilicon to grow by 20% annually over the next three to five years.

While we are working on our expansion projects, others have also announced plans. However, we don't think that the market will swing into a more balanced situation before 2010. But we have two moving targets here -- for one, growth in solar could turn out to be stronger than currently forecasted, and secondly, several polysilicon expansions are expected to come from new entrants into the market -- that may mean we will see in the market some uncertainty concerning timing and quality. We cannot speak for our competitors, but you can be assured that WACKER, with nearly fifty years of experience, will deliver the quantities we have announced when we say we will and at the quality level our customers require.

There have been some questions whether WACKER intends to enter into downstream partnerships with the solar industry. In the next years we will see consolidation in the solar industry. Today, it is not yet entirely clear to us where in the value chain over the long run most of the profitability will fall -- is it going to be closer to our material or closer to the end customer? We are constantly studying the value chain and are looking at a number of proposals, but in many cases possible partners are mainly seeking a long-term poly supply. WACKER is prepared to participate in other segments of the business, and, providing such a participation achieves our profitability thresholds without dilution, we are able to move quickly.

Our wafer business, Siltronic, announced the signing of a joint venture with Samsung for a 300mm fab in Singapore. Details have been published on our website. We are proud to be teaming up with one of the technology leaders in this area. The fab will be initially brought on stream at the end of 2008 reaching design capacity of 300 kilowafers per month by the end of 2010.

You may ask if we are considering additional wafer joint ventures like the one with Samsung. Let me answer, that was a unique opportunity, and as of today we are not considering any other similar projects.

So, overall, you can see that we are delivering on our promises. Our strategic projects are under way, and we'll keep you updated on these in due course. Joachim will now comment on our results and the business environment.

Dr Rauhut

Thank you Peter,

You have seen the trading update that we published on August first. We hope that you found it useful and extensive.

Now, I would like to review our second-quarter performance first, then make some comments on current trading conditions, and finally go into a bit more detail on our guidance.

Looking at Q2, we can say that it came in just about as we expected. Group sales increased from 702 to 830 million euros, mainly driven by mix and volume improvements at Siltronic and Silicones. Sales were up 18% year-on-year. Compared to Q1, sales rose by 4% with some help from a seasonally strong construction business in Polymers.

Adverse factors in the quarter were fewer working days and a stronger Euro.

Group EBITDA was up 7% year-on-year to 196 million euros in the quarter. Last year's Q2 saw two special items in EBITDA that contributed 45 million euros, 12 million of this related to Siltronic and the remainder fell into the other segment. All special items for 2005 were communicated previously, and a split on our quarters is available in an excel file on our website. Adjusting for these non-operational items, our performance in the quarter was some 42 percent better than last year. And, our EBITDA margin reached 23.6% in Q2 and was 0.6% over the margin we achieved in Q1.

Let's look into the performance of our segments following the order of our report:

Sales in SILICONES went up 11% to 327 million euros over last year's Q2, but remained at the same level of our strong Q1. The EBITDA margin in our Silicones business benefited from an ongoing trend in product mix to higher value added products. The 20% EBITDA margin stayed at the same level as in Q1 and last year's Q2 despite strong increases in raw material and energy costs. Over the last 12 months, the price of platinum increased by 32%, and the methanol price went up 15%. We are combating these adverse influences primarily with volume growth and a better refined product mix. Capacity utilization in our Silicones division is high. The global market for silicones is balanced, and the overall price trend for 2006 is flat. Our 35,000 ton expansion in Nünchritz is progressing as planned. In total we should have a capacity of about 200 thousand tons of siloxane from two plants available by the

end of December.

Operational leverage of the new capacity is being secured by swap arrangements.

In our POLYMERS segment, mix and volume effects lifted sales by 13% to 147 million euros over Q2 2005, and the growth over Q1 was 22%. These comparisons show the strong growth trend in the business as well as the seasonal effect of the construction industry in the second quarter. This segment has been hit the hardest by the ongoing increase in ethylene pricing, where we have seen costs rise by 15% in the past twelve months. We have announced price increases in this segment that will partially offset those strong cost increases. Since we primarily price for value and not based on raw material content, we usually suffer margin compression when raw materials spike until we catch up again with better pricing, improve-

ments in product mix and productivity gains.

The market for powders is very strong based on high demand for tile adhesives and exterior insulation finishes.

At FINE CHEMICALS sales were up 4% over last year, but down 16% from Q1. Q1 in this segment was very strong, driven by seasonal business relating to agricultural product campaigns. Ethylene cost increases also hit the segment in similar ways as the POLYMERS segment.

Combined with a negative product mix effect, this lead to a reduction of EBITDA from 4.1 to 3.1 million euros year on year. EBIT was actually negative after an impairment of 2.3 million euros relating to the restructuring Peter spoke about.

In our sold-out POLYSILICON business, Q2 sales of 78 million euros were up 14% against last year primarily due to price increases and also somewhat to yield improvements. Sales were down compared to Q1, as the winter contribution of road salt sales dropped in early summer. At the same time, costs associated with the engineering and ramp-up of our polysilicon expansions reduced the EBITDA margin in the segment to 30% from 34% in Q1. These costs were fully anticipated, and with rising selling prices primarily to Siltronic, we expect to reach our guidance of an EBITDA margin in the mid thirties for the full year. All our units are working at or above capacity.

The strong second-quarter performance of Siltronic shows that our improvement efforts are gaining traction. This is clear in comparison to Q2 of last year, where sales increased by 39% to 300 million euros and our EBITDA margin improved sharply from 15.4% to 24.3%. Adjusting for the previously mentioned 12 million euros of positive special items last year, the improvement is even more impressive -- EBITDA rose on an adjusted basis more than threefold. Compared to the first quarter of this year, most of the increase in sales came through volume improvements. As expected, we were able to increase selling prices up to mid single digits as compared to the first quarter. However, the effect on sales of this improvement was offset by a stronger Euro. We are running at very high capacity utilizations in all diameters. Demand for 200mm is especially strong.

In addition, we have begun selling crystals and other material to the solar industry at a run rate of about 80 million euros per year. This is a significant increase compared to the previous year.

Finally, a word on our balance sheet. You will see that the IPO had a remarkable effect on our company as our equity ratio shot up to 46% due to the inflow of capital from the sale of treasury shares. All the detail is in the quarterly report. An equity ratio of above 40% is in line with our leverage targets.

Now let's move on to current trading conditions.

Our chemicals businesses are quite solid currently, we agree with the positive outlooks others have voiced for these markets for 2006. Despite some weakening of the US economy, our growth rates are stable.

As we noted earlier, markets for polysilicon are very strong, and we do not see a balanced supply before the end of the decade.

For Siltronic, we have seen some analysts and industry sources expressing concern that downstream inventories are rising, particularly in the PC-related businesses. We agree with industry studies that indicate this, but these studies also show that inventories, in terms of sales days, are fairly flat. From our customer reservations through the 4th quarter we have - despite some changes in customer allocation - not seen a reduction in demand so far.

Now, let's touch on our guidance. I don't want to repeat in detail the trading update we put out on August first. You will find a summary table in the presentation we put out for this call. In that release we forecasted an EBITDA for 2006 between 730 and 750 million euros based on a US-dollar to Euro exchange rate of about 1.27. Please remember that our sales and earnings are fairly sensitive to the US dollar. A one-cent change in the exchange rate has an annualized impact on sales of 13 million euros and on EBIT of about six million euros unhedged. Again, detail on our currency exposure is available on the web. Our forecasts for 50 million euros higher raw material and energy costs compared to 2005 stay in place and are baked into our guidance update. Some detail on these costs is also on the web.

What has changed since our last quarterly conference call? Well, the second quarter came in just about as we had expected. Looking forward, our visibility in Siltronic is about one and a half quarters, so we tend to be quite cautious with statements that go much beyond this time frame. What we did not see in Q1 was how strong the volume and pricing environments are turning out for the second half of the year at Siltronic. In this currently strong environment we also accelerated the ramp-up of our 300mm fab at Freiberg. These factors, somewhat offset by the higher poly costs, lead us to expect an EBITDA margin of about 26% for the full year at Siltronic.

We also expect a somewhat improved performance in Chemicals, particularly in Silicones, due to volumes and mix compared to our previous guidance. In addition we are expecting slightly higher volumes in POLYSILICON as we have been successful in further increasing yield rates. Subtracting our first-half year performance from our full year guidance you will see that we expect Siltronic to drive improvements, and you'll calculate a lower return from our chemicals businesses. Why is this? The Chemicals business is to a degree seasonal with typically its lowest sales figures in Q4 and lower margins as maintenance expenses peak in this quarter.

Let me add to our guidance a bit of detail for the model builders. We expect full-year 2006 depreciation and amortization of about 340 million euros following our capital investment program. And, we expect our interest and other financial result to approximate 20 million euros in the second half. This reflects the impact of the cash inflow from the IPO.

Given the improved outlook for Siltronic with their tax loss carryforwards, we estimate that the cash tax rate for 2006 will decline from our previous guidance of about 35% to around 30%. In addition, we currently estimate that the fourth quarter will show higher levels of deferred tax assets following IFRS rules. This amount will depend on our budget for Siltronic for 2007. This reduced tax rate will contribute to an improvement in earnings per share.

Despite our heavy investment program, we anticipate net cash flow of about 100 million euros in 2006 resulting in net financial debt at the end of the year of less than 500 million euros. These figures may change depending on the timing of pre-payments for our latest polysilicon expansion.

Dr Wacker:

Thank you, Joachim.

Let me add something here. Mainly because our visibility is especially limited in the important Siltronic segment, we hesitate at this point to give an outlook for 2007. Prospects for Siltronic depend on demand in key end markets and possible inventory moves. In Chemicals, at this early stage, and providing the world economy is still strong, we expect another growth year. For the whole group, as we move forward in the year 2006, we will have a clearer view on 2007, which we will share with you on our next call.

And now we would like to answer your questions.