Wacker Chemie AG

Conference Call
on the Third Quarter 2007

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Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IRO

Ladies and Gentlemen, welcome to the third-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 published today our quarterly report, a press release, an Excel file detailing our quarterly data and a short presentation on Q3 to accompany this call. All of these files as well as our fact book can be found on our website www.wacker.com under Investor Relations.

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

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

Despite a difficult environment, we completed the third quarter with a strong performance.

When we spoke with you three months ago we had a huge amount of work on our plate with all the expansions going on, and we had some question marks about the volatility in 200 mm and how it would affect us. Frankly, our result during the quarter was stronger than we had expected. The team in Polysilicon worked around the clock to complete our expansion sooner than we expected and were actually able to get it up and running and product out the door much faster than we had anticipated. This outstanding effort resulted in shipments, sales and profits substantially exceeding our estimates. And in Siltronic, we also saw an excellent performance. Our rapid response to changing market conditions resulted in strong sales and earnings even after adjusting for the falling dollar.

In addition, I am confident that we were able to increase our market share in smaller diamaters to offset our reduced 300mm volumes during the Burghausen warm down.

In total, WACKER CHEMIE's sales in Q3 this year were up 12 percent, reaching almost 960 million euros, while EBITDA rose 24 percent to 270 million euros to an EBITDA-margin of 28 per cent. Our results for the first nine months have surpassed our 2006 full-year numbers, both in sales and EBITDA.

Before Joachim gives you more detail on 2007, let me update you on our strategic projects.

Our major capacity expansions in Burghausen were finished on or ahead of time and on budget:

- As I mentioned, "Poly 6" was completed during the quarter, ahead of schedule. This solar polysilicon expansion helped Q3 sales with excess material that we sold on the spot market. This takes Wacker's total polysilicon capacity for Q4 to an effective 10,000 tons per year. The team that achieved this is now working on Poly 8.
- Our new generation spray dryer tower for dispersible powders started operations during Q3. This is important, since it is yet another technological breakthrough that we mastered. None of our competitors has similar units available.
- Siltronic finished the technically very demanding 300mm warmdown at Burghausen and is now ramping up the lines. Siltronic will have a wafer capacity in 300 mm of 350 kilo wafers per month, this is 19 per cent up from 2006 and 85 per cent up from 2005.

All of these activities demonstrate again the strong engineering backbone of WACKER, which in today's environment is an essential competitive advantage for us.

Strategically we have some news to report from our various joint ventures:

- The WACKER SCHOTT Solar wafer JV saw the laying of foundations for a new wafer fab in Jena. With secured amounts of polysilicon supply, this venture will evolve into a major competitor in solar wafers, targeting a 1 gigawatt capacity by 2012.

- Our SAMSUNG Joint venture is well on track. Construction of the plant shell was finished in just 16 months, and we are loading the fab with equipment as we speak. We expect to see first shipments of 300mm wafers for customer qualification very early next year. Again, this is ahead of our original projections.
- As you have seen, we are in advanced discussions with Air Products concerning the purchase of their global VAE emulsions businesses. Access to a global supply of VAE emulsions from this activity would significantly improve our global supply and cost positions in POLYMERS. If successful, this transaction will contribute substantially to further develop our POLYMER business to around €1 billion euros in sales in 2008. We are confident that we can conclude these discussions in the next few weeks and will present you with more detail once we have signed an agreement.

There has been a lot of talk about the polysilicon supply situation. Through the last quarter, WACKER continued to sign long-term delivery contracts for polysilicon. We now estimate that the total amount of prepayments will be about 630 million euros this year, covering two thirds of our planned capex for the segment. More than 80 per cent of our planned poly volumes are now spoken for until 2015, with some contracts stretching out to 2018. For me this is a strong indication that market participants do not expect an easing of the polysilicon supply and demand balance any time soon.

For Siltronic, in the 200mm wafer market, the situation has not become much clearer than last quarter. Data suggest that inventories are being flushed out of the system and that the price declines we saw in Q2 and Q3 have slowed considerably. We are responding to this situation in a very flexible way by moving into 300mm and non semiconductor sales. Our clear focus in Siltronic is to maximize our profitability.

Now, let’s switch over to Joachim.

Thank you Peter,

First, I want to discuss our third quarter results and full-year expectations per segment, and I will then move on to group items such as capex, cash flow management and taxes.

WACKER reported sales of 960 million euros and an EBITDA of 270 million euros in Q3, both essentially at the same level as Q2. As Peter already said, Polysilicon beat our expectations during the quarter and Siltronic performed quite well in a more challenging market environment.

Overall, we saw a good performance in our three chemical segments where, at 532 million euros, Q3 sales increased by 6 per cent over last year, while EBITDA grew by 8 per cent to 101 million euros. Both sales and earnings increases were driven by volume growth and benefitted from some price increases. Looking into Q4 in Chemicals we will experience some one-off items, which I will detail as we go.

SILICONES increased sales to 341 million euros and kept the margin at 20 per cent, benefitting from a short term relief on raw materials, notably methanol. For the full year we expect sales growth at about 7 per cent. After adjusting for a depreciating US dollar, the growth rate would actually be 9 per cent. EBITDA in the fourth quarter will be hit again, as happened in last year's Q4, by a force majeure situation in methanol. This time however, the effect will be greater -- with a profit impact of about 10 million euros. The EBITDA margin in SILICONES for the full year will be slightly below 2006. For 2008 the division has announced price increases to match rising cost of the raw material silicon metal.

In POLYMERS sales and earnings stayed at the level of Q2, with sales 9 per cent over Q3 2006. This strong growth reflects essentially the successful development of the East European and Asian markets for dispersible polymer powders. During the last quarter our new 30,000 ton spray dryer began operations as planned.

The segment has announced price increases following continuous raw material cost increases on Ethylene. As we told you last quarter, starting from mid of October we have shut down some of our operations in Burghausen for debottlenecking and maintenance. This will have no effect on sales. But due to peak prices in VAM, another force majeure situation, this shutdown is going to have a one-off impact of slightly more than 10 million euros on earnings in Q4. The shutdown ended yesterday , and the units are today operating again at full levels. For the full year we now expect sales growth in POLYMERS of about 15 per cent to 640 million euros with an EBITDA margin slightly below last year due to the mentioned 10 million euro one-off item.

In FINE CHEMICALS we anticipate to reach last year's levels in sales and EBITDA. In this business we drive a significant shift in product mix with a change in focus to the higher margin biologics and ingredients businesses.

POLYSILICON sales increased by 57 per cent year on year in Q3 to 126 million euros, which was at a level of 29 per cent more than in Q2. Results benefitted from strong sales of additional material from the accelerated Poly 6 ramp process into the spot market. EBITDA at 49 million euros was up 42 per cent over Q2 and 53 per cent over last year. The margin in the segment was 39 per cent. For the full year we now expect sales of about 450 million euros. Looking at Q4 we expect a higher EBITDA margin than in Q3, reaching a point slightly over 40 per cent.
Given a challenging environment we talked about last quarter, we are pleased with the actual results Siltronic delivered in Q3. Despite the continued weakening US dollar and a different product mix following the reduced 300 mm output due to our temporary warmdown in Burghausen, Siltronic was able to deliver 360 million euros in sales in Q3. This is 9 percent higher than the same period last year and only 3 percent sequentially lower than Q2 in euros. On a US dollar basis, the revenue was nearly flat versus the second quarter.

During Q3, profitability at Siltronic also developed well. Benefitting from a good non-area business with attractive pricing, Siltronic met its targeted EBITDA margin of 30 percent again.

For Q4, in 300mm we will have more volume in sales which will be offset by somewhat lower volumes in 200mm. Price declines we saw in Q2 and Q3 have slowed considerably. At Siltronic, we expect a similar volume and price picture as in Q3, with an additional burden from the falling US dollar. This will lead in Q4 to slightly lower sales and a slightly lower EBITDA margin. If you compare Q4 2007 with Q4 2006, please keep in mind that Q4 2006 was the strongest quarter of last year with a much more favorable exchange rate and there was a positive price trend in 200 mm quarter by quarter.

Let me now summarize our expectations for 2007: we expected more than 10 per cent increase in sales and a higher EBITDA-Margin for the full year 2007. Given that we now have 10 months of the year behind us, let me be a little bit more precise on this.

Taking our excellent results in the first nine months and allowing for the normal Q4 seasonal softness in Chemicals, we expect to achieve full-year sales of nearly 3.8 billion euros.

Including the one time effects in the Chemicals operations, we expect that we will end this record year with a full-year EBITDA margin of about 26 per cent.

Now let's have a closer look at some other items in our P&L and cash flows for the remainder of the year.

- Depreciation is expected to come in at about 350 million euros.
- For the full year 2007 income before taxes should come to around 600 million euros. We expect a tax rate in the low-mid thirties for the full year, now that we have used up essentially all loss carry forwards. This is somewhat higher than I had mentioned during our last call and reflects a higher share of profits generated in Germany.
- For 2007 we expect capex to come in slightly above 700 million euros. 2007 capex will peak in Q4 with a little bit less than 300 million euros. Despite this huge amount of capex our net cash position should stay at the Q3 level. As mentioned earlier, prepayments for polysilicon are expected to total about 630 million euros at year's end.

With this let me hand it back to Peter for our outlook on 2008 and some closing words.

Thank you, Joachim.

We have just reported a record Q3 that surpassed our own expectations. For 2007, full year sales should come in around 3.8 billion euros with an EBITDA margin of about 26 per cent. I am optimistic that the 1 billion Euro mark for EBITDA is within close reach.

Let me summarize my view for the future:

From an overall perspective, the changing demand in semi, the strengthening of the euro and rising raw material costs continue to be challenging, but as you know we have mastered these trends in the past. The megatrends that support our growth are gaining more momentum and are working in our favor. We have the capability to deliver capacity expansions in highly demanding areas such as Polysilicon on budget and ahead of schedule. All in all, I see us well positioned to continue to deliver strong growth rates.

Looking into 2008, let me share with you what we see today:

- In the past, our revenue growth in the SILICONES businesses was always at around 3 percentage points above worldwide GDP. We expect this also for 2008. Once the Air Products transaction is completed, sales in POLYMERS could reach the 1 billion euro level.
- Given that we are essentially sold out in POLYSILICON for next year, except for some surplus volumes from productivity improvements, we have a pretty good visibility into our sales. For our POLYSILICON business, 40 per cent is an important figure for next year. We expect to see 40 per cent sales growth in 2008 maintaining an EBITDA margin somewhat higher than 40 per cent.
- As you all know, our visibility in Siltronic is about one quarter or so. 200 mm uncertainty and 300 mm growth will continue to be the overriding themes in wafers next year. We expect to grow our volumes, maintaining a clear number three position in the market for semi wafers.
  A lot of our growth however will not be fully visible in our consolidated accounts since it happens in the Samsung JV.

In a nutshell, this is our current outlook, and, as we have done this year, we will update our guidance for 2008 as we progress through the year.

I am proud of our achievements and the strong performance of our businesses so far. WACKER will continue to deliver substantial growth with high margins to its shareholders.

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