Wacker Chemie AG

Conference Call
on the Full Year 2008

March 18th, 2009

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann:

Welcome to the full year 2008 conference call on Wacker Chemie AG. My name is Joerg Hoffmann, Head of Investor Relations. It is a pleasure to have with me today on the call Dr. Rudolf Staudigl, 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 to accompany this call. All these files as well as our fact book can be found on our website www.wacker.com under Investor Relations.

Now let me hand the call over to Dr Staudigl.

Dr Staudigl:

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

Today we are reporting on our successful year 2008, but our focus is also on a financial and economic crisis with severe effects on our markets.

This downturn has hit us in the fourth quarter and current trading conditions continue to be challenging. Let me tell you upfront not to expect too much today in terms of guidance. There is just not enough visibility in chemicals and semis to support guidance for the full year at this point.

Today, we will first walk you through our 2008 results, and then we will touch on current trading conditions and on how we are responding.

As expected, Wacker Chemie achieved an increase of 14 per cent in sales and 5 per cent in EBITDA in 2008, making this our most successful year ever. The major driver of sales and profitability in 2008 was our Polysilicon segment, which reported sales growth of 81 per cent and EBITDA growth of 132 per cent in 2008.

With a record 1.1 billion Euros in capex and acquisitions, this was the highest investment figure in our nearly 100-year history. Most of the capex was directed to POLYSILICON, which saw investments of 410 million Euros in 2008. While the investment number for POLYMERS included the VAE acquisition at 171 million Euros, the capex for Siltronic, reported at 200 million Euros, included a shareholder loan to the Siltronic Samsung Wafer Joint Venture of 60 million Euros. As stated in our annual report on page 163, this shareholder loan can be converted into equity, effectively turning it into a call option for the majority of the joint venture.

In spite of this historically high level of investments, our net cash flow in 2008 was positive. This strong financial position is underlined by our balance sheet. With an equity ratio of 45 per cent and a positive cash balance at year-end we feel well positioned to face the global crisis that has reached our markets.

2008 net income came in at 438 million Euros and earnings per share at 8.84 Euros, both slightly higher than our 2007 result. We plan to propose to the annual general meeting a dividend of 1.80 Euros, representing a pay-out ratio of 20.4 per cent.

As the global economic crisis unfolded, we were seeing slower demand from autos to construction and general industry. For semiconductor wafers, Gartner now expects a 35 per cent decline in area for 2009. This unprecedented fall in volumes accompanied by lower pricing has positive ripple effects on the solar market.

As less poly is used in semiconductor wafers, more high quality material finds its way to the solar industry and thus helps to grow the photovoltaic industry which so far has been silicon supply limited.

We have developed early on a comprehensive action plan and took immediate actions to adjust the company to a more challenging environment: from plant shutdowns, lay offs of temporary workers, to the postponement on non-strategic capex to short time work in most segments and further activities aimed at reducing cash outflow, we have been responding quickly to the situation. Overall, we are expecting a 15 per cent decrease in personnel costs for the year 2009.

We are leveraging our strengths to pull us through this general economic downturn and I am confident that we will emerge even more competitive than before.

Our long term strategies are in place and we will continue to pursue this growth strategy through the current downcycle.

I am proud to report that all of our expansion projects in Polysilicon continue and are well within schedules and budget. We have produced 11.9 kilotons in 2008 and we now expect to produce more than 15 kilotons of hyper pure material in 2009, which represents an increase of 30 per cent. Constructions at Burghausen and at the new site in Nünchritz in Saxony are on schedule. We will ramp Poly 5 this year and Poly 8 will reach mechanical completion at the end of the year. As a reminder, we expect to grow our production capacity by the end of 2010 to more than 25 kilotons and later on, including Nünchritz, to over 35 kilotons of polysilicon.

The new site in Tennessee will see start of construction as demand requires. Investment volumes, capacity size or infrastructure needs for the Tennessee project have yet to be finalized.

Given that we expect the US market to develop over the medium term into the world's largest market for the solar industry, this highly competitive site will be ideally positioned to service this emerging market.

Our position has been all along that the solar market is about generating electricity at a competitive cost. For this, a reliable supply of low cost and high quality polysilicon is essential.

We continue to see strong demand for our quality-leading product in this environment. Before you ask the question, let me say that as we are hearing about contract renegotiations at other parties, we cannot report such activities in **POLYSILICON**.

It has been our philosophy to position ourselves as a reliable quality partner supporting the growing solar industry. For us, this meant specifically partnering with our customers via long term contracts that are priced competitively to support their grid parity requirements.

We continue to market contracts in this spirit, however, the speed of contracting is slow as financing of our customers is becoming a tougher hurdle in light of the financial crisis.

By now our total production capacities across all defined expansion projects including Poly 9 are 75 per cent covered with contracts well through the year 2015 and we continue to negotiate further contracts under similar terms as last year.

Given our leading cost position and technology, we will continue to drive the expansion in polysilicon. This will help the industry with highest quality material supporting high conversion efficiencies and a reliable supply at reasonable prices.

It is interesting to see that in polysilicon, production competition is moving from making product available to delivering highest quality material.

Since the low utilization rates of the semi industry removing the bottlenecks to supply of polysilicon, the other parts of the solar value chain are equally transforming from a rush to volumes to productivity per watt. All of this helps to make solar become a more mature and competitive industry.

Now, I'd like to hand it over to Joachim, who is going to touch on our segment performance in the fourth quarter and current trading conditions.

Dr Rauhut:

Thank you, Rudy.

WACKER SILICONES sales for the full year came in 3 per cent above 2007 levels at 1.4 billion Euros, driven by volumes and successful price increases. 2008 EBITDA declined by nearly 60 million Euros to 168 million Euros as currency, energy and historically high raw material costs could not be fully compensated by volume and price increase effects. The fourth quarter saw **SILICONES** sales 20 per cent behind Q3 and 7 per cent below prior year with sales at just 297 million Euros and EBITDA in at minus 18 million Euros. This result is impacted by the pension contribution in Germany of 40 million Euros, which hit **SILICONES** with 12 million Euros. The largest contractions in Q4 sales happened in Asia and Germany, where sales contracted by one fourth compared to the prior year.

The business reacted to the situation by reducing production for siloxane, silcones and silica, extending year-end holidays and the introduction of short time work.

Current trading conditions in **SILICONES** remain difficult. Demand from the automotive, construction and general industry sectors is down, with volumes up to 30 per cent below Q1 2008. Volumes appear to be stabilizing on this level. At the same time visibility on orders has decreased as customers order smaller lot sizes than on average of 2008.

2008 sales at **WACKER POLYMERS** increased by 37 per cent to 868 million Euros, as the fourth quarter came in below our expectations. This increase was driven by capacity expansions and the acquisition of the VAE business in February 2008. EBITDA for the full year came in at the level of the prior year, 109 million Euros.

Against a slow construction industry and weak volume development in other sectors, price increases did not compensate raw material and energy cost increases, integration costs and adverse currency effects. The fourth quarter saw sales at 186 million Euros, about 22 per cent less than Q3, but 24 per cent above prior year.

Slower sales and a pension contribution of 3 million Euros reduced EBITDA in the fourth quarter down to 4 million Euros. Current trading conditions are challenging as volumes are nearly 25 per cent below prior year, with powders seeing a larger contraction than dispersions due to the weak construction industry. Restructuring the VAE business by closing our operations in South Brunswick is almost complete. The business is reacting to the reduction in demand by reducing capacity through shutdowns of non-essential dryers and optimizing production for energy consumption. While visibility remains low, we are expecting a seasonal recovery in the construction related parts of the business and we are expecting some release on raw material costs.

Our segment **FINE CHEMICALS** saw sales decline by 13 per cent, actually less than planned as we reduce sales of chemicals and grow the share of biologics and ingredients. Our cysteine and cyclodextrin businesses are growing nicely. We continue to invest in our proprietary processes towards the growing requirements of the food and pharmacological industries.

2008 was a banner year for our **POLYSILICON** business, as sales increased by 81 per cent to 828 million Euros and EBITDA more than doubled by 132 per cent to 422 million Euros, owing to both volume and price increases. In the fourth quarter **WACKER POLYSILICON** recorded sales at the same level as in Q3. At 239 million Euros, this is 70 per cent over last year. **POLYSILICON** Q4 EBITDA was 115 million Euros, which represents an EBITDA margin of 48 per cent. During the quarter, our expansion stage

Poly 7 was fully ramped and started supplying under long-term contracts.

Compared to Q3, pension effects of 4 million Euros, lower spot prices, higher energy costs, as well as contractual payments to Siltronic of 7 million Euros weighed on results. Nearly 20 per cent of Q4 volumes were directed toward the spot market. While during Q3 the ramp of Poly 7 was the primary source of material for the spot market, the fourth quarter saw a larger contribution from reduced semi volumes that were converted into solar polysilicon sales.

For the first quarter 2009, we expect a good result with additional contributions from the road salt business and higher average sales prices outweighing the margin dilution of solar wafer sales of our Wacker Schott JV. Current trading conditions remain favorable, and despite a decline in solar spot pricing we are comfortable with reaching an EBITDA margin in Q1 comparable to the average level of 2008.

For most of 2008 the silicon wafer market recorded little to no growth. Softening volumes and price declines in wafers and strong demand from Solar for ingots defined **Siltronic's** market for most of the year. In Q4 the industry saw demand for silicon wafers dropping with the fastest pace ever recorded. **Siltronic** full year sales were 1.361 million Euros, with a one third of sales relating to non semiconductor applications. At 357 million Euros EBITDA was 25 per cent below prior year. Lower volumes, increasing pricing pressure, pension effects of 8 million Euros, the negative effect of the US-Dollar movements and costs associated with the ramp of the Siltronic Samsung wafer fab all had a strong impact. Similar to our peers in the industry, the global economic downturn hit us in the fourth quarter as sales declined by 16 per cent compared to Q3 and our EBITDA margin came down to 8 per cent from 30 per cent in Q3.

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Market conditions in this industry continue to be difficult with visibility still reduced. With the silicon wafer demand having declined meanwhile to around post dot.com trough level of 2001, the market saw in January according to METI a 60 per cent decline in revenues year over year. On top of this, credit concerns have an impact on sales. Both speed and magnitude of these declines have no historic parallel. The consultant group Gartner has just downgraded their expectations to a decline of 35 per cent for 2009 in wafer area.

We have dealt with the last downturn in the industry and have made changes to **Siltronic** to higher flexibility and more cost competitiveness. This experience is helping us now to cope with the current situation. However, price declines of the magnitude we are observing and extremely low capacity utilizations result in operating losses in wafer operations.

Therefore, we are adjusting our capacities to lower global demand with the closure of our small diameter Freiberg fab and with short time work, we have layed off temporary workers and are accelerating productivity programs and cost savings. In this environment, our commitment to quality and technology remains unchanged. We know that we have to go through a difficult first half of 2009 as the inventory burn in our customers' value chains has to go stop before demand recovers.

Moving on to other parts of our P&L this quarter:

Profit before Tax was 641.8 million, at the same level as last year. Our overall tax rate was 32 per cent, resulting from a lower tax rate in Germany and fewer tax loss carry-forwards from Siltronic. Capex for 2008 was 1.1 billion Euros, with 410 million Euros relating to polysilicon expansions and 171 million Euros to the APP acquisition. This number will be lower this year as we concentrate only on strategic capex projects. We are actually targeting 800 million Euros.

Following the depreciation of pension plan assets mainly in Germany, we contributed 55 million Euro overall to secure pension assets for the group. Since we hit an asset ceiling according to IAS 19 due to the overfunded status of plan assets at the German pension funds, 40 million Euros of the contribution had an effect on EBITDA.

Now, let me touch on our cash and refinancing situation. At year-end, we recorded 305 million Euros in cash compared to bank debt of 216 million Euros and financial leases of 56 million Euros. Our net bank accounts show a positive balance of nearly 100 million Euros. Overall prepayments for future polysilicon deliveries amounted to a total of 860 million Euros at year-end. As of today we have collected another 83 million Euros in prepayments.

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We have secured our overall financing with sufficient credit lines. Over the last months we have extended a 300 million Euro syndicated loan facility to 2013 and signed around 200 million Euros new loans which have a maturity within 3 years.

For our poly 9 expansion we plan to put in place a project financing supported by a governmental institution. With these credit lines and our strong balance sheet we feel well positioned to weather the crisis.

Rudy?

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Dr Staudigl

Ladies and Gentlemen,

We have seen a very successful year 2008 - but business conditions deteriorated at the end of last year. As these conditions continue, we focus on cost, cash, strategic capex, capability and customers.

We continue to drive for productivity and cost improvements in all of our businesses. Our recent capacity additions support our progress in further lowering the cost of our products. And we have taken comprehensive and rapid actions: we are planning to decrease personnel costs by a total of 15 per cent compared to 2008 with personnel attrition, short time work, temporary employees laid off as well as salary and wage reductions. In addition, we are transferring employees from **Siltronic** and other divisions to the growing polysilicon business.

As far as capital expenditures are concerned, we will pull through the various polysilicon expansions, numbered 5 to 9, 6 and 7 are in place as you know, the powder dryer in Nanjing and the Siloxane joint venture in China.

Since we do not expect the semiconductor industry to become less ambitious with regards to specifications, we continue to drive R&D in Siltronic on process and product capability parameters, since it is important to continue to participate in ever shrinking future design rules.

Most important to us, however, is our commitment to our customers. Even through this crisis they can count on Wacker Chemie as a reliable and supportive supplier.

Our strategic positioning is intact and our plans are set. We continue to pursue our strategic projects despite the current difficult environment. We believe that this is the time to make a difference.

I am convinced that our efforts will pay off. Given our products, our market positions, technologies and engineering power, we want Wacker Chemie to emerge out of this crisis as a stronger player than before.

Although the environment right now is foggy without clear visibility, we keep our strategic direction. As I said, our plans are in place and we are going to pursue them relentlessly.

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

Hoffmann

Operator, we are now ready for the Q&A session.