Wacker Chemie AG

Conference Call

on the 3rd Quarter 2006

2006-11-10

Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann

Ladies and Gentlemen, welcome to the third-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 Q3 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. I would like to welcome you all to today's call.

We are experiencing a record year for Wacker Chemie. We have been talking about growth with high margins for a while, and we think that our results in Q3 show that we are delivering on our plans.

Sales in Q3 were up 20 percent over Q3 last year, reaching 857 million euros.

EBITDA went up 20 percent to reach 218 million euros.

Given that Q3 is typically a stronger quarter than Q4, we expect seasonal softness in Chemicals towards the end of the year, but in the other segments, we think that the positive trend will continue.

Considering the strong performance this quarter, we expect to achieve record full-year sales of 3.3 billion euros.

This is the highest sales number in Wacker's over-90-year history. On top of that, we expect to slightly beat our previous full-year EBITDA guidance of 730 to 750 million euros for 2006. This should also be a record number for Wacker Chemie. You have seen us now for the third quarter in a row delivering strong results.

This third quarter, we achieved two important milestones on our roadmap for growth:

- We had the groundbreaking for the Samsung joint venture in Singapore in early October, and construction there is under way.

- As we mentioned on our last call, we received the business license for the siloxane joint venture with Dow Corning in China, and construction of the new complex started in early September.

  This plant will give us access in Asia to world-scale economics for our Silicones division by the end of the decade.

Recent changes in the competitive landscape, with Apollo buying the GE silicones joint ventures and with China National Bluestar acquiring Rhodia’s business, serve to demonstrate the ongoing attractiveness of the global silicones market. We expect that the two new owners’ concentration on silicones will improve market conditions and will help to further grow the global silicones market.

One question that we keep receiving is about our supply/ demand outlook for polysilicon. The slide presentation accompanying this call gives you our view on this important matter.

After a thorough assessment of all announcements, and based on capability reviews and a critical analysis of time-lines, we think that the supply picture we have presented is pretty much up to date. To assess demand growth, we combined the Gartner semiconductor forecasts with two different scenarios on solar. We realize that significant gaps between supply and demand will eventually be reduced by market forces. But we believe that some of the recent speculation concerning looming over-capacity is unrealistic. We are predicting strong demand growth from the solar and semi markets continuing during the next two or three years at least, with supply catching up to growing demand in 2009 at the earliest. This rather conservative forecast however, does not even take into account the impact of quality and timing on the supply side.

Both of which are questionable with many of the new entrants trying to get a position in this technically demanding industry. Polysilicon quality increasingly becomes a differentiator for the many players in the solar industry.

An important thing to note here is that many demand models neglect the elasticity of demand. Our customers have been telling us about solar opportunities that have not been fully exploited due to a lack of polysilicon, and we think that as soon as the supply situation eases, additional previously unsatisfied demand may kick in. Underscoring this view is our success in signing up additional customers for long-term supply agreements. As of today, we have signed a number of long-term contracts from 2010 onwards, with prepayments covering more than 50 percent of the capital needed to build the latest expansion stage.

Looking at our polysilicon contract portfolio for 2010, we have about 75 percent of volumes covered with long term contracts including internal supplies to Siltronic.

Our expansion projects announced earlier this year are on track, and we expect them to come on stream as scheduled – in time and quality.

This Monday, plans were announced for an ethylene pipeline to connect the region around Burghausen and our major ethylene supplier, OMV, to the ethylene grid connecting Rotterdam with Ludwigshafen. The EU and the state of Bavaria support the project. Wacker's share will be about 11 million euros.

This pipeline enables OMV to build up significant capacity in the region, securing our requirements for the Polymers business for the long term and providing us with room for further growth.

Now let me give some points on how we view the year 2007 today.

- In the past, our revenue growth in the chemical businesses was always above worldwide GDP.
  We expect this also for 2007.

- In Polysilicon, our growth next year should follow our capacity ramp-up, as the market continues to see strong demand.

- From today's perspective the general environment in semiconductors gives us indications for another good year in semiconductors. As you are aware, our visibility in Siltronic is about one quarter or so. Given the holiday season and the Chinese New Year, it is too early to give you more specifics on Q1.

We will update our guidance for 2007 as we progress through the year.

In summary, this means we believe that we will further grow sales and EBITDA in 2007.

With this, let me hand it over to Joachim for the details on the Q3 results.

Dr Rauhut

Thank you Peter,

I would like to review our third-quarter performance first, make some comments on current trading conditions, and finally go into a bit more detail on the rest of this year. Further, I will talk about our current view of our business environment in 2007.

- Q3 generally met, and in some cases exceeded, our expectations.
- Group sales were up 20 percent year over year reaching 857 million euros, with the strongest gain

coming from Siltronic with about a 30 percent increase and from Polysilicon with plus 20 percent.

- EBITDA for the group reached 218 million euros, up 20 percent over the prior year.
- If we look at the nine-month comparison, our results are even more convincing: sales up 23 percent and EBITDA up 31 percent. Correcting for the 47 million euros of positive special items we saw in 2005, the increase in EBITDA was roughly 45 percent, or about twice the increase in sales.

As we had expected, Q3 resembled Q2 in terms of sales with the exception of Siltronic, which was 10 percent over the preceding quarter. What changed in Q3 versus Q2, however, was our improved level of profitability. While our chemicals businesses essentially maintained their Q2 profitability level, our silicon segments achieved landmark margins. Polysilicon's EBITDA margin went up to 40 percent, and Siltronic reached the 30 percent margin level we had been aiming for.

Overall, our EBITDA margin improved by 1 percent to 25 percent comparing the third quarter with the second quarter of 2006.

Let's go through the segments one by one:

- In Silicones, the year-on-year sales increase of 13 percent in Q3 to 321 million euros was mainly driven by volume and mix effects. At 63 million euros, EBITDA was 5 million euros below the prior-year quarter. Rising costs for raw materials and steam energy hit our results this quarter. In addition, results were burdened by one-time-costs associated with the Chinese Zhangjiagang joint venture and ramp-up expenses relating to new siloxane capacity at our Nünchritz site.

Silicones continues its strategy of working on its product mix by favoring higher value added and higher growth products over basic products. Therefore, despite the one-time charge in Q3, we nearly kept our EBITDA margin of around 20 percent on the same level as in the previous quarter.

- At Polymers we saw a record Q3 driven by strong growth in dispersion powder base with capacity utilizations setting new production records. Sales in the segment came in at 153 million, 17 percent up from the prior year. While EBITDA in Polymers was lower than last year's Q3 due to ethylene, it stayed on the level of Q2. It is important to note that during last year spot ethylene prices according to ICIS had temporarily dropped below 500 euros per ton, resulting in very high margins in Q3 2005.

Today, our ethylene cost is about 50 percent above the level of the third quarter of 2005. Our announced price increases will help to compensate for these effects in the coming quarters. We expect steady growth in this segment as market trends, such as increased use of tiles in home decoration and exterior insulation finishing systems, continue to drive demand for our products.

Our Fine Chemicals business reported sales at about the level of the prior year. Disappointingly, the EBITDA contribution from this segment was zero. Inventory revaluation, in line with the exclusive synthesis reorganization we discussed last quarter, and higher ethylene costs accounted for the decrease. While our biologics business is developing nicely, we are working to turn around the overall profitability of the segment by increasing the focus on fewer products and further leveraging assets such as our patent-protected cyclodextrin and cystein products.

Overall, for our chemical segments, we expect for the full year to come in with sales slightly higher than 1.9 billion euros and an EBITDA margin between 17 and 18 percent. The fourth quarter is seasonally the weakest quarter of the year, this means that the actual margin in the last quarter will be significantly below this year's average. Also our maintenance activities peak during this quarter. In addition, our Silicones business will see significantly higher methanol costs resulting from multiple force majeure situations in Q3. Please also remember in the year on year comparison that in the final quarter of last year, the Silicones division benefited substantially from the receipt of insurance payments of about 20 million euros relating to the Nünchritz incident which was described in detail in our IPO prospectus.

In Polysilicon, we were successful in increasing sales in Q3 by 20 percent to 80 million euros through volume and price increases and yield improvements. EBITDA reached new heights at 32 million euros, representing a margin of 40 percent. For 2006, we expect Poly sales to grow around 10 percent over last year. Please note that in the fourth quarter the cost for gas for our cogeneration will unit increase significantly, which Polysilicon as the main user of electricity has to absorb. We confirm our guidance on a full-year EBITDA margin in the mid-thirties. The supply and demand balance for polysilicon continues to be favorable, and so far we have been able to sign contracts with customers which have underwriten over 50 percent of the investment cost of our latest polysilicon addition. In the third quarter we received 37 million euros prepayments, and we expect additional cash inflow from prepayments of about 80 million euros in the fourth quarter. The contracts for our most recent expansion step basically follow the model of our previous prepayment contracts. We think that these contracts provide our customers access to high quality material and growth opportunities at a time when at least some capacity announcements in the market are coming under scrutiny.

We are currently expanding three units in parallel at our site in Burghausen, which is only possible due to the experienced engineering team at Wacker. Construction on

Poly 6 is progressing as expected, and site preparation for the Poly 7 plant has begun on a recently-acquired property. We are confident about our expansion schedule, and we expect to bring all of these units on stream on time and on spec.

In our Siltronic business, we are keeping the momentum going. Sales were up 30 percent over last year's Q3 reaching 331 million euros. A better share of 300 mm and a continued upwards trend in pricing boosted EBITDA from 56 million to 98 million euros in Q3. 300mm is our fastest growing diameter. We continue to work hard to increase profitability, supported by improvements in yield. For the full year we expect sales slightly above 1.25 billion euros, with the fourth quarter exceeding the third quarter.

This forecast takes into account comparable volumes in the fourth quarter and some positive price effects. With regards to the fourth quarter, we are seeing some shift in allocations due to lower demand for communications and consumer applications from foundry customers.

In Siltronic we expect to retain about a 30 percent EBITDA margin in the fourth quarter, resulting in a full-year increase in margin to about 27 percent. This is higher than the previously indicated 26 percent.

Let me now summarize how we see the full year 2006 coming in.

- We are looking at sales growth of around 20 percent, amounting to total sales of about 3.3 billion euros.
- We feel comfortable guiding to an EBITDA number slightly above 750 million euros.

Going further down the P&L for 2006, we expect profit before taxes at a level of around 375 million euros, up 80 percent over last year. The strong results in Siltronic should allow us to utilize a substantial amount of our tax loss carry forwards, and as a result, our cash tax rate should stay at about 30 percent. We expect depreciation to come in at a level of about 340 million euros, slightly less than last year. For 2006, we expect to spend more than 500 million euros on capex on our roadmap for growth. This is roughly the 16 percent of group sales which some of you will remember from the IPO. This number includes a planned contribution for equity to our new Silicones and Siltronic joint ventures of around 70 million euros.

With the prepayments for polysilicon totaling nearly 200 million euros in 2006, we expect to generate a net cash flow of more than 250 million euros this year. After three quarters of 2006, the net cash flow has already reached 173 million euros.

Looking out into 2007, I'd like to anticipate some of your possible questions on specific issues.

As Peter said, in general we continue to see a positive business climate next year and increasing sales. Sales in US$ will grow therefore the net currency exposure to the US Dollar will increase to almost 8 million euros for one cent of change in the US Dollar to euro ratio. Our upcoming investments in China and Singapore for Silicones and Siltronic will help to reduce such effects in the long run.

On the cost side in 2007 we see a substantial increase in costs for electricity at Burghausen since October 2006 which is being absorbed mainly by our Polysilicon unit. Given the tight supply demand situation in polysilicon and our pricing, we are confident that we will compensate for these effects without margin-dilution next year.

In Silicones, increasing costs for silicon metal and methanol will affect 2007. Positive price and mix effects should counter raw material increases in the Chemical segments.

Overall, keeping other inflationary costs in mind, we are, as Peter said, confident about increasing our EBITDA in 2007, and I expect us to show again a very strong financial performance.

With this let me hand it back to Peter for some closing words.

Dr Wacker:

Thank you, Joachim.

So far, 2006 is turning out to be a record year for Wacker Chemie with the highest sales number and highest earnings in Wacker's long history. Now, for 2007, you will ask me: can you do it again? The clear answer is: yes.

I am confident that we can increase this year's record results next year.

Why am I so confident? Let me give you a couple of data points that support my optimism:

1. In Silicones we are seeing new dynamics in the market with two new strong and focused players dedicated to silicones.

2. In Polymers we will recover margins helped by a market shortage with price increases.

3. In Polysilicon we continue to challenge our capacity limits and are working hard to get new volumes to our customers.

4. In Siltronic we are seeing our customers adding a total of 20 new 300mm fabs coming on line next year, significantly driving up demand.

With this, let's start answering your questions.