WACKER

Wacker Chemie AG

Conference Call on 1st Quarter 2006

15.5.2006

Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IR

Hoffmann

Ladies and Gentlemen,

Welcome to the first quarter 2006 conference call on Wacker Chemie AG. My name is Joerg Hoffmann. I am the Head of Investor Relations at Wacker Chemie. It's a pleasure to have with me today Dr Wacker, our CEO and Dr 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 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. Factors that may cause such discrepancies are laid out in detail under the caption "risk factors" on our IR website at www.wacker.com. WACKER does not plan to update those risk factors or the forward looking statements made during this call, nor does it assume the obligation to do so.

We have provided a short presentation on Q1 Highlights on our website at WWW.WACKER.COM under investor relations, in order to help you follow the presentation.

With this let me introduce you to Dr Wacker, our CEO.

Dr Wacker

Thank you.

Welcome to Wacker Chemie's first quarter conference call.

We have enjoyed an interesting quarter.

First the IPO was quite an experience – and I would like to thank all of you who participated in our successful launch. We really enjoyed the discussions and thoughtful questions we received during that process.

Second, as we said on the roadshow, Wacker is all about growth and margins. I am proud to say that we have seen a very successful first quarter in 2006. Our businesses exceeded the level we saw in late Q4 2005.

All in all our strategy is playing out. We are growing in our core competence areas. We are expanding our presence in the growing economies in Asia and we are delivering results.

Let me briefly touch on the developments in our businesses. Let me start with our Chemicals which include Silicones, Polymers and Fine chemicals.

In Silicones we benefited from our capacity expansions in Nünchritz and from an improved mix of products. Long term it is our strategy to further enhance the quality of our product portfolio. In addition we continue to increase the sales of more specialty and value providing products to our customers.

During the next two years we will be also repaying product swaps. Those swaps enabled us to prepare the market for the start up of our Nünchritz plant, accelerating market development. We have great expectations for growth, driven to a large degree by constant innovation. For instance, we are growing very strong in power transmission and distribution. Traditional porcelain based insulators are being replaced on a large scale by state-of-the-art silicone solutions in many geographies.

In Polymers we are maintaining our leading positions in redispersible powders and gum base globally. We are expanding our capacities with smart investments focused on debottlenecking opportunities yielding significant productivity increases. In China we have started market development activities in powders for the construction industry and are present in Wuxi with gum base. Overall, we are moving forward with our strategic investments and have decided to start construction of a new 30Kt so called Monster-Dryer at our Burghausen site. Dryers of this size are without par in the industry and catapult us into new levels of performance.

As for Fine Chemicals, the first quarter was boosted by a seasonal campaign in exclusive synthesis for a large customer which came to an end in March.

So much to our Chemicals segments.

Our Polysilicon business continues to develop nicely. We are making headway in our pilot plant for a fluidized bed reactor and customer trials of the product have been very successful. The share of Polysilicon sold to external customers came down as Siltronic's strong growth absorbed a lot of material. The larger share of electronic grades led to an increase in average sales prices. Demand from the solar industry continues to be strong and we are working hard to make additional capacity available to meet these needs. Our current expansion of 1.000 tons from existing units should come on stream in full capacity at the end of the year. The new 3.500 ton plant is well under way and should have material for our customers in early 2008. Work has started on the foundations, the shell and the integration into the many chemicals processes that benefit such a project compared to a green-field expansion.

Among other products in the segment, sales of rock salt for road safety purposes did particularly well.

Siltronic is reaping the fruits from our cost reduction programs that are delivering sustainable contributions to the bottom line. A landmark event for us is the fact that Siltronic for the first time in history sold more than 50% of its products in Asia. Looking at our order books and the business this quarter we have to say that overall trading conditions are good.

Visibility has increased into Q3 and capacity utilizations are high at our plants. With regards to pricing we can report that wafer prices are going up by low to mid single digits. The market continues to grow in the 300mm segment, our sales in 300mm more than doubled while smaller diameters increased by 40% over the low levels of last year's Q1. As our performance underlines, Siltronic has regained its strength and is expanding market share.

Let me also add that we hear about availability of polysilicon becoming an issue for some smaller players in our industry.

One of the chief reasons for the IPO was the funding of an ambitious growth program. As you know we are planning to spend 16% of total sales for the next 3 years, adding strategic capacities in Polysilicon, Silicones in China, Powders and joint venturing with a customer for Wafer production in Asia.

Wacker is on a long-term growth trajectory that started decades ago and has basically continued unabated. Our guidance on long-term sales growth remains unchanged with about 8% sales growth year over year overall with higher rates in Polysilicon and somewhat lower rates in Fine Chemicals.

With this let me hand it over to Dr Rauhut for more comments on P&L details and modeling guidance.

Dr Rauhut

Let me cover our numbers and touch on some modeling issues since most of you will be interested in those questions.

You all saw our release today, so let me just give you the highlights for the quarter. Compared with the same quarter of 2005, we increased sales in the first quarter of 2006 to 798 million euros.

Please bear in mind that our first quarter 2005 was a pretty weak quarter, therefore all our numbers reflect a base effect in comparison. In addition, Q1 2005 saw three working days less than Q1 2006, a small but important difference.

All our divisions saw strong growth, led by Siltronic with a strong increase year over year. The Chemicals divisions saw growth rates in the low twenties, while growth in our Polysilicon division was limited by available capacity. Sales growth year over year overall was driven by volumes with 29%, with price changes of minus 3% and currency effects of plus 5%. The change in prices stems mainly from the decrease in pricing for 300 mm wafers compared to the first quarter 2005.

Our EBITDA went up by 92 million to 184 million euros, driven by the very strong performance in all of our segments.

Notable is especially the improvement in Siltronic year over year which alone contributed 68 million euros to the increase in EBITDA. High capacity utilizations favored most segments with the effects of cost reduction programs paying off, while the effects of pricing and currency nearly compensated each other. Overall, rising energy and the top 4 raw material costs added 10 million Euros to our bill in the first quarter mainly for platinum and methanol. As a reminder our top 4 raw materials are silicon, ethylene, methanol and platinum.

Admittedly, our overall weak performance in the first quarter 2005 inflates some of the comparison growth rates. But if you compare our Q1 figures with the fourth quarter of last year, we still show an impressive 9% growth in sales and an increase in EBITDA by 16%.

Going through the P&L from top down, you see that during this quarter we contained expenses in SG&A at a competitive level of 10%, we actually expect to keep SG&A at this rate for 2006.

Our strong commitment to R&D is witnessed by 37 million Euros spent in Q1 or roughly 150 million euros which we have ear-marked for the full year, in about the same split across the segments as last year.

Net debt went slightly up in Q1 following dividend payments as strong generation of operational cash flows and cash inflows from prepayments provided funds. Looking at the second quarter, gross funds inflow from the IPO was 427.9 Million euros, driving down debt towards the end of Q2.

Our average cash tax rate during this first quarter was 33% with the benefits of tax losses at Siltronic. Including the impact of deferred taxes the overall reported tax rate amounted to 30%.

As you are aware our JV partner Air Products has informed us about their interest to part from their share in our joint ventures. At this point in time we have no news to communicate.

We are comfortable with our contractual position and have a right of first refusal. We don’t expect a change of ownership to impact the business.

In our chemicals divisions, Silicones, Polymers and Fine chemicals overall sales increased by 21% while EBITDA went up by 38%.

In detail our Silicones division sales grew by 21% filling new available capacity at our Nünchritz site and raising overall capacity utilizations. Swaps contributed above 10 million euros to sales growth. This is the repayment for our accelerated market development last year. An improved product mix helped push EBITDA up by 42% to 64.8 million euros.

Polymers sales grew by 22% increasing EBITDA by 35% to a margin level of 23.7 percent. Growing volumes, continuous productivity enhancements, and price increases helped profitability.

In the light of increasing raw material prices the division has announced price increases. This should help to mitigate some of the impact of ethylene cost increases in the course of the next quarters.

Fine Chemicals had a strong performance in the quarter helped by a campaign that lasted from Q3'05 to Q1'06.

So much for our Chemicals divisions.

Sales in Polysilicon were basically capacity constrained. We continue to edge along on the limits of our capacity to meet the demands of our solar customers and the internal needs of Siltronic.

Sales increased by 7% to 85.5 million Euros and EBITDA rose by 22% to 30.9 million euros.

The increase in sales of 7% represents a larger share of electronic grades as well as the strong contribution from seasonal sales of rock salt during the winter months in Bavaria.

Siltronic needed a larger share of our polysilicon as growth in Siltronic continued on a high level. A decrease in unit costs helped to increase profitability to a margin level of 36,1%.

Siltronic's numbers in Q1 are barely comparable to the last year. Speed of change has rapidly increased and after the ramp in Freiberg and a number of changes to management processes Siltronic is now in a far better position today than a year ago. Sales increased by 114 million euros over Q1 2005, exceeding the run rate we saw developing in the second half of last year by 7%. As we expected, EBITDA was kept at a level of 24%, which was the average margin during the second half of last year. As Dr Wacker stated, after a long series of price decreases we now are seeing price increases in the low to mid single digits. This makes us confident for Siltronic about the full year in an environment marked by increases in polysilicon costs and a strengthening euro.

Now let’s get into some modeling hints.

Before we get into forward modeling it is important to understand that our full year 2005 reported numbers included some special items. Non-operational positive effects were the release of provisions of 24 million euros, an extraordinary gain from divestments of 23 million euros; negative effects were impairments of 10 million euros. These effects add up to a total one-off impact of 47 million euros on EBITDA.

Also a change resulting from IFRIC 4, a rule relating to leasing led to an increase in full year 2005 EBIT of 1,6 million euros and 5,2 million euros on EBITDA. The first quarter of 2005 saw a positive effect on EBIT of 0.4 million and EBITDA of 1.3 million in the segment Others.

Taken together all these effects, our EBITDA would have been 567 million for the full year 2005.

With regards to current trading conditions in most segments are favorable with solid demand. However, increases in raw materials pricing are impacting both our Chemicals divisions.

For the Chemicals business as a whole we expect results to resemble last year’s sales growth with about 2% lower margins due to higher raw material and energy costs.

We further expect EBITDA margins in our Polysilicon division to improve over last year into the mid thirties, while sales in this division should grow by mid single digits. At Siltronic we expect for the full year margins on the level of the second half of last year, while sales should increase by high single digit number over last years' 2nd half run rate.

For the full year 2006 we now expect sales growth slightly higher than 10%, which was last year's growth rate. Profitability benefits from higher capacity utilizations and price increases, moderated by an increasingly strong Euro. Mainly our Chemicals business will also be impacted by higher raw material and energy costs.

Full year EBITDA 2006 is expected to grow from an adjusted level of 567 million Euros in 2005 to a number between 640 and 680 million Euros. This would represent an improvement of up to 20% over last year.

We know, that you are asking why our guidance is not four times Q1 for the full year. The major factors weighing on results are further increases in raw materials and energy costs. In our calculations we think that raw materials and energy will have an impact of up to 50 million euros in the full year. In addition, an adverse Euro to dollar exchange rate will weigh on our results.

Dr Wacker

There is no change to the fundamental strengths of our business. We have strong growth in all segments and a strong focus on margins. We are proud of our achievements this quarter and are confidently looking forward to increasing sales by over 10% and to growing EBITDA almost twice as fast for the full year.

As I told you on the roadshow: WACKER is all about growth and margins.

We are ready to take your questions now.

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Hoffmann

Ladies and Gentlemen, we are reaching the time limit for our call today. I am convinced that we have touched all material issues during this call.

If you have further questions, please don't hesitate to contact IR. The contact details are available in the quarterly release and on our website.

Dr Wacker

Thank you for your interest in Wacker Chemie AG and thanks for participating in this call.