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Wacker Chemie AG

Conference Call

on the Second Quarter 2007

August 2nd, 2007

Dr Wacker, CEO

Dr Rauhut, CFO

Hoffmann, IRO

Hoffmann:

Ladies and Gentlemen, welcome to the second-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.

As we do every quarter, we published today our quarterly report, a press release, an Excel file detailing our quarterly data and a short presentation on Q2 to accompany this call. In addition, we posted today a press release on the formation of our joint venture for solar wafers with SCHOTT as well as a presentation with some background details. All of these files can be found on our website www.wacker.com under Investor Relations.

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

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Dr Wacker:

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

We published today a detailed press release concerning our solar wafer joint venture with SCHOTT. I am very enthusiastic about this effective extension of WACKER's silicon value chain and the opportunities that this venture provides for WACKER.

But, let's first have a look into the second quarter and then I will talk more about our recent news flow. Joachim will follow up with more detail on the numbers, and I'll close our introduction before we go into the Q&A.

As you recall, we had a very strong start into the year with excellent numbers, supported by a mild winter. Our performance in the second quarter continued at this high level.

- At 959 million Euros, sales in the second quarter were 15 per cent higher than last year.

- Our EBITDA increased by 33 per cent to 261 million Euros over last year. This is a record Q2 for WACKER.
- Earnings per share grew by 94 per cent to 2.62 Euros per share over last year, resulting in 4.92 Euros for the first half.
- Thanks to our very strong cash flow, and despite our aggressive investment program, our net financial debt is down by more than two thirds from last year end to €144 million.

During the second quarter many of our businesses were capacity constrained. 300mm, polysilicon, dispersible powders -- in all of these businesses we were catching up with market demand. On the other hand, the Euro continued to gain in value during the second quarter and has reached the highest levels in history compared to the US dollar. This development is a challenge for our business.

Our chemicals businesses are working out as expected with price increases taking hold, and polysilicon continues to enjoy very healthy demand.

The long-term outlook for Siltronic continues to be very positive and the 300mm market is remaining strong. The 200mm market is less certain. Joachim is going to discuss current business conditions for all segments in a few minutes.

Now back to the exciting news release we put out today. We are very pleased that we are setting up a joint venture for solar wafers with SCHOTT Solar. SCHOTT Solar is a leading player in solar technology with a strong quality mindset and a business philosophy that is very similar to ours. Just to put it into perspective, with a 10 per cent market share in Germany, SCHOTT Solar is one of the leading manufacturers of photovoltaic components in the world's largest solar market. Globally SCHOTT accounted for a 2006 market share of about 6 per cent.

The joint venture creates a true win-win situation for both parties. For SCHOTT Solar it lifts the growth restrictions that the lack of polysilicon imposed on their business.

For WACKER this is a significant step further down the value chain. The joint venture effectively ties a share of our polysilicon production into an extended value chain that now includes solar wafers next to our Siltronic semi wafers. At this point let me make one thing pretty clear: the Joint Venture will have no impact on our current contracts with other third parties. We continue to support our partners with supplies of polysilicon according to their contracts.

WACKER and SCHOTT have set very ambitious targets for the venture. We are planning to invest in capacity expansions leading to a total capacity of one gigawatt in 2012, and we expect the business to become a leading contender in multicrystalline solar wafers. SCHOTT contributes plants in Alzenau and Jena and as well as some other assets, while WACKER will supply the polysilicon.

The JV has a two tier structure:

- A production JV at 50:50 will produce solar wafers from polysilicon at Alzenau and Jena.

- A sales JV, which we will consolidate given our 51 per cent share, will market wafers to third parties.

WACKER POLYSILICON will deliver both granular material and chunks to the JV at market terms. The production JV will then process the polysilicon into wafers using two different methods. Most of the material will be used in conventional cutting processes where we can leverage Siltronic's leading understanding of silicon and decades of experience in wafering. In addition, SCHOTT has developed an attractive EFG or edge-defined film technology that reduces the specific amount of poly used per wafer significantly. Both parties have established a rigorous technology deployment plan and are going to drive both technologies towards cost leadership in the industry. Overall, the joint venture will invest 370 million Euros into additional assets to produce ingots and solar wafers.

SCHOTT Solar will independently process about two thirds of the wafers into cells and modules for the rapidly growing global solar market. The remaining wafers not consumed by SCHOTT Solar will be sold directly to other processors via the sales JV.

We are convinced that our joint venture with SCHOTT Solar will have a significant impact on the market, and, with its secured high quality supply of polysilicon, that it should benefit significantly from the growth in the global solar market.

As you will recall, we announced on June 14th that we are going to build the Poly 8 plant, and on July 16th we announced our technological breakthrough in TCS granular. Adding supply contracts to third parties, Siltronic's demand and now the planned supply to our solar joint venture, our poly volumes are targeted to be contracted by about 80 per cent through 2015. We are marketing product from our last expansion step to solar customers now. These contracts should be finalized in Q3, triggering additional prepayments.

I am especially proud of our success in scaling up our TCS granular technology. This is a breakthrough.

We have specified material to a number of customers and received very positive feedback concerning our product quality.

We see TCS granular material as a welcome addition to our product portfolio. It is mainly used by the ribbon growth customers, who are employing continuous recharging processes.

In addition, the use of granular significantly improves the productivity of traditional casting processes. All of you who were at our recent Capital Market Day will remember the experiment we showed you. We compared the effective load of a crucible filled with chunks to one filled with granular and to one with a mix of both. The mix packed almost a quarter more polysilicon into the same sized crucible. The higher density packing results in significantly better economics for our customers. So you can see that granular is in the true sense of the word a complementary offering.

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Our Joint Venture with SCHOTT enriches and completes our portfolio. Extending our full integration in the silicon value chain to solar, we are now better positioned than ever before.

Now I'd like to hand it over to Joachim.

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Dr Rauhut:

Thank you Peter,

I want to take you on a short tour through our second quarter results, and I will then discuss the trends in our segments. I am also going to give you some more financial details on the solar wafer venture.

In Q2 we saw a good performance by our business units. Price and volume effects overall more than compensated for adverse currency effects compared to the prior year. In Chemicals, growth was primarily volume driven with some price upticks, while in POLYSILICON and Siltronic both price and volume trends pushed sales. Excluding FINE CHEMICALS, all our segments performed close to or slightly above our record Q1 sales levels. Our cash flow development was very favorable, as we generated 122 million euros of net cash flow in Q2.

As Peter said, the strength of the Euro has challenged us somewhat during the quarter, and I'll discuss this as we go.

Group sales came in at 959 million Euros, which is 15 per cent above the prior year and 2 per cent above Q1. EBITDA was substantially higher than last year at 261 million Euros, which is 33 per cent above the prior year and just 2 per cent under the very strong first quarter.

Let's have a closer look at all of our segments.

We saw another quarter of strong sales growth at SILICONES at 8 per cent on the back of volume effects. Sales in Europe and Asia mainly drove that expansion. EBITDA stayed at the level of last year as we saw some relief on methanol pricing while silicon metal pricing increased. We continue to improve our product mix in favor of higher value added products. Our expectations for the segment remain unchanged.

As we have previously said, for SILICONES sales we expect about 7 per cent growth for the full year, while margins should come in slightly below last year.

We have seen some benefits from price increases, currency effects depress an improvement of our margins.

In POLYMERS, our sales growth of 13 per cent over Q1 2007 was actually capacity constrained. Sales in the segment reached 168 million Euros, which is 14 per cent more than last year and EBITDA came in at 35 million Euros. Profitability was impacted by the cost of imported liquid dispersions to fulfill the effects of the demand from our customers and a 12-day force majeure declaration by our Ethylene supplier OMV. The planned outage of our supplier OMV in Q3 will be compensated by inventory build prior to the shutdown with no impact on sales, but some effect on margin. With imports, shutdowns and now higher ethylene costs as well, we expect for the year about 15 per cent sales growth in POLYMERS with an EBITDA margin at the level of the prior year.

The construction markets in China and Eastern Europe are growing strongly and are demanding more and more of our enabling products.

At FINE CHEMICALS, sales were at about the same level as in the prior year but behind the strong Q1 sales. Sales growth in our biotech and ingredients businesses compensated for the sales drop in Exclusive Synthesis. Compared to prior year, EBITDA in FINE CHEMICALS remained essentially stable, with some benefits from the reorganization. For the full year 2007 we expect to show sales and EBITDA at prior year’s levels.

At 98 million Euros, sales in POLYSILICON were 26 per cent over the prior year and 6 per cent over Q1. EBITDA in the segment increased by 51 per cent over last year to 35 million Euros. Demand for polysilicon continues to be very strong and the pricing environment is healthy.

The ramp for our poly 6 unit is progressing as planned and all other projects are well on track. For the full year we expect improved results. Today, we expect to clearly exceed 400 million Euros in sales.

In addition, we are confident that the EBITDA-run rate in the second half should be close to 40 per cent. Currently, we are marketing the free capacity of Poly 8 that we will have after serving the solar wafer JV and our internal semi wafer demand.

So far, we have collected about 230 million Euros in prepayments this year. With new contracts for Poly 8 underway, we will have received more than the previously stated 500 million Euros in total by year end. As it stands today, we continue to see the market for polysilicon very tight until at least 2010. Since cell capacity continues to outgrow polysilicon capacity additions and despite lots of announcements of new entrants, it is quite likely that the market will actually stay constrained until 2012.

Now, let’s have a look at our new solar joint venture. As you can see from the slides that came with our disclosure today, the actual set-up is that we have formed a 50:50 production entity and a 51:49 external sales company with SCHOTT Solar.

Net income from the production JV will be consolidated at the POLYSILICON segment. The JV will start production this year, investing heavily in the next few years. From today's perspective we expect significant earnings contributions from 2011 onwards.

Sales and commission income from the distribution JV will be fully consolidated also in the POLYSILICON segment. During the first three years, however, this impact should be small, as our partner will absorb most of the wafers during the starting phase.

The solar wafer joint venture with SCHOTT is being treated at arm's length, which means that the supply of polysilicon is subject to the same terms and conditions as to any other customer. Pricing and prepayment levels are at market.

The JV will invest 370 million Euros on top of the asset contributions by SCHOTT Solar and plans to ramp its production capacity, to a total production of 1 gigawatt per year by 2012.

Balancing capital contributions and prepayments, WACKER's actual cash out for the venture is very small.

Debt financing and internally generated cash flows will be the major sources for the Joint Venture to finance the investments.

At Siltronic, the good performance of the business continued in Q2 despite a weaker 200mm market and adverse currency conditions. Siltronic's wafer output in Q2 was an all time record, and we reported Q2 total sales of 371 million EUR and an EBITDA of 123 million EUR. Excluding the currency impact, our Q2 performance actually topped the Q1 levels despite the softer environment.

Our customers tell us their 200mm demand in Q3 is not growing as strongly as they expected at the start of Q2, and we expect this soft demand will continue through Q3.

Coupled with this are inventory spikes related to the movement of equipment, transfers etc. especially in 200mm. Whether this reduced demand for 200mm for memory can be fully offset by increased demand in growth areas like image sensors and LCD drivers remains to be seen.

As we told you on the last call, our 300mm capacity will be temporarily reduced in Q3 in order to facilitate our capacity expansion in Burghausen.

So in short, our expectation for Q3 in Siltronic is this: volumes temporarily down for us, with ASPs slightly weaker.

We often get asked about the overall impact of the US Dollar to Euro exchange rate on our business. If you compare Q2 2007 with Q2 2006, the currency movement was roughly 10 cents on the average rates. If you compare Q2 2007 with Q1 2006 the movement was 4 cents.

We have a slide in the presentation for this call on the web that shows our net exposures. If you look to sales, then we have roughly 2 billion sales in US dollars. So a 10% deviation in the currency rate is a 120 million Euro effect per year.

On EBIT, the impact of a 10 cent change in the exchange rate is about 70 million Euros before hedging.

Since we hedge 50 per cent of our net exposure this gets reduced to some 30 to 40 million Euros for a 10 cent average rate change. About 80 per cent of this is EBIT effect relates to Siltronic. Hedging benefits for the Chemical divisions are recorded at OTHERS, while at Siltronic this is shown in the segment numbers.

With our strong investments outside the Euro-Zone in Singapore with Siltronic and in China with SILICONES and POLYMERS, we are increasing our natural hedge.

With regards to the second quarter and the full year outlook, let me talk about our tax rate. As you have noticed, our tax rate in the second quarter was only 24 per cent.

We expect to utilize an additional tax loss carry forwards following some additional tax structuring in Siltronic. For the full year this should result in an overall tax rate slightly above 30 per cent.

Now lets look at our outlook.

Compared to our last call, the wafer market has become more challenging with price and volume pressures on 200mm in Q3. For Q4 we so far have a low visibility and see mixed signals in the semi world.

In addition, the earnings effects of our capacity additions and the associated shutdowns in Siltronic and POLYMERS will hold Q3 performance back.

For the full year, despite these changed business conditions in Q3 in Siltronic and while our other businesses perform solidly, we reconfirm our forecast of above 10% sales growth with an improved EBITDA margin over last year.

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

Dr Wacker:

Thank you, Joachim.

Our fundamentals are intact, we delivered a record Q2, we reinforced our full year guidance for increased sales and earnings. In today's environment this is excellent news for our shareholders.

On our Capital Market Day we talked about performance, our portfolio and the potential of the WACKER businesses. With our good performance, a strong focus on productivity and our optimized portfolio we feel well positioned to participate and lead future market growth.

The latest building block in this portfolio is the SCHOTT JV. With this Joint Venture our silicon value chain is unique.

WACKER is the only player globally active in all parts of the silicon value chain. We expect to benefit substantially from this integrated value chain going forward.

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

Operator?