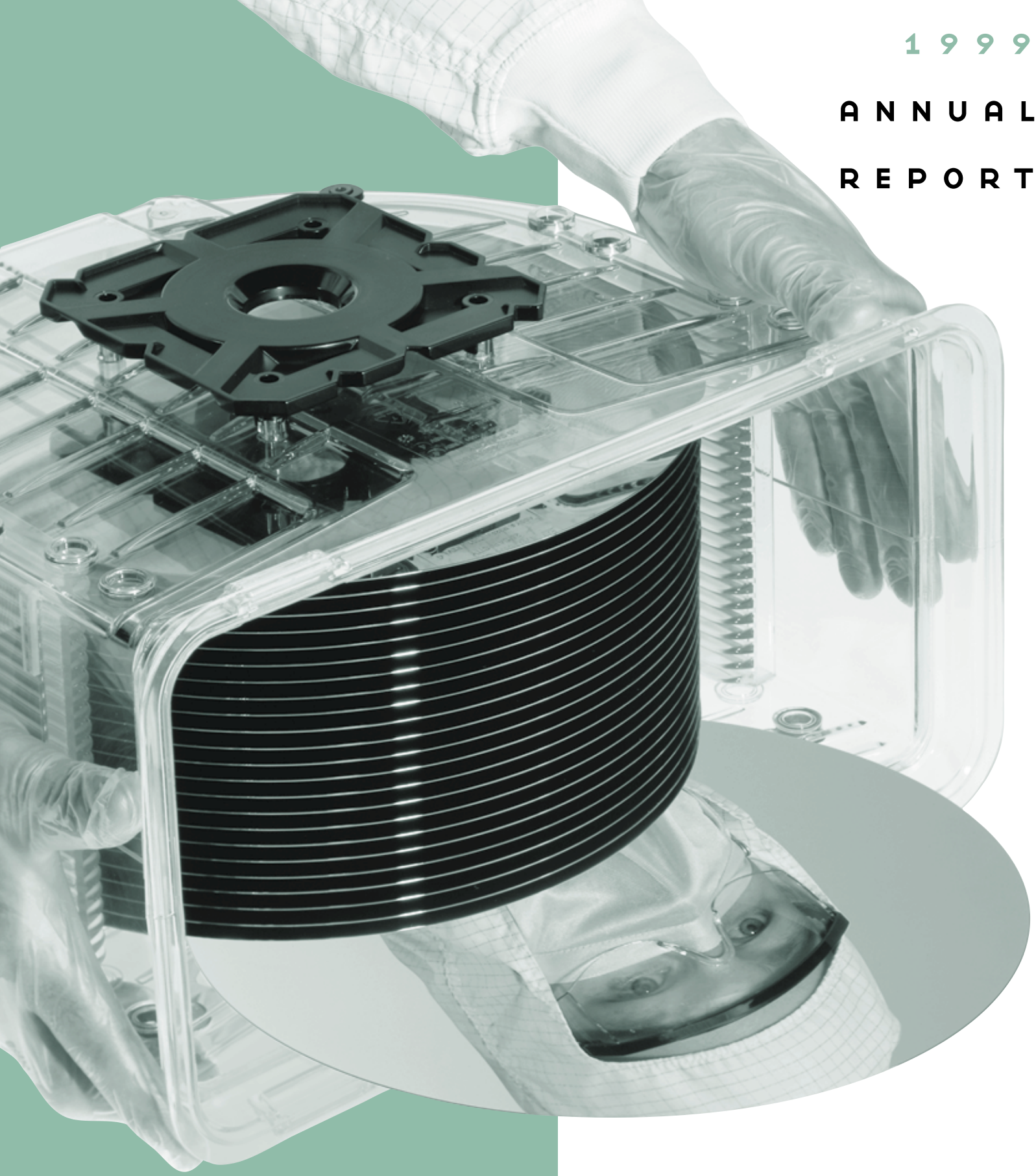
1999

ANNUAL REPORT



MEMC leading the way

MEMC

1999 ANNUAL REPORT

Contents

MEMC Electronic Materials, Inc.

Financial Highlights

Dollars in thousands, except share data

Year ended December 31,	*1999*	*1998*	1997
Net sales	$693,594	$758,916	$986,673
Net loss	(151,481)	(316,332)	(4,513)
Diluted loss per share	(2.43)	(7.80)	(0.11)
Research and development expenses	85,019	81,591	64,457
Capital expenditures	49,256	194,610	372,416
Working capital	86,306	40,494	38,449
Stockholders' equity	432,791	399,040	715,754
Book value per share	6.22	9.85	17.29
Total debt to total capitalization	65%	67%	45%
Employment	6,000	6,300	8,000

MEMC is a leading global supplier of silicon wafers. Silicon wafers are the fundamental building blocks for semiconductors which make possible the Internet and electronic commerce, telecommunications, computers, consumer electronics, industrial automation and control systems, analytical and defense systems — and literally tens of thousands of new applications each year. MEMC silicon wafers redefine how the world lives and works.

to our stockholders

In 1999 the silicon wafer industry emerged from the trough of the recession that began in 1997. The market has not fully recovered yet, but we have confidence the worst is behind us.

MEMC stands ready to take full advantage of a stronger market. We have worked hard since 1997 to position ourselves, and that effort has paid off. We believe we have developed new competitive strengths — in our cost structure, in customer service and in innovative new products.

The silicon wafer market began its recovery in 1999, and our product volumes increased nine percent over 1998. Conversely, in 1998, our product volumes decreased fourteen percent.

But industry average selling prices continued to decline dramatically over this period, from $1.76 per square inch equivalent in 1997 to $1.51 in 1998 and $1.31 in 1999. So, despite the nine percent increase in product volumes in 1999, our revenues actually decreased to $694 million, from $759 million in 1998 and $987 million in 1997. No internal effort could fully offset the effects of this dramatic decline in selling prices in the last three years.

Through intense cost reduction efforts, our gross margins improved in 1999 to negative one percent from negative four percent in 1998, despite the thirteen percent decline in industry average selling prices. This compares to a thirteen percent positive gross margin in 1997. Likewise, our operating results improved in 1999 to a $157 million net loss from a $201 million net loss in 1998, excluding after-tax restructuring charges in both years. This compares to a net loss of $5 million in 1997.

As unattractive as those numbers are, we take heart from two facts. First, clearly, market demand is firming up. Second, as market conditions have improved, our results have become more positive. While product volumes increased 9% in 1999, our cost of sales actually decreased 11% relative to 1998. So, while we share your impatience, our knowledge of our internal strengths and the market's slow but evident return to health gives us confidence in our future.

To explore these issues more fully, we asked the following questions that we thought might be on your and other stockholders' minds.

What has MEMC done to counter negative market conditions?

We took more than $100 million in costs out of our business during 1999, on top of significant cost containment actions in 1998. Considering our industry's high fixed cost structure, we are very proud of that accomplishment.

MEMC people have performed brilliantly in re-inventing our processes to increase productivity and cut costs.

However, even dramatic cost reductions could not offset the twin blows

Helmut Mamsch
Chairman of The Board

of over-capacity and resulting severely depressed prices. Realistically, we do not believe that any internal effort alone could counter the market forces we have experienced since 1997.

What is MEMC's strategy regarding negative market conditions?

As we said in the 1997 Annual Report, we initiated cost reduction measures and slowed or reduced capital projects as the industry first moved into a downturn. When the industry downturn became a full-fledged recession, we accelerated and intensified this strategy.

We will continue this strategy in 2000 and explore new opportunities to change our processes in ways that cut costs.

Beyond cost reduction, what are MEMC's strategy and objectives for 2000?

Looking forward, we see challenges and opportunities as the market continues to strengthen. We intend to leverage our new product offerings to take full advantage of this stronger market.

We will optimize cash flow, improve our product quality, enhance our patents and intellectual property portfolio and implement SAP integrated business software and e-business. These actions will make MEMC a stronger competitor.

When can MEMC stockholders expect their company to become profitable again?

In last year's Report, we were deliberately cautious — and, with hindsight, unfortunately correct — when we said, "We do not see MEMC returning to profitability in 1999."

This year we see positive trends and developments that did not exist last year. Still, we cannot now predict profitability for the year 2000.

The reality is that profitability depends on three related factors — more favorable pricing, increased demand and further cost reductions.

Pricing and demand are elements of this equation that are driven by market forces. While we cannot control the global markets, we can influence their effect on

Klaus R. von Hörde
President and
Chief Executive Officer

James M. Stolze
Executive Vice President and
Chief Financial Officer

we have distinct compet

MEMC through product quality, service, and new product offerings to address market needs. The narrative section of this Report outlines our progress in these areas. And the good news is that both pricing and demand appear to be trending in the right direction.

The factor over which we have the greatest influence — further cost reductions — will be a major focus again this year. We made important progress in improving our cost structure in 1998 and 1999. We have ambitious goals in place to extend those successes into 2000.

For these reasons, we feel confident in projecting improved financial performance in 2000 versus 1999.

Why are your customers profitable again, and you aren't?

The short answer is that device makers made fewer mistakes in the past than silicon wafer makers. So, as an industry, our pain has lasted longer.

In other words, the silicon wafer industry over-built capacity to a greater extent than our customers. Creating over-capacity hurts us in two ways. Over-capacity pushes fixed costs up. And over-capacity pushes prices down.

So, the two forces responsible for the dismal conditions in our industry are forces our industry set in motion.

Why did the silicon wafer industry overbuild?

In the mid-90s, when forecasts predicted terrific growth, our customers urged the wafer industry to build, to protect their silicon supply. And everybody built — before we or our customers realized these forecasts were unrealistic.

To fill capacity, many in our industry began to place too much emphasis on the pursuit of market share at any cost. This, obviously, contributed to the present over-capacity/eroded margin situation.

In contrast, MEMC has reduced production capacity. For example, we closed our Spartanburg, SC, plant. Because of this and other actions, we took more than $100 million in costs out of our business in 1999.

Your majority stockholder, VEBA AG, has announced plans to divest MEMC. What will that mean for your future?

This is a friendly — and logical — separation. VEBA AG and VIAG AG are merging, and they understandably want to focus on their core businesses of energy and specialty chemicals.

For our part, this is an opportune time for a separation from VEBA because of the enormous confidence and global cohesion we have built while battling industry recession. MEMC people have proven their mettle — and then some. In that sense, the timing could not be better.

Financial aspects of the divestiture have not been decided. As of December 31, 1999, VEBA and its affiliates owned almost 72 percent of MEMC common shares. Also, as of that date, MEMC owed $729 million in debt to VEBA and its affiliates. We are working closely with VEBA on the financial implications of the divestiture. We are also working with investment bankers and advisors to determine the best possible solutions for MEMC.

What about financing that VEBA provided MEMC? How will you replace it?

The first VEBA loans to mature will do so in 2001. So, we have breathing room — and liquidity to see us through

itive strengths

this year's needs for operating cash and capital expenditures.

Second, we plan no major capacity expansions this year. For 300mm wafers, we feel confident we can meet demand with our pilot line in St. Peters, Missouri, and our 300mm integrated development line in Utsunomiya, Japan.

Third, as market conditions improve, we will strengthen our balance sheet through operations. We believe we're in a strong position to do that.

Why should I feel good about MEMC?

The reality is that silicon chips have made possible the biggest economic and technology transformation since the Industrial Revolution. Far from slowing down, this global shift now has moved into another growth phase, from computers to network connectivity.

Within this market, MEMC is well positioned. When over-capacity is wrung out of the system, we will have four distinct competitive strengths.

Number one, we have a stronger cost structure. In the future, we believe we will be able to go toe to toe with anyone.

Number two, we can move very quickly to exploit new demand. We have reserve production infrastructure around the world that we can fill at very low incremental cost — and fill quickly. This is space we have available in existing plants that are already customer-qualified. Once we install equipment in this reserve space, we can quickly go into production. So, instead of a two-year delay for a green-field plant, we can bring qualified wafer capacity on line in four to five months.

Number three, we have the broadest and most innovative product portfolio we have ever had. Initial customer response to our offerings has been extremely positive.

Number four, we have made significant strides in our quality of service and are moving toward our goal of flawless execution.

In short, MEMC is well positioned. In terms of competitive cost structure, ability to exploit new market demand, innovative new products and service, MEMC stands ready to take full advantage of strengthening markets.

We thank you for your continued support and understanding.

Helmut Mamsch
Chairman of The Board

Klaus R. von Hörde
President and
Chief Executive Officer

James M. Stolze
Executive Vice President and
Chief Financial Officer

leading the way in

In 1997 when the semiconductor industry began its downturn, no one knew how severely the wafer business would be affected. Even so, as we said in the 1997 Annual Report, "We resolved to use negative market conditions as a learning platform for positive, systemic change."

Our execution of this strategy has been excellent. As a result, MEMC now has a strengthened cost position. As the market improves, MEMC stands ready to exploit this strength.

Here is the record MEMC people have established. *After significant cost savings in 1998, MEMC people took more than $100 million in costs out of our business in 1999, even with a nine percent increase in product volumes.*

We have gone well beyond "low-hanging fruit." Aggressive objectives set for 2000 demonstrate our confidence that we have not peaked.

How has MEMC achieved this record, and why do we believe we can continue to build strong productivity gains? Three factors stand out.

- Restructuring from a regional to a functional focus enabled MEMC to leverage our global purchasing power.
- Restructuring also has allowed us to implement best-cost process changes very rapidly on a worldwide basis. For instance, when one plant identified a slurry with the same chemistry but higher dilution ratios than other slurries —meaning lower cost — we quickly adopted it worldwide.
- We have worked hard to keep productivity efforts continually fresh and continually expanding. One example is a process begun in 1999 we call MEMC Blitz. It works like this. A cross-functional team of eight to 14 highly knowledgeable people focuses on one function. A Blitz Team has only five days to work, and all its recommended changes must be able to be implemented within five days. Finally, the Blitz Team cannot spend any capital money — and very little if any expense money.

Even with tight constraints, MEMC Blitz Teams have achieved remarkable results. For example:

- By changing a room's configuration, one Blitz eliminated more than 300 miles of product travel per year.
- By cutting out non-value-added reports, a Blitz reduced a facility's paper use by 60,000 pages a month.
- By refocusing production to make only what is needed — nothing more, nothing less — a Blitz cut cycle time 30 percent and inventory 32 percent in one operation.

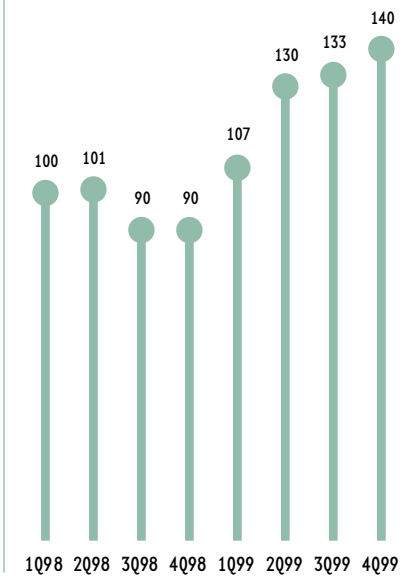
For the future, perhaps the most important point is that MEMC has become a learning organization. What is the most important lesson we have learned? MEMC people have learned that we can reinvent the way we work to meet even the toughest objectives. That knowledge energizes and motivates individuals — and the entire organization.

Leading the way — for 40 years

As the timeline below shows, MEMC has played a leadership role in the silicon wafer business almost since its beginning. Indeed, while other companies made wafers for internal use, we believe that MEMC was the world's first merchant-manufacturer. The timeline also shows how wafer diameters have increased steadily through the years. This allows more functionality at lower cost to consumers for an ever-growing flood of electronic devices.

Productivity

(thousands of square inches per employee; indexed to 1Q98=100)



1947
The transistor is invented by Bell Labs scientists William Shockley, Walter Brattain and John Bardeen. It will revolutionize microelectronics

1954
First commercial production of silicon transistors

1958
Texas Instruments demonstrates the first integrated circuit

1959
MEMC formed by Monsanto to research and manufacture silicon wafers; St. Peters plant construction begins

PRODUCTIVITY

A Blitz Team redesigned this rod lab to reduce its cycle time by more than 50% and decrease its inventory requirements by half. The Blitz team won the Missouri Team Quality Award for 1999.

1960
.525-inch diameter wafers go into production. Some 2,000 computers are sold to U.S. businesses and universities

1961
MEMC builds plant in Merano, Italy

1962
CZ (Czochralski Method) crystal growing process developed and put into use at St. Peters

1966
1.5-inch wafers go into production

1966
First epi reactors installed in St. Peters to introduce 1.25 and 1.5-inch epi wafers

An MEMC applications engineer confers with colleagues at Lucent Technologies' Allentown, Pennsylvania, facility. Backed by cross-functional teams at the global and factory level, applications engineers help customers maximize the value of MEMC silicon wafers.

leading the way in CUSTOMER

1970
MEMC builds plant in Kuala Lumpur, Malaysia

1971
Intel develops microprocessor; IBM develops memory disk and floppy disk

1974
Hewlett Packard introduces first programmable pocket calculator

1975
4-inch wafers go into production

MEMC has pursued customer focus with the same energy we have devoted to productivity — and for the same reason. Namely, as the market emerges from its downturn, MEMC will be a stronger competitor than ever before.

As with productivity, we have achieved strong improvements in customer service. For example, *from 1997 to 1999, MEMC people have cut quality complaints almost in half*. Aggressive quality objectives for 2000 demonstrate that we intend to continue significant year-over-year advances.

We have achieved quality improvements in much the same ways as we have achieved productivity gains. First, through systematic analysis and, second, with strong employee involvement. The basic model for our quality initiative is home-grown — MEMC's world-class safety program.

As with safety, and now with quality, our objective is, first, prevention and, second, containment when a problem does occur. So, like every injury, every quality complaint becomes the subject of a root cause analysis by a cross-functional team. The end result is a plan that eliminates the cause of the problem. An effectiveness audit follows up the plan to ensure that the change did, in fact, eliminate the problem, and that the issue is resolved, once and for all.

In addition to this zero-tolerance approach to quality problems, we now have a multi-level global organization focused on quality for all global accounts, which represent 80 percent of MEMC sales.

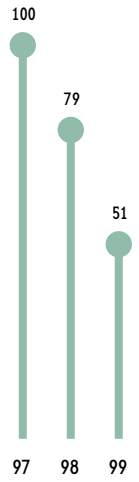
- *On a worldwide level*, a cross-functional team led by an account manager and an MEMC executive sponsor represents the quality interests of each global account.
- *On the MEMC factory level*, another cross-functional team supports and coordinates with the global team at each factory that makes product for the customer.
- *At the customer's site*, MEMC applications engineers solve specific problems and help customers maximize the value of MEMC wafers in their products.

So, each MEMC global customer has a team of professionals — with perspectives and experiences that range, literally, from the worldwide market to a specific MEMC factory bench position and to the customer's own fab line. Each global account team has one key charge: to understand — and deliver — the quality our customers require.

In 1999, we took four steps to increase the value of applications engineering. First, we globalized the function. Second, we added significant numbers of application engineers in each world area. Third, we facilitated faster problem-solving and sharing through regular global video conferences. Fourth, we focused all applications engineers on one primary issue: what product(s) from MEMC's portfolio would maximize value for each customer in terms of yield, price, and quality. Obviously, this addresses the questions customers are most interested in answering. It also teaches us what our largest customers most want — and why.

In summary, since 1997, MEMC has built processes and an organization that deliver the highest level of quality we've ever offered. Today we respond to MEMC customers faster and with more flexibility and greater effect than ever before.

Quality Complaints
(indexed to 1997=100)



SERVICE

1977
MEMC builds plant and R&D center in Novara, Italy

1979
5-inch wafers begin production

1981
6-inch wafers begin production; IBM introduces its PC

1982
CMOS epi wafers go into production at St. Peters; MEMC conducts first tests of granular polysilicon

leading the way in

This microscope shows that the MDZ™ (Magic Denuded Zone) at the bottom of the computer screen is free of gettering sites that can be seen elsewhere. A unique gettering action removes impurities and increases the yield of customers using MDZ™ wafers . Customer feedback has been excellent, and orders grow monthly.

1983
MEMC builds Utsunomiya plant in Japan, becoming the first non-Japanese wafer maker with manufacturing and research facilities in Japan; six million personal computers are sold in the U.S.

1984
8-inch wafers begin production; MEMC builds pilot plant to make granular polysilicon

1987
MEMC begins the first commercial production of granular polysilicon

1989
Hüls AG purchases MEMC from Monsanto

1991
12-inch wafers go into production; MEMC introduces granular poly process that boosts ingot yield; MEMC is the world's only producer of granular polysilicon; POSCO Hüls joint venture established in Chonan, South Korea

INNOVATION

Relentless competition in our business makes innovation a fact of life — and a priority. As MEMC's 40-year history makes clear, we have consistently led industry technology advances. We are continuing that tradition.

Since 1997, however, our technology focus has changed. Formerly, we thought in terms of what we could do with our manufacturing technology — an internal view. Now, we think in terms of market needs — an external view.

This market focus has resulted in three new products and one new product feature we introduced to customers in 1999. While customers' tests of these products are not yet complete, early feedback has been quite positive. Already we have experienced significant interest in these new products, and customer orders grow each month.

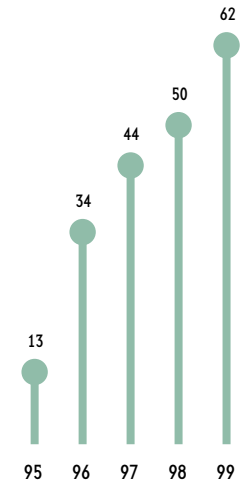
Bottom line, with the addition of these three new products and new product feature developed by MEMC, our product portfolio has never been broader or fit so many market needs. And, importantly, we have either been granted patents or have applied for patent protection on all three new products and new product feature.

Following are overviews of MEMC's new product offerings in 1999:

- **HPS 2** — A wafer that has an extremely pure substrate that eliminates even submicron defects in crystal structure. Makers of logic and flash memory devices require sophisticated integrated circuits with the defect-free crystalline structure that HPS 2 offers. For DRAM makers, HPS 2 could allow the elimination of costly redundancy that manufacturers now must build into circuitry.
- **Advanta** — An advanced polished wafer that fills the niche between a standard polished wafer and our new HPS 2 wafer. In short, Advanta offers better performance than a standard polished wafer at a highly competitive cost.
- **Epi II** — Our drop-in-and-go wafer solution for customers of advanced wafers. Most wafers that are more sophisticated than standard polished wafers require time-consuming process changes in a fab line. The Epi II offers the same level of quality performance but eliminates the need for process changes. The Epi II addresses the demanding DRAM and logic markets, and we have received highly favorable feedback on its performance.
- **MDZ™** — Magic Denuded Zone — a new product feature that can be applied to any polished silicon wafer. MDZ™ is based on patented technology developed by MEMC and offers a well-defined and predictable level of internal gettering, which means that impurities are drawn away from the surface of the wafer. MDZ™ provides greater manufacturing yields for our customers, and initial customer feedback on MDZ™ wafers has been excellent.

In summary, MEMC is better positioned than ever before. Our cost structure is more competitive than ever before. Service quality is higher than ever before. And our product portfolio is broader than ever before. MEMC is ready to take full advantage of a stronger market.

Patents Granted
(number per year)



1994
Taisil Electronic Materials joint venture established in Hsinchu, Taiwan; AOL exceeds one million subscribers

1995
IPO of MEMC stock is over-subscribed; MEMC Southwest joint venture established in Sherman, Texas, with Texas Instruments to produce 6-inch wafers

1996
MEMC Southwest builds 8-inch plant in Sherman, Texas

1999
HPS 2, Advanta, Epi II, and MDZ™ introduced to MEMC customers; there are an estimated six billion chips working outside computers — one for every human on Earth

FIVE YEAR SELECTED FINANCIAL DATA

DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

Year ended December 31,	*1999*	*1998*	*1997*	*1996*	*1995*
Statement of Operations Data:					
Net sales	$ 693,594	$ 758,916	$ 986,673	$1,119,500	$ 886,860
Gross margin	(10,335)	(31,829)	124,759	250,185	223,279
Marketing and administration	63,613	73,515	70,715	79,680	63,893
Research and development	85,019	81,591	64,457	44,313	31,226
Restructuring costs	(5,747)	146,324[1]	—	—	—
Operating profit (loss)	(153,220)	(333,259)	(10,413)	126,192	128,160
Equity in income (loss) of joint ventures	(9,659)	(43,496)	5,480	26,716	13,199
Net earnings (loss)	(151,481)	(316,332)	(4,513)	103,388	86,564
Basic earnings (loss) per share	(2.43)	(7.80)	(0.11)	2.50	2.83
Diluted earnings (loss) per share	(2.43)	(7.80)	(0.11)	2.49	2.81
Shares used in basic earnings (loss) per share computation	62,224,869	40,580,869	41,345,193	41,308,806	30,612,636
Shares used in diluted earnings (loss) per share computation	62,224,869	40,580,869	41,345,193	41,534,412	30,838,704
Balance Sheet Data:					
Working capital	86,306	40,494	38,449	42,805	199,258
Total assets	1,724,581	1,773,714	1,794,424	1,519,472	1,102,167
Long-term debt (including current portion)	886,096	873,680	519,995	304,589	91,451
Stockholders' equity	432,791	399,040	715,754	748,583	642,695
Other Data:					
Capital expenditures	49,256	194,610	372,416	590,049	215,359
Equity infusions in joint ventures	12,052	25,533	10,638	14,698	29,904
Employment	6,000	6,300	8,000	7,100	6,600

[1]During 1998, the Company recorded restructuring costs totaling $146.3 million to close its Spartanburg, South Carolina facility, to forego construction of a 200 millimeter wafer facility at its joint venture in Malaysia, to withdraw from its joint venture in a small diameter wafer operation in China and to implement a voluntary severance program.

Results of Operations

Year ended December 31, 1999 compared with year ended December 31, 1998

Net Sales. Net sales decreased by 9% to $694 million in 1999 from $759 million in 1998, due to significant declines in the price for silicon wafers partially offset by a 9% increase in product volumes. Industry average selling prices continued to decline dramatically, from $1.76 per square inch equivalent in 1997 to $1.51 in 1998, and $1.31 in 1999, due to significant excess capacity in the silicon wafer industry and continuing pricing pressure from customers. The increase in product volume in 1999 was principally due to the on-going recovery in the semiconductor market. Advanced large diameter and epitaxial products represented 52% of product volume for 1999 compared to 47% for 1998. While both 200 millimeter and epitaxial product volumes grew during 1999, the increase in this ratio is primarily indicative of customers utilizing 200 millimeter wafers in preference to smaller diameter wafers in order to obtain the lowest cost per device. While product volume increased in total by 9% during 1999, 200 millimeter product volume grew by 29%.

Industry average selling prices appear to have stabilized in the second half of 1999. For some products, there is evidence of price increases, especially in the smaller diameters where supply-demand appears to have reached equilibrium. The Company expects this trend to continue.

MEMC operates in all major semiconductor-producing regions of the world, with almost half of the Company's 1999 net sales to customers located outside North America. Net sales to North America decreased 8% and comprised 52% of 1999 net sales compared to 51% of 1998 net sales, caused by a fall in prices, partially offset by increased product volume. Lower prices offset partially by higher volumes combined to result in a 14% decrease in net sales to Europe, which constituted 22% of 1999 net sales compared to 23% of 1998 net sales. Net sales to Japan decreased 25% and comprised 13% of 1999 net sales compared to 16% of 1998 net sales, due to lower volumes and prices. Increases in product volumes, partially offset by declines in prices, resulted in an increase of 28% in net sales to Asia Pacific, which comprised 13% of 1999 net sales compared to 10% of 1998 net sales. See Note 17 of Notes to Consolidated Financial Statements herein.

Gross Margin. Even with the 13% decline in industry average selling prices in 1999, gross margin improved to a negative 1% in 1999 from a negative 4% in 1998. The improved gross margin is primarily attributable to reduced cost of goods sold, which declined 11% in 1999 compared to 1998, despite a 9% increase in product volume. Over $100 million in costs were taken out of the business in 1999, as a result of various cost-cutting initiatives set into motion in 1998, including the closure of the Spartanburg, South Carolina plant, implementing the Company's "best practices" worldwide, implementing a plant focus program that limits the number of wafer diameters manufactured at each site, and working with our suppliers to create cost reduction opportunities and price reductions.

Marketing and Administration. Marketing and administration expenses decreased 13% and represented 9% of net sales for 1999 compared to 10% for 1998. The decrease was a result of the Company's continuing efforts to reduce costs.

Research and Development. Research and development costs rose 4% and represented 12% of net sales for 1999 compared to 11% of net sales for 1998. The increase in research and development costs was attributable to continuing investments in 300 millimeter wafer development and depreciation associated with capital expenditures made for the 300 millimeter pilot line in St. Peters, Missouri and the 300 millimeter integrated development line in Utsunomiya, Japan.

Restructuring Costs. During 1999, the Company recorded an adjustment to decrease the restructuring reserve by $6 million as a result of a change in an accounting estimate relating primarily to the Company's withdrawal from the Chinese joint venture, where the amount ultimately required to exit the venture was less than originally estimated. By the fourth quarter of 1999, the Company began to fully realize the cost savings related to the 1998 restructuring activities, and does not anticipate additional incremental savings in future quarters.

Interest Expense. Interest expense increased to $66 million for 1999 from $46 million for 1998. The increase was primarily attributable to increased interest rates, as the interest rates on the Company's loan agreements with its principal lender were increased as a result of a debt renegotiation during September 1998, as described in Liquidity and Capital Resources below, as well as the repricing of certain debt instruments in 1999. To a lesser extent, the increase in interest expense was also due to an increased average debt carrying level and a reduction in capitalized interest in 1999 versus 1998. Total debt was $892 million and $910 million at December 31, 1999 and 1998, respectively.

Income Taxes. The Company realized an income tax benefit at the rate of 31% for 1999, as compared to 24% for 1998. The increase in the rate of benefit is the result of changes in the composition of worldwide taxable income, offset by an increase in the valuation allowance on certain deferred tax assets.

Equity in Income (Loss) of Joint Ventures. Equity in loss of joint ventures improved $33 million to a loss of $10 million in 1999 from a $43 million loss in 1998. POSCO Hüls Co., Ltd. (PHC), the Company's 40%-owned, unconsolidated joint venture in South Korea, contributed losses of $5 million for 1999 compared to $18 million in losses for 1998. Net sales for PHC increased significantly in 1999 due to a 60% increase in volume, which was partially offset by lower prices. Taisil Electronic Materials Corporation (Taisil), the Company's 45%-owned, unconsolidated joint venture in Taiwan, contributed losses of $5 million for 1999 compared to losses of $25 million for 1998. Net sales for Taisil increased significantly in 1999 due to an 81% increase in volume, which was partially offset by lower prices. During 1999, Taisil also reduced its deferred tax valuation allowance related to certain tax net operating loss carryforwards, of which the Company's share was $2 million. The higher product volumes at both PHC and Taisil were primarily attributable to an increase in demand in the Korean and Taiwanese semiconductor and silicon wafer markets.

Net Loss. The improved gross margin, reduced restructuring costs, and improved equity in loss of joint ventures, which were partially offset by increased interest expense, resulted in a net loss of $151 million for 1999 compared to $316 million for 1998. While the Company expects to continue its significant performance improvements and cost-cutting efforts, due to continued weak pricing and on-going over capacity in certain segments of the silicon wafer market, among other factors, management does not expect the Company to be profitable in 2000.

Year ended December 31, 1998 compared with year ended December 31, 1997

Net Sales. Net sales decreased by 23% to $759 million for 1998 from $987 million for 1997, due to significant declines in the price for silicon wafers and a 14% decrease in product volumes somewhat offset by an improved product mix. The decline in price during 1998 was primarily attributable to significant excess capacity in the silicon wafer industry and continuing pricing pressure from customers who experienced reduced profitability or losses due to significant excess capacity and price erosion in the semiconductor industry. The decrease in product volume in 1998 was principally due to the weak economic conditions in the Asia Pacific markets brought on by the Asian financial crisis and the continuing recession in Japan coupled with semiconductor customers shrinking the size of their devices (requiring less silicon per device). A concerted effort by customers to use fewer test/monitor wafers also caused product volumes to decline in 1998. This marked the first

year since 1985 that product volumes for the silicon industry did not increase year over year. Advanced large diameter and epitaxial products represented 47% of product volume for 1998 compared to 39% for 1997. While both 200 millimeter and epitaxial product volumes grew during 1998, the increase in this ratio was primarily indicative of customers utilizing 200 millimeter wafers in preference to smaller diameter wafers in order to obtain the lowest cost per device. While product volume declined in total by 14% during 1998, 200 millimeter product volume grew by 12%.

MEMC operates in all major semiconductor-producing regions of the world, with almost half of the Company's 1998 net sales to customers located outside North America. Net sales to North America decreased 22% and comprised 51% of 1998 net sales compared to 50% of 1997 net sales, led by a fall in prices and product volume, partially offset by improved product mix. Lower prices offset by an improved product mix and higher volumes combined to result in a 10% decrease in net sales to Europe, which constituted 23% of 1998 net sales compared to 20% of 1997 net sales. Net sales to Japan decreased 23% and comprised 16% of 1998 and 1997 net sales, as lower volumes and prices more than offset an improved product mix. Declines in product volumes, prices and product mix resulted in a decrease of 48% in net sales to Asia Pacific, which comprised 10% of 1998 net sales compared to 14% of 1997 net sales. See Note 17 of Notes to Consolidated Financial Statements herein.

Gross Margin. The lower volumes experienced in 1998 decreased the capacity utilization and, coupled with the lower selling prices, caused gross margins to decrease to a negative 4% for 1998 from the 13% achieved in 1997. Despite the benefits from the mix improvement and cost-cutting measures that were implemented during 1998, the volume decreases and price pressures began early in the year and resulted in negative margins. These cost-cutting initiatives included short-term plant shutdowns, implementing the Company's "best practices" worldwide, implementing a plant focus program to limit the number of wafer diameters manufactured at each site, and working with our suppliers to create cost reduction opportunities and price reductions. In addition, the Company reduced its workforce by approximately 1,700 employees, or 21%, compared to December 31, 1997.

Marketing and Administration. Marketing and administration expenses increased 4% and represented 10% of net sales for 1998 compared to 7% for 1997. The increase was predominately attributable to expenses incurred for business systems redesign in anticipation of implementing SAP worldwide and fees related to several other initiatives completed during the year.

Research and Development. Research and development costs rose 27% and represented 11% of net sales for 1998 compared to 7% for 1997. The increase in research and development costs was attributable to continuing investments in 300 millimeter wafer development and depreciation associated with capital expenditures made for the 300 millimeter pilot line in St. Peters, Missouri and the 300 millimeter integrated development line in Utsunomiya, Japan.

Restructuring Costs. During the second quarter of 1998, the Company decided to close its small diameter wafer facility in Spartanburg, South Carolina and to withdraw from the Company's joint venture in a small diameter wafer operation in China. These actions were taken because (1) a number of semiconductor manufacturers had been running their larger diameter manufacturing lines in preference to their smaller diameter lines in order to gain production efficiencies; (2) a number of semiconductor manufacturers recently had undertaken restructuring initiatives focused on permanently eliminating small diameter lines; and (3) management believed that small diameter wafer capacity would exceed demand even after the semiconductor industry began to recover. The Company also decided to forego construction of a new 200 millimeter wafer facility at its joint venture in Malaysia. This decision was based upon current and anticipated excess capacity for 200 millimeter wafers and the significant price erosion that the Company had experienced for these wafers.

These actions resulted in a charge to operations of $122 million, comprised of $81 million non-cash asset impairments/write-offs, $26 million in dismantling and related costs and $15 million in personnel related costs. The assets for which an impairment loss has been recorded or which have been written-off were primarily property, plant and equipment which cannot be sold or used at other Company facilities. In addition, the Company wrote off architectural design and site preparation fees as well as costs incurred to develop a computer-integrated manufacturing system for the Malaysian joint venture.

Personnel costs represent the expected cost of involuntary terminations for approximately 600 hourly and salaried employees whom the Company did not expect to relocate elsewhere within the organization. The Company also recorded a $25 million charge for a voluntary severance program for approximately 600 hourly and salaried U.S. employees. Substantially all this amount was paid to employees as of December 31, 1998. See Note 5 of Notes to Consolidated Financial Statements herein.

Interest Expense. Interest expense increased to $46 million for 1998 from $15 million for 1997. The increase in interest expense was primarily attributable to increased borrowings, and to a lesser extent the completion of projects for which interest expense could no longer be capitalized. In addition, the interest rates on the Company's loan agreements with its principal lender were increased as a result of a debt renegotiation during September 1998, as described in Liquidity and Capital Resources below. Total debt was $910 million and $633 million at December 31, 1998 and 1997, respectively.

Other, Net. Other, net decreased to $1 million in expense for 1998 from $4 million of income for 1997, primarily due to the sale of the Company's Santa Clara wafer facility in May 1997 that resulted in a pre-tax gain of $6 million.

Income Taxes. The effective income tax rate was 24% for 1998, as compared to (27%) for 1997. This fluctuation was the result of changes in the composition of worldwide taxable income, restructuring costs, non-deductible operating expenses at the Company's Malaysian and Chinese joint ventures, the establishment of valuation allowances on certain deferred tax assets in Japan and certain foreign tax credit elections.

Equity in Income (Loss) of Joint Ventures. Equity in income (loss) of joint ventures decreased $49 million to a loss of $43 million in 1998 from $6 million in income in 1997. PHC experienced a 28% decrease in product volume and significantly lower prices resulting in lower sales throughout 1998. While the reasons for the decline in prices are similar to those of the Company, product volume declines were primarily the result of excess capacity within the DRAM (memory) industry and efforts by Korean DRAM manufacturers to reduce their production, thereby reducing the worldwide oversupply, and shrink the size of their devices. For the year, PHC contributed losses of $18 million compared to $12 million in income for 1997.

Net sales for Taisil decreased slightly due to significantly lower prices, which were partially offset by a 41% increase in product volumes. The higher product volumes were primarily attributable to obtaining additional customer qualifications during 1998. In addition, the Taiwanese semiconductor market, particularly the foundry market, grew during 1998. During 1998, Taisil also made adjustments to its deferred tax valuation allowance in recognition of changes in expected realization of its operating loss carryforwards, of which the Company's share was $6 million. For the year, Taisil contributed losses of $25 million in 1998 compared to $6 million in losses for 1997.

Net Loss. The decrease in net sales, restructuring costs, higher research and development costs and interest expense, and the equity in loss of joint ventures resulted in a net loss of $316 million for 1998 compared to $5 million for 1997.

Liquidity and Capital Resources

At December 31, 1999, the Company had $29 million of cash and cash equivalents compared to $16 million at December 31, 1998.

Cash flows used in operating activities increased to $103 million for 1999 from $34 million for 1998. Cash flows used by net loss, after consideration of restructuring costs, equity in loss of joint ventures, and deferred taxes, improved $51 million in 1999 compared to 1998. This improvement was more than offset by an increase in working capital, primarily accounts receivable.

Accounts receivable of $112 million at December 31, 1999 increased $13 million, or 13%, from $99 million at the end of 1998. This increase was attributable to the 19% increase in fourth quarter net sales between the two years. Days' sales outstanding were 56 days at December 31, 1999 compared to 58 days at the end of 1998 based upon annualized fourth quarter sales for the respective years.

Inventories declined $18 million, or 15%, from the prior year to $98 million at December 31, 1999. This decrease was primarily due to a concerted effort by the Company to reduce stores and supplies inventories and manage inventory levels, as well as to fewer manufacturing facilities in 1999. Related inventory reserves for obsolescence, lower of cost or market issues, or other impairments decreased $3 million in 1999 to $17 million, consistent with the decreased inventory levels. Year-end inventories as a percentage of annualized fourth quarter net sales decreased to 13% at December 31, 1999 from 19% at the end of 1998, as a result of the increased net sales in the fourth quarter of 1999 relative to 1998, as well as the reduced inventory levels.

The Company's net deferred tax assets increased $69 million to $197 million at December 31, 1999. Management believes it is more likely than not that, with its projections of future taxable income and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at December 31, 1999. In order to realize the net deferred tax assets existing at December 31, 1999, the Company will need to generate future taxable income of approximately $549 million. The Company's net operating loss carryforwards total $647 million, of which $7 million will expire in 2001; $13 million will expire in 2002; $29 million will expire in 2003; $9 million will expire in 2004; $14 million will expire in 2012; $322 million will expire in 2018; and $253 million will expire in 2019. There can be no assurance, however, that the Company will generate sufficient taxable income to realize the full benefit of the existing net deferred tax assets.

Accounts payable decreased $27 million or 24% compared to the balance at the end of 1998 due to a significant reduction in capital expenditures in the fourth quarter of 1999 compared to the year-ago period.

Cash used in investing activities decreased in the year ended December 31, 1999 to $47 million from $223 million in the year ended December 31, 1998. The primary reduction in cash used by investing activities was a reduction in spending on capital projects, as well as reduced equity infusions in joint ventures.

Capital expenditures decreased $145 million or 75% versus the prior year to $49 million. The 1999 capital expenditures primarily related to the implementation of SAP worldwide and to maintenance capital. The Company expects to continue to tightly control capital expenditures in 2000. At December 31, 1999, the Company had $20 million of committed capital expenditures related to the implementation of SAP worldwide and various manufacturing and technology projects.

Equity infusions in joint ventures related to Taisil and decreased $13 million to $12 million for 1999. Although to date Taisil has an accumulated deficit, the Company does not consider its investment in Taisil to be impaired as of December 31, 1999 based on the following factors: increasing product volumes and capacity utilization; improving operating results; and positive operating cash flow generated in 1999.

Cash flows provided by financing activities decreased to $164 million in the year ended December 31, 1999 from $242 million in the year ended December 31, 1998. The 1999 financing activities consisted primarily of stock offerings by the Company. In 1998, the financing activities consisted primarily of the issuance of debt.

At December 31, 1999, the Company maintained $956 million of committed long-term loan agreements, of which $886 million was outstanding. The Company also maintained $57 million of short-term lines of credit, of which $6 million was outstanding at year-end. The Company's weighted average cost of borrowing was 7.8% at December 31, 1999 and 1998. Total debt outstanding decreased to $892 million at December 31, 1999 from $910 million at December 31, 1998. The total debt to total capital ratio at December 31, 1999 was 65% as compared to 67% at December 31, 1998. In September 1998, VEBA AG and its affiliates (VEBA) agreed to extend until 2001 all of the Company's outstanding debt with VEBA maturing prior to January 1, 2001 (but only in the event the Company has used its best efforts to obtain replacement financing on equivalent terms). As part of this agreement, the Company agreed to increase the interest rates payable on the Company's outstanding debt with VEBA to reflect interest rate spreads applicable to an average industrial borrower at a specified credit rating. Interest rates on the U.S. Dollar and Japanese Yen based loans outstanding with VEBA range from 3.5% to 11.0%. All outstanding debt with VEBA maturing prior to January 1, 2001 which is extended at maturity will be repriced based upon then-current interest rates applicable to an average industrial borrower at a specified credit rating.

On September 27, 1999, VEBA AG, the majority shareholder and principal lender of the Company, announced a merger with VIAG AG. The VEBA/VIAG group (the Group) has stated that its core businesses will be energy and specialty chemicals. The new Group's stated intent is to systematically and optimally divest certain non-core businesses, including the Company. The Company intends to work closely with the Group to effectuate an orderly divestiture process that preserves and optimizes the value of the Company.

The silicon wafer industry is highly capital intensive. The Company's capital needs depend on numerous factors, including its profitability and investment in capital expenditures and research and development. Management believes that the liquidity provided by existing cash balances and credit facilities, together with cash generated from operations, will be sufficient to satisfy commitments for capital expenditures and operating cash requirements through 2000. If, however, the Company's future financial performance fails to meet management's current expectations, then the Company may require additional financing in order to satisfy planned capital expenditures and operating cash requirements for 2000. There can be no assurance that such financing will be available from VEBA or other sources on terms acceptable to the Company.

Historically, the Company has funded its operations primarily through loans from VEBA, internally generated funds, and issuances of common stock. To a lesser extent, the Company has raised funds by borrowing money from commercial banks. The Company is not required to make any principal repayments on its existing credit facilities with VEBA until 2001. Under these credit facilities, the Company cannot pledge any of its assets to secure additional financing without the consent of VEBA. The Company is currently engaged in discussions with its financial advisors and VEBA AG regarding additional sources of capital.

Year 2000

In the fourth quarter of 1999, the Company completed its Year 2000 project. Since the beginning of 2000, the Company has experienced no material Year 2000 issues with its computer systems, applications, or equipment. Likewise, the Company has experienced no material problems with its strategic suppliers and equipment vendors. The Company's total incremental Year 2000 expenditures were approximately $4 million, as compared to previous estimates in the range of $5 - $7 million.

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European union established fixed conversion rates between their existing sovereign currencies and the Euro. The participating countries have agreed to adopt the Euro as their common legal currency as of that date while still utilizing their local currency until January 1, 2002.

The Company is assessing the potential impact that may result from the Euro conversion. In addition to tax accounting considerations, the Company is also assessing the potential impact from the Euro conversion in a number of other areas, including the technical challenges to adapt information technology and other systems to accommodate Euro-denominated transactions; the competitive impact of cross-border price transparency, which may make it more difficult for businesses to charge different prices for the same products on a country-by-country basis; the impact on currency exchange costs and currency exchange rate risk; and the impact on existing contracts. While the Company will continue to assess the impact of the introduction of the Euro, based on currently available information, management does not believe that the introduction of the Euro will have a material adverse effect on the Company's financial condition or results of operations.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires the recognition of all derivatives as assets or liabilities within the balance sheet, and requires both the derivatives and the underlying exposure to be recorded at fair value. Any gain or loss resulting from changes in fair value will be recorded as part of the results of operations, or as a component of comprehensive income or loss, depending upon the intended use of the derivative. In July 1999, the Financial Accounting Standards Board changed the effective date of SFAS No. 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not believe that the implementation of this Statement will have a material adverse effect on its financial condition or results of operations.

Risk Factors

This report contains "forward-looking" statements within the meaning of the Securities Litigation Reform Act of 1995, including those concerning: improved financial performance in 2000 versus 1999; stabilization and improvements in demand for and average selling prices of silicon wafers; lack of major capacity expansions in 2000; strengthening of the Company's balance sheet through operations; liquidity through 2000; expectation of a continuation of significant performance improvements and cost-cutting efforts; tight control of capital expenditures in 2000; the Company's expectations concerning its lack of profitability in 2000; the Company's ability to generate future taxable income as it relates to the realization of the net deferred tax asset; utilization of the restructuring reserve; ability to meet aggressive objectives set for 2000; impact of the introduction of the Euro; the impact of the implementation of SFAS No. 133; impact of an adverse change in exchange rates; expectation that the Company will not pay dividends in the foreseeable future; and the Company's intention to work closely with the VEBA/VIAG group to effectuate an orderly divestiture process that preserves and optimizes the value of the Company.

Such statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include such factors as: market demand for silicon wafers; utilization of manufacturing capacity; ability of the Company to reduce manufactur-

ing costs; demand for semiconductors generally; changes in the pricing environment; general economic conditions; actions by competitors, customers, and suppliers; the accuracy of management's assumptions regarding the dismantling and sale of the Spartanburg facility; technological changes; changes in product specifications and manufacturing processes; impact of the introduction of the Euro; changes in financial market conditions; changes in interest and exchange rates; the actions of the VEBA/VIAG group; and other risks described in the Company's filings with the Securities and Exchange Commission, including those risk factors described in "Risk Factors" in the Company's Form 10-K for the year ended December 31, 1999.

Undue reliance should not be placed on these forward looking statements, which speak only as of the date that they are made. The Company does not undertake any obligation to release publicly any revisions to these statements to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

Market Risk

The Company is exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. To mitigate these risks, the Company utilizes currency forward contracts. The Company does not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on the Company's financial positions at December 31, 1999 and 1998. Actual results may differ materially.

The Company generally hedges transactional currency risks with currency forward contracts. Gains and losses on these foreign currency exposures would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure to the Company.

Although the Company's debt obligations are primarily of a fixed-rate nature, fluctuations in interest rates could significantly affect interest expense as obligations are refinanced or extended at maturity and repriced based upon then-current interest rates. An adverse change (defined as a 100 basis point change) in interest rates would result in a decline in income before taxes of less than $9 million as of the end of both 1999 and 1998.

A substantial majority of the Company's revenue and capital spending is transacted in U.S. Dollars. However, the Company does enter into these transactions in other currencies, primarily the Japanese Yen, the Italian Lira, the Euro and certain other Asian and European currencies. To protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange rates, the Company has established transaction based hedging programs. The Company's hedging programs reduce, but do not always eliminate, the impact of foreign currency exchange rate movements. An adverse change (defined as 20 percent in certain Asian currencies and 10 percent in all other currencies) in exchange rates would result in a decline in income before taxes of less than $2 million as of the end of 1999, and a decline in other comprehensive income of less than $20 million as of the end of 1999 ($22 million as of the end of 1998). This calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitor's products become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

CONSOLIDATED STATEMENTS OF OPERATIONS

DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

Year ended December 31,	*1999*	*1998*	*1997*
Net sales	$ 693,594	$ 758,916	$ 986,673
Cost of goods sold	703,929	790,745	861,914
Gross margin	(10,335)	(31,829)	124,759
Operating expenses:			
Marketing and administration	63,613	73,515	70,715
Research and development	85,019	81,591	64,457
Restructuring costs	(5,747)	146,324	—
Operating loss	(153,220)	(333,259)	(10,413)
Nonoperating (income) expense:			
Interest expense	66,054	45,832	14,743
Interest income	(1,986)	(2,291)	(2,570)
Royalty income	(6,112)	(4,628)	(8,186)
Other, net	1,472	1,043	(4,070)
Total nonoperating (income) expense	59,428	39,956	(83)
Loss before income taxes, equity in income (loss) of joint ventures and minority interests	(212,648)	(373,215)	(10,330)
Income taxes	(65,921)	(89,394)	2,769
Loss before equity in income (loss) of joint ventures and minority interests	(146,727)	(283,821)	(13,099)
Equity in income (loss) of joint ventures	(9,659)	(43,496)	5,480
Minority interests	4,905	10,985	3,106
Net loss	$(151,481)	$(316,332)	$ (4,513)
Basic loss per share	$ (2.43)	$ (7.80)	$ (0.11)
Diluted loss per share	$ (2.43)	$ (7.80)	$ (0.11)
Weighted average shares used in computing basic loss per share	62,224,869	40,580,869	41,345,193
Weighted average shares used in computing diluted loss per share	62,224,869	40,580,869	41,345,193

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

December 31,	*1999*	*1998*
Assets		
Current assets:		
Cash and cash equivalents	$ 28,571	$ 16,168
Accounts receivable, less allowance for doubtful accounts of $2,409 and $2,853 in 1999 and 1998, respectively	111,559	98,528
Income taxes receivable	9,237	10,161
Inventories	98,419	115,927
Deferred tax assets, net	12,905	23,129
Prepaid and other current assets	15,229	35,225
Total current assets	275,920	299,138
Property, plant and equipment, net	1,090,358	1,188,832
Investments in joint ventures	97,254	94,610
Excess of cost over net assets acquired, net of accumulated amortization of $6,466 and $5,128 in 1999 and 1998, respectively	47,058	48,396
Deferred tax asset, net	183,902	104,650
Other assets	30,089	38,088
Total assets	$1,724,581	$1,773,714
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 22,163	$ 38,644
Accounts payable	85,704	112,581
Accrued liabilities	29,795	35,404
Customer deposits	16,556	17,639
Provision for restructuring costs	12,839	37,299
Accrued wages and salaries	22,557	17,077
Total current liabilities	189,614	258,644
Long-term debt, less current portion	869,759	871,163
Pension and similar liabilities	95,731	92,466
Customer deposits	48,456	59,033
Other liabilities	44,893	45,126
Total liabilities	1,248,453	1,326,432
Minority interests	43,337	48,242
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 50,000,000 shares authorized, none issued or outstanding in 1999 or 1998	—	—
Common stock, $.01 par value, 200,000,000 shares authorized, 70,463,505 and 41,436,421 issued in 1999 and 1998, respectively	705	414
Additional paid-in capital	770,476	574,188
Accumulated deficit	(299,317)	(147,836)
Accumulated other comprehensive loss	(22,053)	(10,581)
Unearned restricted stock awards	—	(125)
Treasury stock, at cost: 929,205 in 1999 and 1998	(17,020)	(17,020)
Total stockholders' equity	432,791	399,040
Total liabilities and stockholders' equity	$1,724,581	$1,773,714

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DOLLARS IN THOUSANDS

Year ended December 31,	*1999*	*1998*	*1997*
Cash flows from operating activities:			
Net loss	$(151,481)	$(316,332)	$ (4,513)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	159,081	155,874	126,913
Minority interests	(4,905)	(10,985)	(3,106)
Equity in (income) loss of joint ventures	9,659	43,496	(5,480)
Restructuring costs	(5,747)	104,704	—
(Gain) loss on sale of property, plant and equipment	981	6,916	(4,766)
Deferred compensation earned	(601)	299	596
Changes in assets and liabilities:			
Accounts receivable	(13,268)	61,836	(36,051)
Income taxes receivable	516	4,655	(8,794)
Inventories	12,164	28,461	(46,445)
Prepaid and other current assets	8,636	(1,203)	9,487
Deferred taxes	(67,692)	(98,074)	(17,783)
Accounts payable	(20,349)	(38,833)	3,976
Accrued liabilities	(16,502)	(7,792)	8,301
Customer deposits	(11,660)	(348)	17,806
Accrued wages and salaries	4,621	(4,209)	(3,797)
Other, net	(6,645)	37,680	(6,915)
Net cash provided by (used in) operating activities	(103,192)	(33,855)	29,429
Cash flows from investing activities:			
Capital expenditures	(49,256)	(194,610)	(372,416)
Proceeds from sale of property, plant and equipment	4,753	5,730	21,512
Equity infusions in joint ventures	(12,052)	(25,533)	(10,638)
Dividend received from unconsolidated joint venture	—	—	11,263
Notes receivable from affiliates	9,664	(8,642)	212
Net cash used in investing activities	(46,891)	(223,055)	(350,067)
Cash flows from financing activities:			
Net short-term borrowings	(26,463)	(8,843)	87,420
Proceeds from issuance of long-term debt	276,692	515,313	248,553
Principal payments on long-term debt	(283,620)	(248,936)	(18,693)
Repurchase of common stock	—	(15,692)	—
Proceeds from issuance of common stock	197,271	—	—
Other	—	(129)	385
Net cash provided by financing activities	163,880	241,713	317,665
Effect of exchange rate changes on cash and cash equivalents	(1,394)	1,312	(2,070)
Net increase (decrease) in cash and cash equivalents	12,403	(13,885)	(5,043)
Cash and cash equivalents at beginning of year	16,168	30,053	35,096
Cash and cash equivalents at end of year	$ 28,571	$ 16,168	$ 30,053
Supplemental disclosures of cash flow information:			
Interest payments, net of amount capitalized	$ 64,076	$ 48,179	$ 21,204
Income taxes paid	$ 4,816	$ 9,794	18,020

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

	Common Stock							
	Number of Shares Issued	*Par Value*	*Additional Paid-in Capital*	*Retained Earnings (Accumulated Deficit)*	*Accumulated Other Comprehensive Income (Loss)*	*Unearned Restricted Stock Awards*	*Treasury Stock*	*Total*
Balance at December 31, 1996	41,470,971	$415	$ 573,351	$ 173,009	$ 4,353	$(1,217)	$ (1,328)	$ 748,583
Comprehensive loss:								
Net loss	—	—	—	(4,513)	—	—	—	(4,513)
Net translation adjustment	—	—	—	—	(30,074)	—	—	(30,074)
Comprehensive loss								(34,587)
Stock plans, net	(30,602)	(1)	966	—	—	197	—	1,162
Deferred compensation earned	—	—	—	—	—	596	—	596
Balance at December 31, 1997	41,440,369	414	574,317	168,496	(25,721)	(424)	(1,328)	715,754
Comprehensive loss:								
Net loss	—	—	—	(316,332)	—	—	—	(316,332)
Net translation adjustment	—	—	—	—	17,682	—	—	17,682
Minimum pension liability (net of $1,625 tax)	—	—	—	—	(2,542)	—	—	(2,542)
Comprehensive loss								(301,192)
Stock plans, net	(3,948)	—	(129)	—	—	—	—	(129)
Deferred compensation earned	—	—	—	—	—	299	—	299
Repurchase of common stock	—	—	—	—	—	—	(15,692)	(15,692)
Balance at December 31, 1998	41,436,421	414	574,188	(147,836)	(10,581)	(125)	(17,020)	399,040
Comprehensive loss:								
Net loss	—	—	—	(151,481)	—	—	—	(151,481)
Net translation adjustment	—	—	—	—	(12,456)	—	—	(12,456)
Minimum pension liability (net of $629 tax)	—	—	—	—	984	—	—	984
Comprehensive loss	—	—	—	—	—	—	—	(162,953)
Stock plans, net	(492)	—	354	—	—	—	—	354
Deferred compensation earned	—	—	(726)	—	—	125	—	(601)
Issuance of common stock	29,027,576	291	196,660	—	—	—	—	196,951
Balance at December 31, 1999	70,463,505	$705	$770,476	$(299,317)	$(22,053)	$ —	$(17,020)	$432,791

See accompanying notes to consolidated financial statements.

1 • Nature of Operations

MEMC Electronic Materials, Inc. and subsidiaries (the Company) is a leading global producer of electronic grade silicon wafers for the semiconductor industry. The Company has production facilities directly or through joint ventures in Italy, Japan, Malaysia, South Korea, Taiwan and the United States. The Company's customers are located throughout the world.

2 • Summary of Significant Accounting Policies

(a) Basis of Presentation

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of MEMC Electronic Materials, Inc. and its wholly and majority-owned subsidiaries. Investments of less than 50% in two joint venture companies are accounted for using the equity method. All significant intercompany transactions have been eliminated.

(c) Cash Equivalents

Cash equivalents consist of cash in banks, principally overnight investments and short-term time deposits, with original maturities of three months or less. Cash equivalents at December 31, 1999 include $3,700 of cash restricted by terms of two annually renewable letter of credit agreements.

(d) Inventories

Inventories are stated at the lower of cost or market. Raw materials and supplies inventories are valued using the first-in, first-out method. Goods in process and finished goods inventory values are based upon standard costs which approximate average costs.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed principally using the straight-line method over estimated service lives as follows:

	Years
Land improvements	6-15
Buildings and building improvements	10-30
Machinery and equipment	3-12

The Company capitalizes interest costs as part of the cost of constructing facilities and equipment. Interest costs of $1,099, $5,521 and $15,968 were capitalized in 1999, 1998 and 1997, respectively.

(f) Excess of Cost Over Net Assets Acquired

Excess of cost over net assets acquired (goodwill) is amortized on a straight-line basis over the periods estimated to be benefited, not exceeding 40 years. Excess of cost over net assets acquired is reviewed for impairment whenever events and changes in business circumstances indicate the carrying value of the goodwill and related acquired assets that gave rise to the goodwill may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values. There is no indication of impairment of excess of cost over net assets acquired at December 31, 1999 or 1998.

(g) Computer Software Developed or Obtained for Internal Use

Costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. Costs related to the preliminary project stage and the post-implementation/operations stage of an internal-use computer software development project are expensed as incurred.

(h) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the

fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There is no indication of impairment of property, plant and equipment at December 31, 1999 or 1998.

(i) Impairment of Investments in Joint Ventures
Impairment of investments in joint ventures is measured by comparing the carrying amount of the asset to future net cash flows expected to be generated by the asset. In addition, the level of commitment of the joint ventures' shareholders, the silicon wafer markets serviced by the joint ventures, and the level of customer qualifications at the joint ventures are also considered in assessing the impairment of the Company's investments in joint ventures. There is no indication of impairment of these investments at December 31, 1999 or 1998.

(j) Revenue Recognition
Revenues are recognized when products are shipped.

(k) Derivative Financial Instruments
The Company enters into forward exchange contracts to manage foreign currency exchange risk relating to current trade receivables with its foreign subsidiaries and current trade receivables with its customers denominated in foreign currencies (primarily Japanese Yen, Italian Lira, and Euro). The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual dollar net cash flows resulting from foreign currency transactions will be adversely affected by changes in exchange rates. The Company does not hold or issue financial instruments for trading purposes.

The Company's forward exchange contracts are accounted for as hedges and, accordingly, gains and losses on those contracts are deferred and recognized at the time of settlement of the related receivables. Deferred gains and losses are included on a net basis in the consolidated balance sheets as either other assets or other liabilities. Upon termination, gains and losses are included in the consolidated statements of operations as other income or expense. If a forward exchange contract is designated as a hedge but is no longer effective, it is marked to market and included in other income or expense in the consolidated statements of operations. A payment or receipt arising from the termination of a forward exchange contract that is effective as a hedge is included in other income or expense in the consolidated statements of operations.

(l) Translation of Foreign Currencies
Assets and liabilities of foreign subsidiaries whose functional currency is other than the U.S. Dollar are translated to U.S. Dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using average rates during the period. Adjustments resulting from the translation process are included as a component of accumulated other comprehensive income (loss).

(m) Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to material differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance has been established for deferred tax assets that the Company believes may not be realized.

The Company provides for U.S. income taxes on earnings of the Company's consolidated non-U.S. subsidiaries that are planned to be remitted. No such provision is made for the remaining unremitted earnings, as the retention of such earnings is considered essential for continuing operations, or the additional taxes are considered to be minimal based upon available foreign tax credits.

(n) Stock-Based Compensation
The Company measures its compensation cost of equity instruments issued under employee compensation plans under the provisions of Accounting Principles Board Opinion No. 25 (Opinion 25) and related Interpretations. Compensation expense related to restricted stock awards is recognized over the applicable vesting periods, and the unamortized portion of deferred compensation is reflected as a separate component of stockholders' equity. The Company only issues equity instruments to employees and non-employee directors.

(o) Comprehensive Loss Reclassification Adjustment

The Company's decision to forego construction of a new 200 millimeter facility at its joint venture in Malaysia and to withdraw from its small diameter joint venture in China resulted in a reclassification adjustment to comprehensive loss in 1998 of approximately $9,500.

(p) Contingencies

Contingent liabilities are disclosed when management believes they are material to the Company's financial position. There are no such known contingent liabilities at December 31, 1999 or 1998.

3 • Fair Value of Financial Instruments

The carrying amount of the Company's cash, accounts receivable, income taxes receivable, short-term borrowings, accounts payable and accrued liabilities approximates fair value due to the short maturity of these instruments. Consequently, such instruments are not included in the table below which provides information regarding the estimated fair values of other financial instruments, both on and off balance sheet, as follows:

December 31,	*1999*		*1998*	
DOLLARS IN THOUSANDS	*Carrying Amount*	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Long-term debt	$886,096	$866,507	$873,680	$841,244
	Notional Amount	*Estimated Fair Value*	*Notional Amount*	*Estimated Fair Value*
Off balance sheet financial instruments:				
Currency forward contracts	$ 24,519	$ (847)	$ 43,480	$ 957

The fair value of each long-term debt facility is based upon the amount of future cash flows associated with each instrument discounted at the Company's current borrowing rate for similar debt instruments of comparable terms.

The Company has entered into foreign currency contracts with VEBA AG and its affiliates (VEBA) to manage foreign currency exchange risk relating to current trade sales with its foreign subsidiaries and current trade sales with its customers denominated in foreign currencies (primarily Japanese Yen, Italian Lira, and Euro), and relating to foreign currency denominated intercompany loans. The Company believes its hedging arrangements with VEBA allow for transactions on a basis that is comparable to terms available from unrelated third-party financial intermediaries.

The fair value of the currency forward contracts is measured by the amount that would have been paid to liquidate and repurchase all open contracts. Deferred losses for intercompany loans totaled $2,116 and $2,897 at December 31, 1999 and 1998, respectively.

4 • Concentration of Credit Risk

The Company sells products to customers in the semiconductor industry which are located in various geographic regions including the United States, Europe, Japan and Asia Pacific. The primary customers in this industry are well capitalized and the concentration of credit risk is considered minimal due to the Company's customer base. Sales to the Company's largest customer were 17.8%, 20.3% and 20.0% of net sales in 1999, 1998 and 1997, respectively. No other customer constituted 10% or more of net sales in 1999, 1998 or 1997.

5 • Restructuring Costs

During the second quarter of 1998, the Company decided to close its small diameter wafer facility in Spartanburg, South Carolina and to withdraw from its 60%-owned joint venture in a small diameter wafer operation in China. These actions were taken because (1) a number of semiconductor manufacturers had been running their larger diameter manufacturing lines in preference to their smaller diameter lines in order to gain production efficiencies; (2) a number of semiconductor manufacturers recently had undertaken restructuring initiatives focused on permanently eliminating small diameter lines; and (3) management believed that small diameter wafer capacity would exceed demand even after the semiconductor industry began to recover. The Company also decided to forego construction of a new 200 millimeter wafer facility at its 75%-owned joint venture in Malaysia. This decision was based upon current and anticipated excess capacity for 200 millimeter wafers and the significant price erosion that the Company had experienced for these wafers.

In 1998, the Company recorded a charge to operations of $121,670 (of which $81,325 was non-cash) related to the above actions. In 1999, the Company recorded an adjustment to reduce the restructuring reserve by $5,747 as a result of a change in an accounting estimate relating primarily to the Company's withdrawal from the Chinese joint venture, as the amount ultimately required to exit the venture was less than the original estimate.

At December 31, 1999, the Company made certain reclassifications to the components of its restructuring reserve. The reclassifications were principally attributable to anticipated costs related to the closure of the Spartanburg, South Carolina facility. In total, the Company believes the remaining restructuring reserve is adequate for the estimated costs remaining to exit this facility.

Restructuring activity since the provision for restructuring was recorded is as follows:

Dollars in thousands	*Balance at December 31, 1998*	*Adjustment*	*Amount Utilized*	*1999 Reclassification*	*Balance at December 31, 1999*
Asset impairment/write-off:					
Spartanburg property, plant and equipment	$ —	$ —	$ —	$ —	$ —
Malaysian joint venture assets	2,805	—	2,275	—	530
Chinese joint venture assets	4,158	(5,747)	(1,949)	—	360
Other infrastructure	—	—	—	—	—
Total	6,963	(5,747)	326	—	890
Dismantling and related costs:					
Dismantling costs	10,306	—	7,175	4,129	7,260
Costs incurred by equipment supplier	—	—	—	—	—
Environmental costs	3,489	—	2,380	(709)	400
Operating leases	3,000	—	416	(1,584)	1,000
Other	3,000	—	136	—	2,864
Total	19,795	—	10,107	1,836	11,524
Personnel costs	10,541	—	8,280	(1,836)	425
Total restructuring costs	$37,299	$(5,747)	$18,713	$ —	$12,839

Dollars in thousands	*Initial Provision*	*Amount Utilized*	*Balance at December 31, 1998*
Asset impairment/write-off:			
Spartanburg property, plant and equipment	$ 36,300	$36,300	$ —
Malaysian joint venture assets	28,000	25,195	2,805
Chinese joint venture assets	13,800	9,642	4,158
Other infrastructure	3,225	3,225	—
Total	81,325	74,362	6,963
Dismantling and related costs:			
Dismantling costs	11,345	1,039	10,306
Costs incurred by equipment supplier	5,000	5,000	—
Environmental costs	3,500	11	3,489
Operating leases	3,000	—	3,000
Other	3,000	—	3,000
Total	25,845	6,050	19,795
Personnel costs	14,500	3,959	10,541
Total restructuring costs	$121,670	$84,371	$37,299

In addition to the restructuring activities discussed above, in 1998 the Company recorded a $24,654 charge for a voluntary severance program for approximately 600 hourly and salaried U.S. employees. Substantially all of this amount was paid to participants as of December 31, 1998.

Of the $12,839 restructuring reserve at December 31, 1999, substantially all is expected to be expended by 2000 year-end and relates primarily to remaining dismantling costs associated with the Spartanburg facility.

6 • Inventories

Inventories consist of the following:

December 31,	*1999*	*1998*
DOLLARS IN THOUSANDS		
Raw materials and supplies	$49,537	$ 59,722
Goods in process	23,493	33,612
Finished goods	25,389	22,593
	$98,419	$115,927

7 • Property, Plant and Equipment

Property, plant and equipment consist of the following:

December 31,	*1999*	*1998*
DOLLARS IN THOUSANDS		
Land and land improvements	$ 14,529	$ 14,404
Buildings and building improvements	507,340	484,820
Machinery and equipment	1,151,196	1,110,195
	1,673,065	1,609,419
Less accumulated depreciation	703,252	569,327
	969,813	1,040,092
Construction in progress	120,545	148,740
	$1,090,358	$1,188,832

8 • Investments in Joint Ventures

The Company has a 40% interest in POSCO Hüls Co. Ltd. (PHC), a company formed to manufacture and sell silicon wafers in South Korea, and a 45% interest in Taisil Electronic Materials Corporation (Taisil), a company formed to manufacture and sell silicon wafers in Taiwan.

During 1999, 1998 and 1997, the Company earned $6,112, $4,628 and $8,186, respectively, from these unconsolidated joint ventures under royalty agreements. Sales by these unconsolidated joint ventures of intermediate and finished product to the Company totaled $37,927, $34,479 and $32,313 in 1999, 1998 and 1997, respectively.

The Company provides Taisil with debt guarantees totaling $61,336. At December 31, 1999, Taisil had $49,100 in standby letters of credit and borrowings outstanding against these guarantees.

A summary of the results of operations for 1999, 1998 and 1997, and financial position as of December 31, 1999 and 1998 of the Company's unconsolidated joint ventures follows:

December 31,	*1999*	*1998*	*1997*
DOLLARS IN THOUSANDS			
Total:			
Net sales	$252,402	$179,643	$277,492
Gross margin	20,273	(33,668)	54,120
Net earnings (loss)	(22,724)	(101,596)	15,274
The Company's share —			
Net earnings (loss)	$ (9,659)	$ (43,496)	$ 5,480
Current assets	$167,843	$169,532	
Noncurrent assets	423,390	488,634	
Total assets	591,233	658,166	
Current liabilities	162,470	165,157	
Noncurrent liabilities	194,356	266,352	
Total liabilities	356,826	431,509	
Interests of others	137,153	132,047	
The Company's investments	$ 97,254	$ 94,610	

The Company's share of the accumulated deficit of unconsolidated joint ventures was approximately $35,940 and $27,406 at December 31, 1999 and 1998, respectively.

The Company's unconsolidated joint ventures have net sales denominated in or based on the U.S. Dollar and manufacturing expenses primarily denominated in the U.S. Dollar, Korean Won and New Taiwanese Dollar. PHC also has significant debt denominated in the U.S. Dollar and Korean Won. Likewise, Taisil has significant debt denominated in the U.S. Dollar and New Taiwanese Dollar. PHC and Taisil use the U.S. Dollar as their functional currency for U.S. GAAP purposes and do not hedge net Korean Won or New Taiwanese Dollar exposures.

9 • Short-Term Borrowing Agreements and Lines of Credit

Interest expense related to short-term borrowings with an affiliate was $4,195 and $1,667 in 1998 and 1997, respectively.

The Company has unsecured borrowings from banks of approximately $6,000 at December 31, 1999, under approximately $57,000 of short-term loan agreements which bear interest at various rates ranging from 0.3% to 1.5% and are renewable annually. The interest rate on the borrowings is negotiated at the time of the borrowings.

Commitment fees of 1/4 of 1% are paid on the unused portion of the committed lines of credit. The Company's weighted average interest rate on short-term borrowings was 0.7% and 3.3% at December 31, 1999 and 1998, respectively, and was favorably impacted by interest rates in Japan.

10 • Long-Term Debt

Long-term debt consists of the following:

December 31,	*1999*	*1998*
DOLLARS IN THOUSANDS		
Owed to affiliates:		
Notes with interest payable semiannually at rates ranging from 3.5% to 11.0%, due in 2001	$329,310	$342,230
Notes with interest payable semiannually at rates ranging from 5.3% to 9.7%, due in 2002	109,770	108,610
Notes with interest payable semiannually at rates ranging from 8.7% to 8.8%, due in 2003	90,000	90,000
Notes with interest payable semiannually at rates ranging from 8.8% to 9.7%, due in 2004	125,000	125,000
Notes with interest payable semiannually at 9.6%, due in 2005	75,000	75,000
Total owed to affiliates	729,080	740,840
Owed to nonaffiliates:		
Notes with interest payable semiannually at rates ranging from 1.7% to 2.2%, due in 2001	19,540	17,220
Notes with interest payable semiannually at rates ranging from 1.6% to 1.7%, due in 2002	48,850	43,050
Notes with interest payable semiannually at rates ranging from 1.5% to 8.9%, due in 2000 through 2017	88,626	72,570
Total owed to nonaffiliates	157,016	132,840
Total long-term debt	886,096	873,680
Less current portion	16,337	2,517
	$869,759	$871,163

The Company has long-term committed loan agreements of approximately $956,000 at December 31, 1999, of which approximately $886,000 is outstanding. Commitment fees of 1/4 of 1% are paid on the unused portion of committed loan agreements. The Company has approximately $70,000 of available long-term loan agreements with affiliates at December 31, 1999. Under the terms of certain of these long-term loan agreements owed to affiliates, the Company cannot pledge any of its assets to secure additional financing.

Interest expense related to long-term notes payable to affiliates was $63,260, $43,567 and $25,633 in 1999, 1998 and 1997, respectively.

The aggregate amounts of long-term debt maturing subsequent to December 31, 1999 are as follows:

DOLLARS IN THOUSANDS	
2000	$ 16,337
2001	373,186
2002	138,765
2003	97,245
2004	131,998
Thereafter	128,565
	$886,096

In October 1996, the Company entered into a financing arrangement with the City of O'Fallon, Missouri related to the expansion of the Company's St. Peters facility. In total, approximately $252,000 of industrial revenue bonds were issued to the Company by the City of O'Fallon, of which at December 31, 1999 and 1998, $191,000 and $215,000 was outstanding, respectively.

The bonds were exchanged by the City of O'Fallon for the assets related to the expansion, which were then leased by the Company for a period of 10 years for machinery and equipment and 15 years for building and building improvements. The Company has the option to purchase the machinery and equipment at the end of five years and the building and building improvements at the end of 10 years. The industrial revenue bonds bear interest at a rate of 6% per annum and mature concurrent with the annual payments due under the terms of the lease.

The Company has classified the leased assets as property, plant and equipment and has established a capital lease obligation equal to the outstanding principal balance of industrial revenue bonds. Lease payments may be made by tendering an equivalent portion of the industrial revenue bonds. As the capital lease payments to the City of O'Fallon may be satisfied by tendering industrial revenue bonds (which is the Company's intention), the capital lease obligation, industrial revenue bonds and related interest expense and interest income, respectively, have been offset for presentation purposes in the consolidated financial statements.

11 • Stockholders' Equity

Preferred Stock

The Company has 50,000,000 authorized shares of $.01 par value preferred stock. The Board of Directors is authorized, without further action by the stockholders, to issue any or all of the preferred stock.

Common Stock

Holders of the $.01 par value common stock are entitled to one vote for each share held on all matters submitted to a vote of the stockholders. Subject to the rights of any holders of preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors. In the event of liquidation, dissolution or winding up of the Company, holders of the common stock are entitled to share ratably in the distribution of all assets remaining after payment of liabilities, subject to the rights of any holders of preferred stock.

The Company does not anticipate paying dividends in the foreseeable future. The declaration and payment of future dividends by the Company, if any, will be at the sole discretion of the Board of Directors.

Private Placement

On March 22, 1999, the Company sold 15,399,130 shares of common stock in a private placement to VEBA Zweite Verwaltungsgesellschaft mbH (VEBA Zweite), a subsidiary of VEBA AG, for $6.89 per share. The net proceeds of approximately $106,000 were used to repay debt of approximately $100,000 under revolving credit agreements with the balance used for general corporate purposes.

Rights Offering

On April 16, 1999, the Company sold 13,628,446 shares of common stock for $6.89 per share in connection with a rights offering. The net proceeds of approximately $91,000 were used to repay debt of approximately $90,000 from VEBA under revolving credit agreements and the balance was used for general corporate purposes. VEBA now owns 71.8% of the outstanding shares of common stock following the private placement and rights offering.

Stock-Based Compensation

The Company has an Equity Incentive Plan (the Plan) that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. Total shares authorized for grant under the Plan are 3,597,045. Non-qualified stock options to employees are typically granted on January 1 and vest at a rate of 25% annually over four years. Non-qualified stock options to non-employee directors are also typically granted on January 1 but vest at a rate of 33 1/3% annually over three years. The exercise price of each option equals the market price of the Company's common stock on the date of the grant, and each option's maximum term is 10 years. Total restricted shares awarded in 1997 were 1,300, with a weighted average fair value of $22.50. In 1999, restricted shares totaling 21,692 expired. Total compensation cost recognized for these awards in 1999, 1998 and 1997 was $(601), $170 and $596, respectively.

The Company applies Opinion 25 and related Interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for non-qualified stock options granted under the Plan. Had compensation cost been determined for the Company's non-qualified stock options based on the fair value at the grant dates consistent with the alternative method set forth under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company would have reported the following amounts indicated below:

Year ended December 31,	*1999*	*1998*	*1997*
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA			
Net loss:			
As reported	$(151,481)	$(316,332)	$(4,513)
Pro forma	(154,149)	(319,627)	(6,551)
Basic loss per common share:			
As reported	(2.43)	(7.80)	(0.11)
Pro forma	(2.48)	(7.88)	(0.16)
Diluted loss per common share:			
As reported	(2.43)	(7.80)	(0.11)
Pro forma	(2.48)	(7.88)	(0.16)

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997, respectively: risk-free interest rate of 4.8%, 5.7% and 6.1%; expected life of six years for all periods; expected volatility of 57.6%, 51.4% and 44.8%; expected dividends of zero percent for all periods.

A summary of the Company's Plan activity with respect to stock options is presented below:

	Shares	*Weighted-Average Option Price*	*Weighted-Average Fair Value of Options Granted*
Year ended December 31, 1999			
Outstanding at beginning of year	1,773,174	$20.11	
Granted	687,700	8.68	$5.10
Exercised	(21,200)	15.12	
Canceled	(113,930)	23.53	
Outstanding at end of year	2,325,744	$16.61	
Options exercisable at year-end	1,396,428	$19.75	
Year ended December 31, 1998			
Outstanding at beginning of year	1,024,292	$24.92	
Granted	887,300	15.06	$8.40
Exercised	—	—	
Canceled	(138,418)	23.31	
Outstanding at end of year	1,773,174	$20.11	
Options exercisable at year-end	894,065	$22.99	
Year ended December 31, 1997			
Outstanding at beginning of year	965,838	$25.32	
Granted	177,352	22.56	$11.94
Exercised	(12,298)	27.23	
Canceled	(106,600)	24.36	
Outstanding at end of year	1,024,292	$24.92	
Options exercisable at year-end	516,674	$24.77	

A summary of information about non-qualified stock options outstanding at December 31, 1999 is presented below:

	Options Outstanding		
Range of Exercise Prices	*Number Outstanding at December 31, 1999*	*Weighted-Average Remaining Contractual Life*	*Weighted-Average Exercise Price*
$24.00	519,694	5.5 years	$24.00
$32.63-49.50	117,900	6.0 years	33.07
$22.50-29.00	157,750	7.0 years	22.57
$3.13-15.25	847,100	8.0 years	15.06
$6.00-19.06	683,300	9.0 years	8.68
$3.13-49.50	2,325,744	7.6 years	$16.61

	Exercisable Options Outstanding	
Range of Exercise Prices	*Number Exercisable at December 31, 1999*	*Weighted-Average Exercise Price*
$24.00	519,694	$24.00
$32.63-49.50	106,800	33.05
$22.50-29.00	129,367	22.56
$3.13-15.25	482,567	15.15
$6.00-19.06	158,000	8.50
$3.13-49.50	1,396,428	$19.75

12 • Loss Per Share

A reconciliation of the numerator and denominator of the loss per share calculations is provided for all periods presented. The numerator for basic and diluted loss per share is net loss for all periods presented. The denominator for basic and diluted loss per share for 1999, 1998 and 1997 follows:

Year ended December 31,	*1999*	*1998*	*1997*
Weighted-average shares used for basic loss per share	62,224,869	40,580,869	41,345,193
Effect of dilutive securities:			
Restricted stock	—	—	—
Stock options	—	—	—
Weighted-average shares used for diluted loss per share	62,224,869	40,580,869	41,345,193

Options outstanding for all periods were not included in the computation of diluted loss per share for all years, because they were antidilutive.

In January 2000, the Company granted options to purchase 580,200 shares of common stock at $12.25 to $16.19 per share. These options will expire in January 2010.

13 • Income Taxes

Earnings (loss) before income taxes, equity in income (loss) of joint ventures and minority interests are as follows:

Year ended December 31,	*1999*	*1998*	*1997*
DOLLARS IN THOUSANDS			
U.S.	$(213,138)	$(349,573)	$(59,702)
Foreign	490	(23,642)	49,372
	$(212,648)	$(373,215)	$(10,330)

Income tax (benefit) expense consists of the following:

	Current	*Deferred*	*Total*
DOLLARS IN THOUSANDS			
Year ended December 31, 1999:			
U.S. federal	$ 570	$ (70,156)	$ (69,586)
State and local	914	895	1,809
Foreign	2,152	(296)	1,856
	$ 3,636	$ (69,557)	$ (65,921)
Year ended December 31, 1998:			
U.S. federal	$ 1,524	$(103,435)	$(101,911)
State and local	2,207	(4,534)	(2,327)
Foreign	4,790	10,054	14,844
	$ 8,521	$ (97,915)	$ (89,394)
Year ended December 31, 1997:			
U.S. federal	$ (5,764)	$ (18,712)	$ (24,476)
State and local	(924)	(398)	(1,322)
Foreign	25,766	2,801	28,567
	$19,078	$ (16,309)	$ 2,769

Income tax (benefit) expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% in 1999, 1998 and 1997 to loss before income taxes, equity in income (loss) of joint ventures and minority interests as a result of the following:

Year ended December 31,	*1999*	*1998*	*1997*
DOLLARS IN THOUSANDS			
Income tax at federal statutory rate	$(74,427)	$(130,625)	$ (3,616)
Increase (reduction) in income taxes resulting from:			
Change in the balance of the valuation allowance for deferred tax assets allocated to income tax expense	(1,622)	19,386	(4,738)
Foreign tax differences	5,976	15,310	13,511
State income taxes, net of federal benefit	1,176	(1,513)	(859)
Investment incentives	(660)	(600)	(916)
Malaysian joint venture charges	—	5,552	—
Other, net	3,636	3,096	(613)
	$(65,921)	$ (89,394)	$ 2,769

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31,	*1999*	*1998*
DOLLARS IN THOUSANDS		
Deferred tax assets:		
Inventory, principally due to additional costs inventoried for tax purposes and/or financial reserves recorded to state inventories at net realizable values	$ 6,718	$ 7,427
Accruals for expenses currently not deductible for tax purposes	38,945	40,936
Pension, medical and other employee benefits, principally due to accrual for financial reporting purposes	36,728	37,433
Net operating loss carryforwards	252,450	160,640
Investment tax credit carryforwards	1,456	1,456
Alternative minimum tax credit carryforwards	3,760	3,427
Other	1,557	1,151
Total gross deferred tax assets	341,614	252,470
Less valuation allowance	(49,168)	(42,166)
Net deferred tax assets	292,446	210,304
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation and capitalized interest	(89,129)	(80,505)
Other	(6,510)	(2,020)
Total deferred tax liabilities	(95,639)	(82,525)
Net deferred tax assets	$196,807	$127,779

Net deferred tax assets were classified in the consolidated balance sheets as follows:

December 31,	*1999*	*1998*
DOLLARS IN THOUSANDS		
Current deferred tax assets, net	$ 12,905	$ 23,129
Noncurrent deferred tax assets, net	183,902	104,650
	$196,807	$127,779

The Company's net deferred tax assets increased $69 million to $196.8 million at December 31, 1999. Management believes it is more likely than not that with its projections of future taxable income and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at December 31, 1999. In order to realize the net deferred tax assets existing at December 31, 1999, the Company will need to generate future taxable income of approximately $549 million. The Company's net operating loss (NOL) carryforwards total $647 million, of which $7 million will expire in

2001; $13 million will expire in 2002; $29 million will expire in 2003; $9 million will expire in 2004; $14 million will expire in 2012; $322 million will expire in 2018 and $253 million will expire in 2019. There can be no assurance, however, that the Company will generate sufficient taxable income to realize the full benefit of the existing net deferred tax assets. The Company also has AMT credit carryforwards available of $3,760 and net investment tax credit carryforwards available of $1,456. Utilization of $7,220 of loss carryforwards and all the investment tax credit carryforwards are subject to limitation under Internal Revenue Code Sections 382 and 383, respectively. Pursuant to these Internal Revenue Code Sections, the amount of combined loss and tax credit carryforwards that may be utilized is limited to approximately $2,000 per year. Under Internal Revenue Service regulations, the investment tax credit carryforwards are not permitted to reduce income tax expense until the year 2000.

14 • Pension Plans and Other Retirement Benefits

The Company has a noncontributory defined benefit plan covering most U.S. employees. Benefits for this plan are based on years of service and qualifying compensation during the final years of employment. The Company complies with federal funding requirements.

The Company also has a nonqualified plan under the Employee Retirement Income Security Act of 1974, which provides benefits not otherwise payable under the above plan due to Internal Revenue Code restrictions. Eligibility for participation in this plan requires coverage under the above plan and other specific circumstances.

In addition, the Company sponsors a health care plan that provides postretirement medical benefits to full-time U.S. employees who meet minimum age and service requirements. The plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The Company's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

In 1998, the Company changed the measurement date for the defined benefit plans from December 31 to September 30 to improve administrative efficiencies and the timeliness and accuracy of its financial reporting and planning process. The effect on retirement plan expense was not material to the consolidated financial statements.

Net periodic pension cost consists of the following:

	Pension Plans			*Health Care Plan*		
Year ended December 31,	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*
DOLLARS IN THOUSANDS						
Service cost	$ 7,807	$ 8,134	$ 8,178	$1,435	$ 1,791	$2,441
Interest cost	8,769	9,128	7,937	3,333	2,995	3,468
Expected return on plan assets	(6,523)	(7,219)	(6,189)	—	—	—
Amortization of service costs	393	501	576	(707)	(1,010)	(206)
Net actuarial loss/(gain)	770	818	562	54	47	(76)
Curtailment (gain) recognized	428	4,381	—	—	(148)	—
Cost of special termination benefits	—	—	1,067	—	1,023	—
Net periodic benefit cost	$11,644	$15,743	$12,131	$4,115	$ 4,698	$5,627

The following summarizes the change in benefit obligation, change in plan assets and funded status of the Company's plans:

	Pension Plans		*Health Care Plan*	
	1999	*1998*	*1999*	*1998*
DOLLARS IN THOUSANDS				
Change in benefit obligation:				
Benefit obligation at January 1	$137,475	$134,408	$52,573	$ 38,751
Service cost	7,820	6,235	1,435	1,407
Interest cost	8,769	6,919	3,333	2,128
Amendments	559	140	—	—
Actuarial (gain)/loss	(15,451)	6,123	(8,182)	3,899
Benefits paid	(11,791)	(18,494)	(2,037)	(773)
Curtailments	428	2,144	—	6,138
Special termination benefits	—	—	—	1,023
Benefit obligation at December 31	127,809	137,475	47,122	52,573
Change in plan assets:				
Fair value of plan assets at January 1	85,112	94,707	—	—
Actual return on plan assets	11,682	6,744	—	—
Employer contributions	9,482	2,155	2,037	773
Benefits paid	(11,791)	(18,494)	(2,037)	(773)
Fair value of plan assets at December 31	94,485	85,112	—	—
Funded status	(33,324)	(52,363)	(47,122)	(52,573)
Unrecognized prior service cost	4,891	4,726	(7,787)	(8,495)
Unrecognized net actuarial (gain)/loss	(783)	20,511	(5,386)	2,596
Fourth quarter contribution	110	801	—	—
Accrued benefit cost	$ (29,106)	$ (26,325)	$(60,295)	$ (58,472)
Amounts recognized in statement of financial position:				
Accrued benefit liability	$ (32,354)	$(31,396)	$(60,295)	$(58,472)
Fourth quarter contribution	110	801	—	—
Intangible asset	584	109	—	—
Accumulated other comprehensive income	2,554	4,161	—	—
Accrued pension expense	$ (29,106)	$ (26,325)	$(60,295)	$ (58,472)

Pension plan assets consist principally of insurance contracts, marketable securities including common stocks, bonds and interest-bearing deposits.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $8,184, $6,478 and $601, respectively, as of December 31, 1999, and $137,475, $109,865 and $85,112, respectively, as of December 31, 1998.

The Company recognized the curtailments and the special termination benefits related to the closure of the Spartanburg facility and the voluntary severance program offered to employees during 1998.

The following is a table of the actuarial assumptions:

	Pension Plans		*Health Care Plan*	
Year ended December 31,	*1999*	*1998*	*1999*	*1998*
Weighted-average assumptions as of December 31:				
Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 5.5% by the year 2001 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend would have the following effects:

Dollars in thousands	*One-Percentage-Point Increase*	*One-Percentage-Point Decrease*
Effect on total service and interest cost components	$ 49	$ (48)
Effect on postretirement benefit obligation	$170	$(167)

The Company has pension plans for its foreign subsidiaries. The aggregate pension expense and liability are not material to the consolidated financial statements.

15 • Retirement Savings Plan

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all U.S. salaried and hourly employees with more than one year of service. Company contributions included in results of operations totaled $3,618, $4,012 and $4,138 for 1999, 1998 and 1997, respectively.

16 • Commitments and Contingencies

The Company leases buildings, equipment and automobiles under operating leases. Rental expense under these leases was $24,062, $28,733 and $23,789 in 1999, 1998 and 1997, respectively. Minimum aggregate future rental obligations under leases having remaining terms of one year or more at December 31, 1999 are as follows:

Dollars in thousands	
2000	$17,726
2001	7,859
2002	2,214
2003	95
2004	16
Thereafter	—
	$27,910

17 • Geographic Segments

The Company is engaged in one reportable segment—the design, manufacture and sale of electronic grade silicon wafers for the semiconductor industry.

Geographic financial information is as follows:

	United States	*Japan*	*Italy*	*Other Foreign Countries*	*Total*
DOLLARS IN THOUSANDS					
Net sales to customers:					
1999	$359,020	$ 89,281	$ 21,815	$223,478	$ 693,594
1998	389,721	119,138	30,855	219,202	758,916
1997	497,601	153,897	25,784	309,391	986,673
Long-lived assets:					
1999	$824,977	$229,349	$101,739	$108,694	$1,264,759
1998	901,940	221,701	131,436	114,849	1,369,926
1997	976,032	136,567	135,588	153,790	1,401,977

Net sales are attributed to countries based on location of customer. Investments in joint ventures are presented based on the countries in which they are located.

18 • Unaudited Quarterly Financial Information

1999	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA				
Net sales	$159,800	$168,043	$182,781	$182,970
Gross margin	(13,816)	(1,966)	4,922	525
Loss before equity in income (loss) of joint ventures and minority interests	(46,852)	(36,228)	(32,464)	(31,183)
Equity in income (loss) of joint ventures	(4,589)	(3,891)	(2,642)	1,463
Minority interests	1,187	807	1,389	1,522
Net loss	(50,254)	(39,312)	(33,717)	(28,198)
Basic loss per share	(1.19)	(.58)	(.48)	(.41)
Diluted loss per share	(1.19)	(.58)	(.48)	(.41)
Market price:				
High	11 1/8	12 3/4	21 1/2	15 3/8
Low	5 1/2	5 3/4	10 3/4	10

1998				
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA				
Net sales	$235,243	$202,153	$167,685	$153,835
Gross margin	23,768	(3,812)	(28,095)	(23,690)
Loss before equity in loss of joint ventures and minority interests	(20,497)	(143,705)	(57,897)	(61,722)
Equity in loss of joint ventures	(11,621)	(6,860)	(12,860)	(12,155)
Minority interests	1,280	1,920	5,807	1,978
Net loss	(30,838)	(148,645)	(64,950)	(71,899)
Basic loss per share	(0.75)	(3.67)	(1.60)	(1.78)
Diluted loss per share	(0.75)	(3.67)	(1.60)	(1.78)
Market price:				
High	19	16 7/16	10 13/16	12 5/8
Low	14 1/2	9 1/4	2 15/16	2 15/16

The management of MEMC Electronic Materials, Inc. and its subsidiaries is responsible for the preparation, integrity and objectivity of the accompanying consolidated financial statements and related information. The statements have been prepared by the Company in accordance with generally accepted accounting principles and, in the judgment of management, present fairly the Company's financial position, results of operations and cash flows. These statements necessarily include amounts that are based on management's best estimates and judgments and give due consideration to materiality. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by KPMG LLP (KPMG), independent auditors who, in accordance with generally accepted auditing standards, express an opinion on the fairness of the financial statement presentation.

The Company maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company maintains an internal auditing program, and Company policy requires employees to maintain the highest level of ethical standards in the conduct of the Company's business. As part of the audit of the Company's financial statements, KPMG has considered the system of internal controls, tested the system to the extent required by generally accepted auditing standards and provided management with internal control recommendations. Management believes that the system of internal controls is effective, and that an appropriate balance between the costs and benefits of such a system has been achieved.

The Board of Directors pursues its responsibility for the Company's financial statements through its audit committee, which consists entirely of independent Board members. The audit committee meets periodically with management and the independent auditors to review the scope of the audit, the results of the audit and the quality of financial reporting.

Klaus R. von Hörde
President and
Chief Executive Officer

James M. Stolze
Executive Vice President
and Chief Financial Officer

The Board of Directors
MEMC Electronic Materials, Inc.:

We have audited the accompanying consolidated balance sheets of MEMC Electronic Materials, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MEMC Electronic Materials, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

St. Louis, Missouri
January 20, 2000

BOARD OF DIRECTORS

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Member of the Board of Management
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Chief Executive Officer (2, 4)

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Member of the Board of Management
VEBA AG and Chief Financial Officer
VEBA AG (1, 2)

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Dr. Thomas Knothe
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Corporate Vice President
Customer Service and Scheduling

James W. Wick
Corporate Vice President
Human Resources

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(636) 474-5000

Transfer Agent and Registrar
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P. O. Box 755
Chicago, Illinois 60690
(312) 360-5433

Annual Meeting
All stockholders are invited to attend the annual meeting of MEMC Electronic Materials, Inc. at 10:00 a.m. central standard time on May 9, 2000, at the Frontenac Hilton, 1335 S. Lindbergh Blvd., St. Louis, MO 63131. Holders of common stock of record at the close of business on March 13, 2000, are entitled to vote at the meeting. A notice of the meeting, proxy statement and proxy were sent to stockholders with this Annual Report.

Stockholder Inquiries
Inquiries regarding address corrections, lost certificates, changes of registration, stock certificate holdings and other stockholder account matters should be directed to MEMC's transfer agent, Harris Trust & Savings Bank, at the address or phone number above.

Common Stock Listing
MEMC's common stock is traded on the New York Stock Exchange under the symbol "WFR". On December 31, 1999, the last business day of the year, the Company had 660 stockholders of record.

Form 10-K
Stockholders may obtain a copy of MEMC's Annual Report on Form 10-K and related financial statement schedules for the year ended December 31, 1999, filed with the Securities and Exchange Commission, by writing MEMC's Investor Relations Department or by calling (636) 474-5505.

Financial Information
MEMC maintains a home page on the Internet at www.memc.com where the Company publishes information, including earnings releases, other news releases, significant corporate disclosures and the names of securities analysts who issue research on the Company.

Independent Auditors
KPMG LLP
10 South Broadway, Suite 900
St. Louis, Missouri 63102

Investor Relations
Stockholders, securities analysts, investment professionals and prospective investors should direct their inquiries to:

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Manufacturing Facilities
Chonan, South Korea
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MEMC

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