



2017 Annual Shareholders' Meeting

Speech by
Dr. Rudolf Staudigl,
President & CEO,
Wacker Chemie AG, Munich

on May 19, 2017

at Munich's International Congress Center (ICM)

Dear shareholders,
dear guests,
ladies and gentlemen,

1947. That is the year when the silicone era began at WACKER.

Today, 70 years on, WACKER is the second-largest silicone producer worldwide. With an output of over 460,000 metric tons. With 3,000 different products. With customers in more than 100 countries and with sales that crossed the two-billion-euro threshold for the first time in 2016.

From the smallest of beginnings, WACKER SILICONES has grown into the Group's largest division. We have invested over decades into that business. Our courage and perseverance have paid off. Our history also shows that we have the strength to transform and reinvent ourselves over and over again.

Innovations are an essential driver of our future growth. The silicones' success story is far from over. New successes lie ahead. I can assure you we are not running out of ideas for new applications. We focus on innovations that benefit customers, as you have just seen in the film.

On this note, welcome to the eleventh Annual Shareholders' Meeting of Wacker Chemie AG. On behalf of my Executive Board colleagues, I thank you for joining us today.

Ladies and gentlemen,

2016 was a good year for WACKER. Last year, we said: we are on track for further growth. Now, our figures reflect this, too:

- Sales are 2 percent higher at 5.4 billion euros.
- Earnings before interest, taxes, depreciation and amortization rose 5 percent to 1.1 billion euros. Adjusted for special income, the increase was 19 percent, up from 911 million to 1.08 billion euros, which was better than we expected.

- Net income amounted to 189.3 million euros, some 50 million euros lower due to higher depreciation.
- Our net cash flow: shows a marked increase, from 22.5 million to over 400 million euros.
- Net financial debt is below the billion mark, at 992.5 million euros.

To summarize: we met our goals in 2016 and even outperformed them in some cases.

This achievement was due to hard work and to the excellent team spirit in our workforce of more than 17,200 employees. All around the world. I take this opportunity to thank them all again today, in the presence of our shareholders. And you – our shareholders – should benefit from our positive business performance. The Executive and Supervisory Boards propose distributing a dividend of 2 euros per share, the same level as the year before. Overall, we will be distributing about half of the company's profit for the year to you – based on allocable net income. The distribution ratio of some 50 percent reflects our new dividend policy. But more about that later.

Ladies and gentlemen,

Our chemical business has grown, unlike Germany's chemical industry. As I mentioned: WACKER SILICONES achieved annual sales of over two billion euros for the very first time. And the other numbers are strong, too:

- 3.4 billion euros in sales at the three chemical divisions. That is more than 60 percent of Group sales.
- 660 million in EBITDA. 24 percent more than the year before.

In the ten years since 2007, sales at our three chemical divisions have risen by 62 percent, from 2.1 billion to 3.4 billion euros now. That's an average increase of 6 percent a year.

Our investments in chemical operations are paving the way for our next growth phase. That is why we are investing in time-tested and new technologies, in established and high-potential markets and, above all, in existing sites.

Our market is the world. International growth is part of our success. This is reflected in our investing activities, as seen in the following examples:

- At Charleston in the USA, we are investing 150 million dollars in a new production plant for pyrogenic silica. Demand for this product is strong there – now we will be able to meet it.
- At Jincheon in South Korea, we are constructing new plants for silicone sealants, specialty silicones and liquid silicone rubber. The products are for the construction, electronics and automotive industries.
- At Jandira in Brazil, we are building a plant for manufacturing antifoam agents and functional silicone fluids for customers in the textile and paper industries, and for cosmetic products.
- At León in Spain, we acquired a fermentation plant for bioengineered cysteine. Cysteine is used in food and pharmaceutical products.
- At Burghausen, a new dispersion reactor is under construction, with an annual capacity of 60,000 metric tons. It is intended for construction materials, adhesives and technical textiles.

The goals we are pursuing here are clear: We are strengthening our market position. We are expanding our international activities. We are increasing the share of high-value specialties at our chemical divisions.

Ladies and gentlemen,

During 2016, our polysilicon business also grew – to around 1.1 billion euros. This is, without doubt, a positive fact. Another very positive point is the commissioning of our new US production site in Charleston, Tennessee. We completed everything there without any major problems. I think it is no exaggeration to say that ramping up such a technically complex greenfield plant was a formidable task and an impressive achievement. All of the facilities are now in operation and we are producing polysilicon of the highest quality there.

What was not so positive is that the prices for solar silicon were lower on average than in 2015. That prevented an even higher sales rise and stronger earnings.

Despite the price pressure, we performed solidly:

- We delivered more polysilicon to customers than ever before – 66,000 metric tons. Compared with 2015, that was an increase of about 18 percent.
- EBITDA came in at 286 million euros. It was dampened by a marked decline in special income and by the commissioning costs for Charleston. The adjusted EBITDA margin was 29 percent.
- Our specific cost of goods sold dropped again significantly.

It is clear that the global solar market will continue growing and that price volatility will remain. We must carry on firmly taking the necessary steps. This is exactly what we have been doing and I promise you that we will continue doing so. We will not ease off now. Our goal is to remain a leading producer of polysilicon for the solar and semiconductor industries.

Ladies and gentlemen,

Now I come to Siltronic. 2016 saw a weak start and strong finish. In the second half-year, customer demand picked up noticeably. The result was:

- Sales edged up to 933 million euros.
- EBITDA climbed strongly to 146 million euros. That was a gain of about 18 percent versus the year before.

An important point here is that Siltronic continued to cut costs and increase productivity. As a result, we withstood the pressures on prices. All in all, a very good performance. And one that was rewarded by the stock exchange – with a strong rise in Siltronic's share price.

Ladies and gentlemen,

The polysilicon production plant at Charleston has been completed. This marks the start of a new phase in our strategy. In October 2016, we explained our strategy to the capital market and our plan received a very positive response. I would now like to give you a few details: Until at least 2020, our focus will be on the following five strategic goals.

First: We will continue expanding our production capacities, with capital expenditures staying below depreciation.

I mentioned several key investment projects earlier. We need these projects so that we can take the next growth step at our chemical business. The plants we are investing in are for intermediate and downstream manufacturing. They are less capital intensive.

Second: We want to continue growing faster than the chemical-sector average.

Our sales trend from 2007 until today shows that we are in a position to do this. Two levers are decisive for us here:

- We will increase sales of specialty products.
- We will focus on innovations and develop new products.

As we all know, new products create growth. Let me give you one example from our silicone operations: In 2001, we attempted our first steps with hybrid polymers for a new generation of sealants and adhesives. In 2005, our first pilot plant started up. Today, we sell hybrid polymers whenever things need to be sealed, glued and coated. Sales in 2006 amounted to 400,000 euros. The 2016 figure was over 26 million euros. Average growth in the past ten years was more than 50 percent per year. Each time, half as much again.

Third: We want to achieve attractive margins with our products.

At our chemical divisions, we are targeting an EBITDA margin greater than 16 percent. For our polysilicon business, our target EBITDA margin is greater than 30 percent.

Fourth: We will focus even more strongly on sustainability.

Sustainable management has been a core concept at WACKER from the very beginning. Sustainable practices are an integral part of our five business principles. As you can see, sustainability is very important for us. There are two areas that we have prioritized:

- Efficient processes at our plants and lower raw-material and energy consumption, coupled with higher output. The key term here is less resource-intensive production.
- The development of sustainable products that reduce carbon emissions further.

Today, a significant proportion of our products goes into sustainable technologies and applications. Polysilicon for solar energy. Additives for adhesives used in wind turbines. High-performance silicones for electric cars. Dispersible polymer powders for exterior insulation and finish systems. I can safely say that the list will grow much longer in the years ahead. We are convinced that sustainability is a strategic success factor and a competitive advantage. The future belongs to sustainable products.

Fifth: We will increase the cash inflow from our operating activities.

We expect sales growth, lower capital expenditures, and continuing efficiency and cost improvements. They will all lift our cash inflow from operating activities in the coming years.

Ladies and gentlemen,

We want you, our shareholders, to benefit solidly from our profitability and we have revised our dividend policy. Now we are distributing about half of the company's annual net profit to you, instead of at least 25 percent as in the past.

Ladies and gentlemen,

Being "fit for the future" is also about digitization. About big data, Industry 4.0 and the Internet of Things.

Of course, you are wondering: What answers do we have at WACKER for the digital future ahead? We see three areas for taking action:

- Digital technology is penetrating deep into core business processes. All along the supply chain, everything is interconnected – from logistics, through production control, to maintenance. The aim is clear: to enhance efficiency and productivity, to optimize process flows and to create added value.
- Digitization is generating new business models that change or even replace existing products, technologies and services. We have our very own example: we developed 3D printing with silicones.
- Our customers are developing their products and solutions digitally and they will expect the same of us in the future.

Our approach to the digital future is to seize the initiative. Not hastily, but with due care. A wealth of know-how and experience was gained before the digitization era and it is still valuable. It just has to be transferred to the future. In other words: we need both disruption and tradition. Digitization will not happen overnight.

We have identified numerous topics and entered them on a digital map. Over half of them affect our core business processes at production facilities. More than 40 projects are already being implemented.

Digitization shows that the world is in a state of change and we must rise to the challenge of change. We have proven again and again that we can. Throughout our corporate history, adaptability and the will to change have stood out as characteristic strengths.

The same applies to the second key topic of the future: innovation. We see it as a priority and we invest in it, last year alone, another 183 million euros. Being innovative means asking: What benefits our customers? How can we better meet their needs?

In 2016, we launched 32 new products on the market and we are conducting research into topics that are important for the future. For example, new materials for use in lithium-ion batteries for energy storage. As you can see, we are working on today's megatrends and have a lot to contribute.

Ladies and gentlemen,

A highly trained workforce is crucial for both digitization and innovation. As we all know: people shape the future, despite all the algorithms, data, software and robots.

It is our duty as a company to keep our employees' expertise completely up-to-date and we intend to continuously train them for all the tasks and topics that lie ahead. That is why we have so many young trainees, why we hire the specialists we need, why we invest in the know-how and personal development of our employees and why we implement measures to retain well-trained and highly qualified employees

At present, we have almost 600 vocational trainees in 20 disciplines. At WACKER, training courses are of a very high standard. This is regularly reflected in the grades. In 2016, 27 of our trainees graduated with a top grade – in Germany, 1.5 or better.

We specifically hire specialists who provide our company with new expertise which we profit from. Last year, we again strengthened ourselves globally with highly qualified employees.

New technologies call for different skills. That is why advanced training courses and lifelong learning are so important. Last year, 17,000 employees – practically the whole workforce – completed training courses, attended seminars and gained qualifications. Our efforts here have earned us independent accolades: For example, we received recognition in one of the world's biggest HR-management competitions, "Employer Excellence in China." In 2016, they awarded us for our excellent basic and advanced training courses.

These well-trained employees secure our competitive edge in international business. Having well-trained people makes us fit for the future.

Ladies and gentlemen,

On March 15, 2017, we completed an important strategic step. We divested the majority of our stake in Siltronic AG. In an accelerated bookbuilding offering, we sold 6.3 million of WACKER's shares in Siltronic to institutional investors. Our stake in Siltronic is now 30.8 percent.

We are convinced that we took this step at the best possible time for both companies. We chose a point in time when the capital market responded very positively to this transaction. Siltronic is in very good economic shape. The semiconductor market is developing robustly and Siltronic is benefiting from the strong demand. This transaction has reduced our net financial debt, our capital intensity, and the volatility in our operating activities. Siltronic will still appear in our figures as an important shareholding.

Ladies and gentlemen,

Three weeks ago, we published the Group's figures for the first quarter, with Siltronic already excluded. In the first quarter, we posted sales growth. It was a good start to the year. Group sales came in at 1.22 billion euros, up 8 percent. EBITDA climbed some 12 percent to 229 million euros.

Chemical business was especially strong, with sales up 11 percent. At our polysilicon business, we decided to increase inventory levels held in our Asian warehouses. We took this step at a time of low prices, to enable us to supply our customers faster once prices climb. As a result, sales came in at the prior-year level.

Both our withdrawal from majority ownership of Siltronic and the related deconsolidation have affected our first-quarter figures. We now recognize Siltronic under “income from discontinued operations.”

Due to the transaction, WACKER posted a gain of 635 million euros. The gain comprised:

- The total net income of Siltronic in Q1 2017.
- The difference between the net proceeds from the sale and the carrying amount of the 21-percent stake sold.
- And the revaluation of the remaining 30.8-percent stake that WACKER still holds in Siltronic.

Ladies and gentlemen,

Looking ahead at the full year, we remain optimistic. WACKER is poised for further growth. However, we are experiencing headwinds from prices for energy and raw materials, especially from those raw materials linked to oil and coal prices, such as methanol, ethylene and vinyl acetate. They are between 15 and 50 percent more expensive on average than a year ago. We are taking steps to counter this surge in costs – by increasing prices for our products.

Our forecast for the full year – excluding Siltronic – is as follows:

- Group sales for 2017 are expected to rise by a mid-single-digit percentage.
- Adjusted EBITDA excluding special income will decline versus last year by a mid-single-digit percentage, mainly due to the increase in raw-material prices.
- Net operating cash flow will remain clearly positive, but will be lower than last year.
- Net financial debt will decrease further, which will bolster our financial strength.

Our forecast is based on real facts and figures, not on hopes that we can't meet later on. Importantly, we have clear targets and visions for developing our company. We can shape WACKER's future from a position of strength and, above all, we think and act for the long term. That is what pays off over time.

Ladies and gentlemen,

Free trade is the source of employment, growth and prosperity all around the world. That is why we are deeply concerned about the rise of protectionism and isolationism.

Since the financial crisis of 2008, more and more countries, including some in Europe, have been trying to isolate their own economies. The number of trade barriers erected around the world has been increasing rapidly for years. The Centre for Economic Policy Research has established that the number of protective measures imposed has risen from 155 in 2009 to more than 460 today.

We know from our own experience that trade barriers have a negative impact on operating activities. Trade barriers also incur high costs. The trade dispute between China and the European Union about imposing punitive tariffs on Chinese solar cells and modules was something that harmed everyone.

The world economy is an organism. Global trade is the bloodstream. If blood is prevented from reaching one part, the whole circulatory system stalls. Almost every modern item produced goes through process stages in different countries. It is important not to disrupt these international supply chains. Protectionism prevents not only growth, but also innovation.

Our standpoint is clear: we strongly support free trade. After all, we are responsible for the jobs of thousands of people. Through our products, we make a sizeable contribution to economic development in countries all around the globe. That is why we are so adamant about the principles of free trade.

As a company, we have learned how to handle crises and solve problems, but we need the help of politicians for trade disputes. That is why I feel obliged to regularly confront policymakers on this issue.

My colleagues and I are convinced that free trade is the only way to create future prosperity and growth. Thanks to our broad range of quality products, people across the world can make their everyday life easier, simpler and more comfortable. As a result, we have huge opportunities. We want to continue seizing them with all our energy.

You are our shareholders, it is your company and your trust in us gives us strength. I would like to thank you for this support on behalf of the whole Executive Board. Let us continue shaping the future of WACKER together.

Thank you.