WACKER

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Annual Press Conference for 2015

Speech by
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Check against delivery!

Good morning ladies and gentlemen, welcome to our Annual Press Conference.

The world economy continued to expand last year. But this growth turned out not to be as strong as anticipated at the beginning of the year. After a good start, economic clouds gathered in the second half of the year. Uncertainty about the future performance of the Chinese economy was a major hurdle to global economic growth, and the conflicts in the Middle East also took their toll. Nevertheless, for the full year, gross domestic product grew across every region. Once again, Asia registered the strongest growth.

WACKER benefited from the rise in economic output chiefly through volume growth. This was especially evident in our chemical products, as well as in polysilicon.Here, our volumes have risen considerably thanks to the expanding solar market. But we also sold more in the semiconductor business than a year ago.

In total, WACKER generated sales of 5.3 billion euros in 2015, an increase of almost 10 percent from a year ago. Factors contributing to this sales growth included higher volumes as well as the strong US dollar. As a result, we more than compensated for negative price effects.

EBITDA – earnings before interest, taxes, depreciation and amortization – amounted to 1.05 billion euros in 2015, matching the prior-year level. The corresponding EBITDA margin was about 20 percent.

It is important to note here that our special income was actually down by one-third compared with 2014. In 2015, WACKER POLYSILICON posted about 138 million euros in special income due to terminated contracts with solar customers. Such special income had amounted to over 200 million euros in 2014. Adjusted for this effect, the Group’s EBITDA was 911 million euros. That is 9 percent more than in the previous year.

On the bottom line, WACKER closed 2015 with net income of 242 million euros – an increase of around 24 percent year over year.

Ladies and gentlemen, once again, last year highlighted the above-average growth potential of our chemical activities. The sales of our three chemical divisions totaled 3.3 billion euros. That is 12 percent more than in the previous year. In contrast to the German chemical industry as a whole, we actually grew substantially. The industry could not overcome the effect of lower prices, and its total sales, at 190 billion euros, stagnated at the prior-year level.

The Silicones division further expanded its sales, to over 1.9 billion euros. This is a year-over-year increase of 12 percent. Favorable exchange-rate effects and higher volumes were key reasons behind this improvement. In addition, prices for a number of product groups were somewhat better than a year ago. In the mature markets of industrialized countries, demand for silicones is being driven by automotive applications, medical technology, and electronics. Growing demand in emerging-market economies is fueled, for instance, by advanced personal-care products which contain silicones. EBITDA at Silicones rose much more strongly than sales. At 276 million euros, it was 32 percent higher than in 2014. Our efficiency and cost-cutting measures have had a positive impact on the division’s earnings, too.

At the Polymers division, 2015 sales grew markedly as well – to almost 1.2 billion euros. Driving this increase of more than 11 percent were higher volumes achieved for dispersions and, in particular, for dispersible polymer powders. Positive exchange-rate effects also played a major role. At 222 million euros, EBITDA was 49 percent higher than in the previous year. Here, too, this was mostly due to the sales increase, while somewhat lower raw-material prices also benefited earnings. The EBITDA margin is almost 19 percent. That is a new record – and shows that our polymer business is highly profitable.

The Biosolutions division also posted a noticeable sales rise last year. Its sales climbed some 12 percent – to 197 million euros. The increase was mostly due to higher volumes and positive exchange-rate effects. At 32 million euros, EBITDA is 36 percent higher than in the previous year.

Our Polysilicon business division increased its sales slightly – to 1.06 billion euros. In total, we sold some 56,000 metric tons of polysilicon last year – thus setting a new volume record. But prices for solar silicon were actually much lower than in 2014, which weighed on sales.

Earnings were down substantially. EBITDA came in at 402 million euros. The decline was attributable to two factors: Firstly, as already mentioned, the lower income from advance payments retained and damages received, and secondly, the start-up costs incurred at the new Charleston site. In terms of operational performance, however, Polysilicon did very well, especially when the difficult price environment is taken into account. When adjusted for special income and start-up costs, the EBITDA margin was 33 percent.

Our semiconductor business continued to grow last year – in an environment that was anything but easy. Here, sales climbed 9 percent to 931 million euros. Volumes grew slightly, but not as strongly as we had expected at the start of 2015. Semiconductor manufacturers proceeded to reduce their inventory levels – thus placing fewer orders – especially in the second half of the year, in response to sluggish demand for smartphones, tablets and PCs. This development also put pressure on wafer prices.

Earnings were higher as well. With EBITDA of 124 million euros, Siltronic achieved an EBITDA margin of over 13 percent. Siltronic's measures to lower production costs even further and improve productivity have helped increase earnings. On the other hand, currency-hedging losses reduced Siltronic's EBITDA by 46 million euros last year.

Ladies and gentlemen, I have completed my review of divisional trends. Now, I would like to return to the financial statements and look at key data from the statement of cash flows.

Last year, WACKER invested 834 million euros. That is 46 percent more than a year earlier. In spite of these markedly higher capital expenditures, our net cash flow is, in fact, slightly positive at 23 million euros. This means that we largely funded our investments with cash flow from operating activities. The proceeds from the IPO of Siltronic AG helped us as well. As of December 31, our total net financial debt therefore stood at under 1.1 billion euros and was thus at the level of the previous year.

Our investing activities remained focused on the construction of our new polysilicon site in Charleston, Tennessee, USA. About 550 million euros went toward this project in 2015 – that's two-thirds of our total investment spending. Construction there made further progress last year. In December, the start-up phase of the individual facilities began as planned. The first deposition reactors are now operational. Lab tests show that the polysilicon we produce in the United States fully meets the high quality standards we are familiar with from our German production sites.

Another focus of our investing activity was the expansion of production capacities for polymer products and silicones. At Calvert City in the USA, we have expanded existing production facilities by adding a new dispersions reactor. Capacity there has been increased by 85,000 metric tons per year. At Burghausen, we have started up a new production plant for dispersible polymer powders. It has an annual capacity of 50,000 metric tons. Also at Burghausen, we expanded a plant for functional silicone fluids. These fluids are used in a variety of end products, such as foam-control, impregnating and release agents. With these projects, we are supporting growing customer demand in our chemical business. They strengthen our market position and support our strategy of expanding our share of higher-margin specialty chemicals.

Our main market growth is outside Germany. This is reflected in our investment projects – and in our figures. In 2015, WACKER generated two-thirds of its sales through customers outside Europe. That is 3.4 billion euros.

Accounting for 43 percent of Group sales, Asia was our largest market, as in the previous year. Living standards in Asia are continuing to rise, which spurs demand for the high-quality products we supply. We generated 2.3 billion euros in this region, a year-over-year increase of almost 11 percent.

Over half of our sales in Asia – more than 1.3 billion euros – are accounted for by China, including Taiwan. That is 10 percent more than in the previous year. India is becoming increasingly important for our growth in Asia. Here, sales rose 29 percent to about 140 million euros. Rising population levels and a growing middle class are driving our business. Our products for construction applications are selling particularly well in India. But personal-care products employing our silicones are also experiencing strong demand there.

Our business has also grown in the Americas – to 945 million euros – up 17 percent. We benefited from positive exchange-rate effects.

In Europe, excluding Germany, our 2015 sales amounted to 1.2 billion euros, up more than 6 percent year over year. Our business also grew in Germany, where sales rose 3 percent to 685 million euros.

The Group's workforce is increasing due to sales growth at our chemical divisions and the commissioning of the new site in Charleston, Tennessee. Last year, the number of employees rose. In total, WACKER had around 17,000 employees worldwide as of December 31, 2015. That is 1.6 percent more than in the previous year. The total comprises about 12,300 in Germany and over 4,700 at international sites.

Ladies and gentlemen, I've arrived at the end of my review of Group trends during the last year.

Cost-efficiency is an essential part of our strategy. To this end, we have established a permanent efficiency program within our organization. For the past twelve years, this program has been instrumental in improving costs in production plants and production-related service units. Last year alone, the program saved us around 160 million euros. The most important drivers were lower specific energy consumption and higher outputs – without a corresponding rise in costs.

The results can be seen in our good operational performance – reflected in our EBITDA margin: without special-income items, it was over 17 percent. This puts us on a par with major companies in the chemical sector.

Importantly, the Group's net assets and financial position are sound. Our equity ratio is almost 39 percent. The good net income for the year, the proceeds from the IPO of Siltronic, and the lower actuarial losses from the provisions for pensions all had a positive impact here. As of the balance sheet date, we had about 450 million euros in advance payments received on our books. Our liquidity stands at 380 million euros, and we additionally have unused credit lines totaling 600 million euros.

WACKER stands on stable financial foundations. All the key indicators were in line with – or exceeded – our expectations. We of course want our shareholders to participate in these good results – by increasing the dividend substantially. The Executive and Supervisory Boards will propose a dividend of 2 euros per share at the Annual Shareholders' Meeting. This corresponds to a distribution ratio of over 40 percent of the Group's profit for the year. What is more, the higher dividend underscores our confidence about 2016 and beyond.

Ladies and gentlemen, what are our expectations for the current year? I already said it at the outset: we believe that the economic environment with present us with some challenges this year.

The economic slowdown in China and the steep decline in oil prices, in particular, have elevated the risks for the world economy. This is accompanied by the currently low prices for solar silicon and semiconductor wafers. I am confident, however, that 2016 can still be a solid year for WACKER.

In 2016, we want to achieve slight growth in sales, building on the upward trend from 2015. This growth will be driven especially by our strong chemical business. We also expect EBITDA to continue to rise slightly on a comparable basis – that is, adjusted to exclude special income.

Analysts are still projecting that the world economy will grow somewhat in 2016. The strongest impulses will come from Asia, while the USA is also expected to continue its robust expansion. Economists believe that Europe will continue to recover, even though the debt crisis has not been resolved once and for all.

Business in the first two months of the new year has developed as we expected. We have grown further in the chemical business year over year. Siltronic and Polysilicon are seeing sales decline from prior-year levels because of lower prices. In regional terms, Europe is doing particularly well at the moment.

Overall, we expect to generate first-quarter Group sales of about 1.3 billion euros and thus be slightly below the prior-year figure. In the first quarter of 2015, we had posted a new record due to the much higher polysilicon prices at that time. We also expect a rise in chemical sales for the entire first quarter, and anticipate lower sales in our polysilicon and semiconductor businesses.

In line with expectations, first-quarter EBITDA will be impacted by the start-up costs in Tennessee. These costs amount to some 30 million euros and they are essentially the reason why our EBITDA in the first quarter will be down from the prior-year period.

From today's perspective, we anticipate that our operating activities will develop positively during the remainder of the year. We expect volumes to rise across all our business divisions. We further expect that sales of both chemicals and polysilicon will be higher. This assumes, though, that the world economy remains on its growth path and that the volatility affecting raw-material markets does not produce bigger surprises.

We see the best chances for further growth in 2016 at our chemical divisions.

At the Silicones division, we expect a mid-single-digit percentage increase in sales this year, combined with substantial growth in EBITDA. We expect sales to increase not only in Asia, but also in Europe and the Americas. The silicone business is being driven by the considerable pent-up demand for silicones in emerging economies and by new silicone applications in mature markets.

We are also projecting a mid-single-digit percentage sales increase at the Polymers division. EBITDA is likewise expected to grow slightly. In dispersions, sales growth is coming from coatings and nonwovens. In dispersible polymer powders, growth is mainly driven by the trend to use our polymers to enhance standard products, such as dry-mix mortars and tile adhesives. Sales are projected to rise in each of the following three regions: Europe, the Americas and Asia. We see greater growth potential in India, where we want to expand our sales substantially in 2016.

For Biosolutions, we expect sales this year to rise by a mid-single-digit percentage as well. EBITDA is expected to come in at the prior-year level. We especially want to make further advances in pharmaceutical proteins. Regionally, we see the best growth opportunities in Europe.

The trend for photovoltaics remains one of strong growth. Although the solar industry still faces overcapacity and low prices, these lower prices have now made photovoltaics even more competitive when compared with other energy sources. As a result, new markets are being opened. Worldwide, newly installed capacity will continue to grow. According to our estimates, it will amount to between 60 and 70 gigawatts this year. Countries with substantial capacity additions include China, the USA, Japan and India.

Through our investment program, we laid the groundwork early on to remain a leading polysilicon manufacturer. And, thus, to profit from this growth. In December, we started the commissioning process for the facilities at our new polysilicon site in Charleston, Tennessee, as planned.

Meanwhile, we have also manufactured our first batches of polysilicon there. In the coming months, we will ramp the deposition reactors stage by stage. Commissioning is to be completed in the third quarter. Our annual capacity will rise by more than 20,000 metric tons as a result. At the same time, we are increasing production output at our existing plants in Burghausen and Nünchritz. As a result, our overall polysilicon capacity is expected to rise to about 80,000 metric tons per year by 2017. Our recipe for success is: excellent quality and extremely low production costs. This is a course we will stay on.

We have brought the construction phase of our Charleston site to a successful conclusion. We were fully aware that this involved challenges – and we have ultimately succeeded. The new site not only provides us with the necessary capacity to meet the growing demand for our polysilicon in the years ahead. It is also the basis for a fully integrated production site in what is the world's second-largest chemical market. This is especially important for our global presence and our future growth.

We anticipate that our polysilicon business will increase its sales slightly in 2016 – due, in particular, to higher volumes. We anticipate a substantial EBITDA decline at our Polysilicon division. This is mostly due to the fact that current solar-silicon prices are on average lower than a year earlier. The start-up costs incurred at the new Charleston site are another factor. In addition, the special income from advance payments retained and damages received will in all probability be lower this year than in 2015 – which I see as a positive development. After all, our goal is for the contracts we have concluded with our customers to remain in effect.

We expect sales at our semiconductor business to be slightly lower this year. This is due to the expectation that silicon-wafer prices will be lower. EBITDA, on the other hand, is projected to grow substantially. Earnings are bolstered by the ongoing cost-reduction programs, while currency-hedging costs will be much lower than in 2015. At an exchange rate of 1.10 US dollars to the euro, these costs range between 10 and 15 million euros.

To summarize our expectations:

- Group sales are likely to rise by a low single-digit percentage.
- We expect EBITDA, when adjusted for special income, to be slightly higher than last year.

- The EBITDA margin is projected to be somewhat lower than last year. That is because of reduced special-income effects and prices which are lower overall.
- Net cash flow will be markedly positive.
- Our investment spending will decline substantially and will be at 425 million euros this year.
- Net financial debt will remain at the prior-year level.
- Our net income for the year will decrease substantially, for three reasons in particular:
  - First, the year-over-year decline in polysilicon prices.
  - Second, the reduced amounts of special income.
  - And third, depreciation will be significantly higher, at approximately 720 million euros in 2016. That is roughly 25 percent more than a year earlier.

Ladies and gentlemen, volatility has become an ever-present companion in business. We must acknowledge and deal with this new constant. That aside, our businesses continue to offer us very positive medium- and long-term opportunities which we naturally also intend to seize.

In our semiconductor business, Siltronic's operational performance remains on track. Siltronic expanded its sales and EBITDA further in 2015 – despite subdued demand in the second half of the year and persistent price pressures. The free cash flow in our semiconductor business is clearly positive. That means Siltronic can fund its investments with cash flow from its operating activities. Having gone public, Siltronic now has net financial assets of more than 150 million euros at its disposal.

Siltronic will further improve its competitiveness and systematically work on its costs. Siltronic expects to achieve savings of roughly 30 million euros in 2016. At present, WACKER holds close to 58 percent of Siltronic. Our intention to reduce our stake to a minority interest in the medium term remains unchanged. But we are under no pressure to act on this, and so there is no reason to hurry.

Renewable energy continues its global success. We intend to leverage our new capacity in Tennessee to participate in that growth. Already in 2013, more solar and wind-generating capacity had been installed than fossil-fuel capacity. This trend continues. Generating electricity from coal and oil now barely returns the cost of capital in some cases. Conversely, the efficiency of solar modules and wind turbines continues to improve. Based on a recent study, a total of 55 emerging-market countries invested way over 100 billion dollars in renewable energy in 2014 alone. That was 39 percent more than a year earlier.

All experience has shown that fast-growing demand for polysilicon will sooner or later have a positive impact on price. This becomes all the more true as market consolidation continues further and competitors shut down unprofitable production capacity. The growing segment of monocrystalline solar cells, which have a particularly high efficiency, needs polysilicon of precisely the very high quality that WACKER can supply. Our strategy of focusing on high-value material is paying off. While the polysilicon spot-price index has declined over the past year by about 30 percent, we have since January seen a stabilization, and even a slight increase. This could mean that prices have finally bottomed out.

Our chemical business is pivotal to our success. It represents almost two-thirds of our sales and one-half of our EBITDA. Our wide array of state-of-the-art chemical products for a multitude of key industries is one of our great strengths. It enables us to bridge weaknesses in individual industries. In just the last ten years, we have more than doubled our chemical sales. Our chemical business generates 7 percent growth annually, on average, and this trend is highly likely to continue.

Three strategic fields are central to everything we do:

- The first is operational excellence. Constant improvement of our cost position and efficiency is an ongoing task at WACKER.
  Our efficiency programs delivered cost savings of some 225 million euros in 2013. The figure for 2014 was 215 million euros, and in 2015, we saved 160 million euros through the programs.
- The second field is customer orientation. At our 22 technical competence centers and our 13 WACKER ACADEMY locations, we serve more than

8,000 customers worldwide, making direct contact with customers on five continents. It is at these centers that we tailor our products precisely to customer requirements, conduct training programs and convey applications expertise.

- The third pillar of our business success is our innovations. More than 10 percent of our chemical sales come from products that did not exist five years ago.

We want to continue building on these strengths and transform them into business success. WACKER has clearly shown on many occasions in the past that our company is capable of achieving these goals.

Now that Charleston is operational, our large-scale capital-intensive investments have been completed. That is why, this year, we are investing only about half as much as we did in 2015. Funding will now go, in particular, toward capacity expansions for intermediate and downstream products at the chemical divisions, strengthening the growth of our specialties. The focus is now on increasing the amount of operating cash flow and on benefiting from all our preliminary work. Our net cash flow will rise substantially this year – a trend that is expected to continue in the years ahead.

Ladies and gentlemen, I have arrived at the end of my review. My colleagues and I now look forward to taking your questions.

Thank you for your attention.