WACKER

Annual Shareholders' Meeting

2014

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

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International Congress Center
Munich (ICM)

WACKER at a Glance

€ million	2013	2012*	Change in %
Results/Return			
Sales	**4,478.9**	4,634.9	–3.4
EBITDA[1]	**678.7**	795.4	–14.7
EBITDA margin[2] (%)	**15.2**	17.2	n.a.
EBIT[3]	**114.3**	266.6	–57.1
EBIT margin[2] (%)	**2.6**	5.8	n.a.
Financial result	**–83.3**	–62.7	32.9
Income before taxes	**31.0**	203.9	–84.8
Net income for the year	**6.3**	114.7	–94.5
Earnings per share (basic/diluted) (€)	**0.05**	2.43	–97.9
ROCE (%)	**2.2**	5.2	n.a.
Financial Position/Cash Flows			
Total assets	**6,332.4**	6,492.8	–2.5
Equity	**2,197.1**	2,121.3	3.6
Equity ratio (%)	**34.7**	32.7	n.a.
Financial liabilities	**1,416.7**	1,197.2	18.3
Net financial debt[4]	**792.2**	700.5	13.1
Capital expenditures (including financial assets)	**503.7**	1,095.4	–54.0
Depreciation (including financial assets)	**564.4**	528.8	6.7
Net cash flow[5]	**109.7**	–536.2	n.a.
Research and Development			
Research and development expenses	**173.8**	173.7	0.1
Employees			
Personnel expenses	**1,133.0**	1,196.8	–5.3
Employees (December 31, number)	**16,009**	16,292	–1.7

[1] EBITDA is EBIT before depreciation and amortization.
[2] Margins are calculated based on sales.
[3] EBIT is the result from continuing operations for the period before interest and other financial results, and income taxes.
[4] Sum of cash and cash equivalents, noncurrent and current securities, and noncurrent and current financial liabilities.
[5] Sum of cash flow from operating activities (excluding changes in advance payments) and cash flow from long-term investing activities (before securities), including additions due to finance leases.

*Adjusted for the effects of the adoption of IAS 19 (revised); see Changes in Accounting and Valuation Methods in the Notes section.

Dear Shareholders and Shareholder Representatives, Honored Guests, Ladies and Gentlemen,

Going Global from Bavaria.

This journey has been a key part of WACKER's success story over the last 100 years.

In January 1917, the first acetone railcar – festively decorated – left Burghausen for Leverkusen.

Today, we sell our products in 130 countries around the globe. Asia is our largest market. We generate over 40 percent of our sales there already.

We are optimistic about growing further in Asia – even though the upward trajectory of China's economy has slowed somewhat over the past few months.

The main growth driver is the rising affluence of people in Asia. And that is exactly where our quality products come into play. We substitute other, more simple products with higher-end WACKER products. As in the past, we anticipate that demand for them will increase strongly. By way of comparison:

In Germany, per-capita consumption of chemical products is about 1,500 euros a year. In China, it is about 150 and in India, around 60 euros. These figures underscore the huge potential. For the future, that means: we must become even more international, so that we can have a large slice of this pie.

We have paved the way for this. In the last ten years alone, we invested some 800 million euros in Asia – in new production locations, in technical competence centers and in our so-called WACKER Academy sites. They form the basis for our continued success in these markets.

Another important factor: our customers are as wide-ranging as our products. We offer them the variety they need.

With these facts, let me welcome you to the eighth Annual Shareholders' Meeting of Wacker Chemie AG – also in the name of my Executive Board colleagues. A warm welcome to the International Congress Center here in Munich.

Ladies and gentlemen,

We look back on a difficult year. Essentially, there were two reasons for this: the low prices for polysilicon and the persistent price pressure in semiconductors. As a result, sales and earnings were below the prior-year level.

In total, price effects cost us around 360 million euros, and substantially impacted our earnings. In two years, we lost over 1 billion euros in sales through price effects. For polysilicon, in particular, the excessive prices of previous years reversed completely.

We worked with focused resolve to counteract these price declines without compromising our growth strategy in any way. Together with our employees, we intensively worked on cutting our costs substantially. All in all, we achieved savings of around 225 million euros. Our cost-cutting initiative was supported by higher production output.

Net cash flow and net financial debt were above expectations. This good result stemmed from our lower investment level and from our rigorous inventory management. Net financial debt amounted to just under 800 million euros, well below the one-billion-euro mark. And net cash flow of around 109 million euros was clearly in positive territory.

Now, let me summarize the key figures for 2013:

- Sales came in at 4.48 billion euros, 3 percent below the prior-year level.
- EBITDA declined 15 percent to 679 million euros.
- Net income reached 6.3 million euros. It was close to 110 million less than a year earlier.
- Earnings per share amounted to 5 cents, after 2.43 euros in the prior year.
- Capital expenditures more than halved to 504 million euros.

Ladies and gentlemen,

Amid these exceptionally challenging circumstances, we managed – in my opinion – to deliver a respectable performance. Given the Group's overall economic situation, we propose – as announced on March 18, 2014 – that the dividend should be 50 cents per share. In other words, we intend to pay 24.8 million euros to our shareholders.

Ladies and gentlemen,

I would like to spotlight one figure out of the many I have just mentioned: 225 million euros in cost savings.

A large part of this amount was due to the performance of our employees through their unswerving commitment, their exemplary efforts and their numerous cost-saving ideas. We all took a firm stand last year against negative market developments.

We also took unpopular decisions.

I thank all of our employees for their achievements – not only in the name of my Executive Board colleagues, but also, I am sure, in the name of every shareholder.

You, as shareholders, placed your trust in us during this difficult period. I also extend my thanks to you on behalf of the entire Executive Board.

Ladies and gentlemen,

Nothing was more troubling over the past two-and-a-half years than the developments on the solar market. In the past, I explained the situation to you in detail and described our projections for the future of this market.

Today, I can say that after a difficult period, we continue to see more opportunities than risks. But that does not mean all the problems have been solved:

- The consolidation process continues.
- There is still excess capacity throughout the supply chain.
- Prices for polysilicon remain low, although they have moved upward.

The market situation is an enormous challenge for all of us. But: the crisis has offered us opportunities as well:

- Our specific cost of goods sold dropped again significantly.
- At 49,000 metric tons, we delivered more polysilicon to customers than ever before. An increase of almost 30 percent compared with 2012.
- We won market share and our volumes have placed us on an equal footing with the biggest Chinese producer. In terms of sales, we are the number one.
- Further progress was made with the construction of a new US production plant in Tennessee.

As I have mentioned already, our sales and earnings performance was chiefly slowed by lower average prices.

We reaffirm our projection: solar power has a great future.

There are good reasons why:

- Solar power is one of the world's most cost-efficient and environmentally friendly energy sources.
- It is available for our use in unlimited quantities.
- And ever more countries around the globe are turning to the sun as an important energy supplier. As a result, the market expanded strongly in 2013. By 22 percent to 40 gigawatts.

A key milestone for solar power's future was the successful end to the trade dispute between the European Union and China about punitive tariffs on Chinese solar modules. As a result, the market got another major boost in the second half of the year.

Ladies and gentlemen,

The market trend for silicon wafers was disappointing in 2013. The volume increase expected in the second half did not materialize. Price pressure was high, partly due to the exchange-rate advantages of Japanese competitors.

Despite these harsh market conditions, we held our own.

- Productivity rose again by a double-digit percentage.
- At our small-diameter plants, capacity utilization improved due to our structural measures. At Portland, USA, we closed down the small-wafer production.

On the earnings front, we posted a positive EBITDA of 26 million euros. Under the given circumstances, that was a good performance.

Our strategy remains unchanged: we are concentrating on 200 mm and 300 mm business, with the focus on Asia. I will be giving you more details later on.

Ladies and gentlemen,

Our chemical divisions have again been an anchor of stability for our business. They account for over 60 percent of our sales. We offer our customers numerous innovative, high-quality products for a very wide range of applications. Here, we anticipate further growth in every market.

In 2013, however, we lacked the necessary economic tailwind. At 2.8 billion euros, sales stayed at the prior-year level. EBITDA increased by over 10 percent.

International expansion remains an important part of our success. That is why we continue to enlarge our global footprint. The new markets will keep growing.

Growth in new markets is successful if we know our customers' needs and understand local and regional differences. We cannot supply the global marketplace solely from Germany.

Customers in India need solutions that are different from those in Germany. With a silicone emulsion for shampoos, developed in Kolkata specifically for the Indian market, we gained the leading consumer-goods manufacture in South Asia – Unilever – as a customer. From this local partnership, we have built up a global business. Today, we manufacture globally for this customer in Brazil, China, India and Germany. As a result, Unilever conferred its "Partner to Win Award" on us for our attractive hair-care solutions. This result spurs us on. We have paved the way for continuing our success story in the silicone business. With highly effective teams, we are expanding our global presence. Since early 2013, five new teams have been active in Asia.

Establishing expertise close to customers. With this strategy, we are developing the right products for our customers' varied needs.

As you have seen in the film, South Korea is now the pace-setter in high-tech applications for the electrical and electronics industries. Accordingly, we set up the global "WACKER Center of Excellence Electronics" in Seoul. As a result, we are increasing our innovative strength. And we are developing new products for new markets.

New markets call for new approaches. In Vietnam, we are driving our laboratory on wheels to building sites, distributors and universities, where we explain the benefits of using our products in construction applications. The small orange van has become quite an attraction.

Thus, we are taking new paths and are confident that this initiative will pay off in the long term.

Ladies and gentlemen,

As you can see, we are a forward-looking company. What are we doing to ensure our long-term success?

We have defined goals: by 2017, we aim to have generated further growth, to have become more profitable and to continuously post a positive net cash flow. It is an ambitious task, but doable.

Our targets are:

- Over 6 billion euros in sales.
- An EBITDA margin of around 20 percent.
- A return on capital employed of over 11 percent.

Provided, of course, that the world economy develops normally.

This year, we will take the first steps along this path. We have already laid the foundation – with our good first quarter:

- Group sales came in at 1.16 billion euros – 8 percent more than a year ago.
- EBITDA was 285 million euros – supported partly by non-recurring effects.
- All our divisions increased their volumes and sales from January through March.

The most important thing to say about the first three months, though, is: there won't be any punitive tariffs on our polysilicon supplied to China. After lengthy negotiations, we reached an agreement with the Chinese Ministry of Commerce.

As a result:

- The risk of restrictions is no longer an issue for our polysilicon business in the key market of China.
- And we can continue supplying our high-quality material at competitive prices.

We mobilized all our resources during the dispute to prevent punitive tariffs. It was not an easy situation for the whole company. In the end, we succeeded in finding a favorable solution – not least because we received strong support from policymakers. I expressly mention this point here, since we are usually all too ready to criticize our politicians.

Let me assure you that we will continue to do everything we can to promote unrestricted free trade.

In our opinion, tariffs and trade barriers impede growth and raise the price of products and services. Free trade is beneficial for all parties – for consumers, for companies and for the countries involved.

Essentially, clarity has also been achieved in the dispute with Brussels about exempting energy-intensive companies from the renewables surcharge. At WACKER, this means:

- From today's perspective, large parts of our production operations in Germany will continue to be exempt from the renewables surcharge. The same applies to self-generated power from our own facilities.

How strongly rising energy costs impact WACKER's business is seen in two figures:

- In Germany alone, we consumed 3.5 terawatt hours of electricity last year – that's about 0.7 percent of the entire country's electricity needs.
- An increase of 1 cent for electricity costs us 25 million euros in earnings.

I can't stress enough that affordable and continuously available energy is absolutely vital for production at our German sites.

Ladies and gentlemen,

The two main uncertainties burdening our operational business have gone. This means, we have:

- Reliable overall conditions.
- More planning certainty.
- Are on an equal competitive footing with our rivals.

We have also been successful in concluding a third matter – our acquisition of a majority stake in the joint venture with Samsung for 300 mm-wafer production in Singapore. While this increases our net financial liabilities by about 135 million euros, it enables us to strengthen our 300 mm business in Asia. The Singapore plant is one of the most modern and efficient production sites for this diameter. Together with our 200 mm wafer operation there, it opens up cost and synergy potentials. And we intend to leverage them.

The market for 300 mm silicon wafers continues growing. At the expense of smaller wafer diameters. Should demand for these wafers decline further, we will adjust our production capacities accordingly. Siltronic's strategy is clearly focused on generating a stable and positive cash flow.

Ladies and gentlemen,

The pillars of our long-term strategy remain unchanged. Our levers for continued growth are:

- Expansion
- Substitution
- Innovation

In our investment policy, 2013 did mark a turning point, though. Over the past 10 to 15 years, we invested heavily in existing and new production sites. In total, almost 6 billion euros. In 2011 and 2012 alone, our investment ratio was over 20 percent of sales. Most of these capital expenditures flowed into major facilities for upstream products. We put a great deal of money into further growth and the expansion of our global production network. With the exception of the new US production site in Tennessee, we have concluded these investments.

Over the next few years, our investment activities will focus on facilities for downstream production. Their capital intensity is substantially lower. Specifically, this means:

- Our capital expenditures for the next few years will remain at or below the level of depreciation.

We intend to further expand the percentage of sales achieved through high-end products – for use in the areas of construction, health, personal-care, medicine, electronics, automotive engineering and energy.

To this end, we will also turn to new products in growth fields. For example, in the LED lighting market. As you have seen, we have numerous products in our research pipeline at our technical competence center in Seoul. We are working there on materials for light-emitting diodes, for optical lamination and for flexible displays that can be rolled up. As part of our efforts, we intend to shorten the time for promising applications to reach market readiness.

In this way, we are initiating the next step for promoting our growth. Expansion will be supported by a stringent cost-reduction program at every business division. I have already mentioned our targets through to 2017:

- We want to increase our profitability.
- We aim to post a positive net cash flow.

We presented the key points of our strategy for the first time in July 2013 at our Capital Markets Day in London. They were received positively by analysts, investors and other capital-market participants alike.

Ladies and gentlemen,

The key factor that fuels WACKER's success is our employees. With their expertise and ideas, they shape the company's future.

The cornerstone of our human-resources work is basic and advanced training. There will not be any fundamental changes there. Last year alone, our workforce completed 88,000 e-learning sessions and 17,500 advanced training measures. Currently, we are providing vocational training to 675 young people.

We also realize, though, that we need to further enhance our performance capabilities and innovative strengths to maintain our competitive edge. And to increase our attractiveness as an employer.

To this end, the company established a new talent-management process in 2013, which is valid around the world. Its aim is to identify and promote the potential of our employees.

Our goal:

- To find the most suitable employee for every position.

We are adopting a systematic approach to identifying the knowledge holders and employees with development potential at our company. Following the first process cycle, acceptance by employees is good.

We are also taking new paths with regard to working-time models. This means even more options for individually shaping working hours. The new models, which range from family-care time to sabbaticals, are a win-win situation:

- For employees, it is easier to integrate private plans and careers.
- And, as a company, we keep strong and motivated performers in our workforce.

Ladies and gentlemen,

In the current fiscal year, we are on the road to growth again. As seen in our first-quarter figures.

You know our targets:

- Sales are expected to rise by a mid-single-digit percentage.
- We aim to grow EBITDA by at least 10 percent.
- At every division, volumes and sales are expected to be above the prior-year level.
- Capital expenditures will be in a similar range as last year and, thus, at the level of depreciation.

We are all aware that things today are changing faster than anyone ever imagined. The conflict in Russia and Ukraine is a case in point. Such developments cannot be predicted – by any company worldwide.

And we should not forget that:

- The sovereign-debt crisis in Europe is not over.
- And growth in emerging-market economies is slowing.

Thus, we remain cautious, but are optimistic. There is no reason for us not to be. We think and act long-term. In doing so, we build on strong foundations:

- We have the right products.
- We develop innovative new products and technologies.
- We are expanding our presence by targeting new markets.

In my opinion, no other company has such a wealth of expertise in silicon and polymer chemistry.

Ladies and gentlemen,

WACKER will be 100 years old on October 13. On that day in 1914, our founder registered the company in Traunstein under the name "Dr. Alexander Wacker, Gesellschaft für elektrochemische Industrie KG."

The company went through changing times:

- It was founded in the First World War.
- Survived the Second World War.
- In 2000, its shareholder structure was realigned.
- Six years later came the IPO.

The qualities that have always characterized WACKER are entrepreneurship and the courage to initiate change without losing our roots.

Our company's history offers plenty of examples of successful changes. In the 1980s, PVC was the Group's main sales driver. Then, in 2000, we gave up this business completely after 65 years. We absorbed this clear-cut break well despite all the predictions to the contrary.

That achievement highlights the company's great flexibility and ability to cope with change. The company has always been carried forward by people – for three generations – who identify strongly with it and who reliably promote its success with unswerving commitment.

Our employees are willing to pioneer new approaches. As we have done in China. And just as we are doing at our production site in Tennessee. Having a global footprint is crucial for our future.

I am confident that this mixture of

- Tradition and progress
- Expertise and experience
- Innovation and identification

will secure WACKER a good future in the coming decades.

Our roots lie in Burghausen and Bavaria. Europe is our home and the world is our market. And so my remarks come full circle here: 100 years of WACKER – going global from Bavaria.

We believe in our future. We hope that you do, too, and that you will continue supporting us on the path ahead.

Thank you for your commitment.

Ladies and gentlemen,

To conclude, I would like to make a comment on Item 6 of this Meeting's agenda.

The Executive and Supervisory Boards propose approving the amendment agreements to existing profit-and-loss transfer agreements between WACKER, as the controlling company, and the following three subsidiaries: DRAWIN Vertriebs-GmbH, Wacker-Chemie Versicherungsvermittlung GmbH and Alzwerke GmbH. Approval by the Annual Shareholders' Meeting is necessary for these amendment agreements to take effect.

The Executive Board is required by law to explain such agreements to shareholders verbally prior to debate. I would like to do this now. I will be brief, though – because, when calling this Annual Shareholders' Meeting, we gave you access to detailed information and numerous documents, including reports on said amendment agreements – to which I refer now.

The amendment agreements are necessary due to a change made to Germany's Corporate Income Tax Act in February last year – the so-called "small reform of integrated fiscal units." For profit-and-loss transfer agreements with limited liability companies, this change henceforth requires that the obligation to assume a loss by the controlling company has to be agreed using a clearly prescribed formulation, namely by dynamic reference to the provisions in Section 302 of the Stock Corporation Act in its respectively valid version. To ensure the continuation of the integrated intercompany relationship and its related advantages – such as the option of offsetting the losses or allocating the profits of a given period – it is necessary that the existing profit-and-loss transfer agreements are amended in line with the legal change by reformulating the provision on loss assumption. There is no need to make any further amendments.

With regard to WACKER and its shareholders, there are no changes.

For further details about the amendment agreements and about the subsidiaries affected, please refer to the relevant documents, which are also available for review here today. Refer especially to the joint reports by the Executive Board and the managing directors of the subsidiaries.

Thank you for your attention.

(Check against delivery!)

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