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**Annual Press Conference
for 2018**

Speech by
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in Munich, Germany

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

The world economy grew in every region last year. But the expansion was not as strong as anticipated at the beginning of the year. Optimistic estimates were gradually revised downward as the year progressed. A key reason was the escalating trade conflict between the USA and China. It slowed the economic trend.

As regards to developing and emerging economies, commodity exporters like Russia and Brazil benefited from higher exports. In China and India, on the other hand, strong domestic demand supported growth.

The bottom line is that GDP grew in every region. The strongest growth was again delivered by Asia.

In this environment, WACKER's chemical divisions benefited from better prices and higher volumes. Demand was especially strong for our silicones. And at our Polymers and Biosolutions divisions, we also sold more than in 2017. In total, WACKER generated sales of close to 5 billion euros in 2018. That was 1 percent more than the year before. Our good chemical business enabled us to more than offset negative exchange-rate effects and weakness in the solar industry.

EBITDA – earnings before interest, taxes, depreciation and amortization – amounted to 930 million euros in 2018. That was 8 percent less than in 2017 and yielded an EBITDA margin of around 19 percent. The decrease primarily reflected the costs of the business interruption at Charleston, for which insurance compensation is still pending – as already mentioned. Higher raw-material and energy costs also dampened earnings significantly, particularly in our polymer business.

EBIT also decreased. At 390 million euros, it was 8 percent below the prior-year level. The continued fall in depreciation positively influenced EBIT. Depreciation amounted to 540 million euros. That was around 9 percent less than a year earlier.

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Overall, WACKER ended 2018 with Group net income of 260 million euros. Compared with the previous year's income from continuing operations, that was a gain of 4 percent. I said "continuing" because 2017's net income included the proceeds from the deconsolidation of Siltronic as a WACKER segment.

Ladies and Gentlemen,

Last year, our chemical business again drove sales and earnings growth. Sales at our three chemical divisions totaled 4 billion euros. That was 10 percent more than the year before. WACKER's chemical business generated 80 percent of the Group's total sales.

Growth was especially strong at our largest division, Silicones, which accounts for about half of Group sales. At 2.5 billion euros, the division posted a gain of 14 percent compared with the previous year. Here, two factors mainly fueled the rise: a better product mix and higher prices.

The Silicones division posted even stronger gains for EBITDA than for sales. EBITDA increased by 39 percent to 617 million euros. This was due to higher prices, strong volume growth and high plant utilization rates.

Sales at the Polymers division climbed to about 1.3 billion euros. The main drivers were higher volumes for dispersions and dispersible polymer powders. EBITDA, though, was 28 percent lower year over year, at 148 million euros. Here, the marked increase in raw-material prices dampened earnings.

The Biosolutions division generated sales of 227 million euros. That was 10 percent more than the previous year. The main drivers were higher volumes and better prices for some products. EBITDA of 24 million euros was, as expected, significantly lower year over year. Here, the earnings trend was slowed by higher raw-material costs and by the integration costs for the new sites in León and Amsterdam.

Last year, our polysilicon business faced multiple challenges. At the end of May 2018, the news that China would curb feed-in tariffs and cap the amount of new photovoltaic installations caused market turbulence. As a result, the demand for solar modules in China and pricing across the entire value chain contracted strongly. We were not immune to the impact. We experienced a significant drop in volumes and lower average prices. That is why sales at our Polysilicon division decreased to 824 million euros.

We used this market situation to build up our inventories. By adopting a hub strategy, which involves selling from local inventory and restocking continually, we have boosted our proximity to major customers. As a result, we will be able to supply our customers much faster in the future.

EBITDA at the Polysilicon division was 72 million euros. It fell 75 percent versus a year earlier. Of course, we are not satisfied with that result. Aside from the sales decline, earnings were impeded by the ramp-up costs at the US site in Charleston. And by the costs of the business interruption, for which no insurance compensation was received last year.

Ladies and Gentlemen, I have finished my review of performance at our business divisions. Now, I would like to return to the consolidated financial statements and look at key data from the statement of cash flows.

Last year, WACKER invested 461 million euros. That was 41 percent more, but, as planned, well below depreciation of 540 million euros.

Our net cash flow also developed as planned: at 125 million euros, it was substantially lower than a year earlier, but again clearly positive. It shows we financed our investments with cash flow from operating activities.

Our net financial debt rose compared with a year earlier. It amounted to 610 million euros on December 31. Which meant it was precisely in the target corridor we set for financial debt of between 0.5 and 1 times EBITDA.

The focus of our investing activities in 2018 remained on expanding capacities at our three chemical divisions:

- At our US site in Charleston, we continued construction work on a pyrogenic-silica facility. This project alone accounted for some 55 million euros last year. It is scheduled to come on stream in the middle of this year.
- In Ulsan, South Korea, we are building new production facilities for dispersions and dispersible polymer powders. Around 65 million euros have been budgeted for the project.
- In Holla, Norway, we are expanding our production facilities for silicon metal. In 2018, we invested around 45 million euros there. The fact that we can produce this key starting material ourselves makes us more independent of price fluctuations on raw-material markets and enhances our supply security during times of peak demand.
- We concluded the expansion and modernization of a large-scale fermentation plant in León, Spain. In the middle of last year, we began producing bioengineered cystine there. Cystine is used in food and pharmaceutical products.
- And in Amsterdam, the Netherlands, we acquired a production site last year for making biopharmaceuticals. This acquisition enables us to reinforce our position as a contract manufacturer for pharmaceutical companies.

All these projects are aimed at meeting demand growth in our chemical business. They strengthen our market position and support our strategy of increasing the proportion of high-margin specialties in our chemical portfolio.

Our markets, ladies and gentlemen, are growing worldwide. That is reflected in our figures. In 2018, we generated almost 60 percent of our sales with customers outside of Europe. That is 2.9 billion euros.

Last year, we posted higher sales in almost every region. The only exception was Asia. We did post gains in our chemical business there. But lower volumes and prices for polysilicon caused sales, on balance, to contract. We generated some 1.8 billion in sales in Asia. That was 7 percent less than the year before.

The world's largest purchaser of solar-grade polysilicon is China. Total sales there fell by 13 percent – to 1.05 billion euros. On the other hand, our business continued to expand in India, South Korea and the countries of southeast Asia. In these markets, taken together, we generated about 550 million euros last year. That was 7 percent more than the previous year. Population growth and an expanding middle class are driving our business.

We made substantial gains in Europe, too. Our sales there amounted to 2.1 billion euros in 2018. Versus the year before, that was a gain of more than 6 percent. And in the Americas, our business continued expanding as well, to 878 million euros.

Employee numbers rose by 730 last year. The main reasons for the increase in the Group's workforce were high plant-utilization rates and the integration of the new Amsterdam site.

In total, WACKER had more than 14,500 employees worldwide on December 31, 2018. That was 5 percent more than the year before. The total comprised nearly 10,300 in Germany and a good 4,200 at international sites.

Ladies and Gentlemen,

That concludes my review of Group trends last year.

Our results were not satisfactory in every respect. But, given the sometimes extremely difficult conditions, we delivered a very solid result. Not only did we have headwinds from the weak solar market, but also from exchange rates and, above all, from higher raw-material and energy costs. The price changes for raw materials and energy last year cost us more than 160 million euros in earnings.

To counter such trends, we established a continuous efficiency program at our company 15 years ago. It has been key to improving costs at production plants and production-related service units. One of the main cost levers in this process is to cut specific energy consumption.

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Last year, we made further progress here. Overall, we generated cost-savings – without the Charleston facilities – of some 45 million euros. That enabled us to, at least partially, offset cost increases in other fields.

The Group's net assets and financial position remain very positive: Our liquidity reached almost 400 million euros. Additionally, we have unused credit lines of some 600 million euros. And our equity ratio is 44 percent.

WACKER has a strong financial base. And our net income from continuing operations grew versus the previous year. Growth was supported by investment income of around 100 million euros from our 31 percent stake in Siltronic.

Given these results, the Executive and Supervisory Boards will propose to the Annual Shareholders' Meeting that a dividend of 2.50 euros per share be distributed. It corresponds to a payout of around 124 million euros. Our dividend proposal clearly reflects our long-term policy of giving about half of yearly net income to our shareholders.

Ladies and Gentlemen,

What are our expectations for this year? As I pointed out at the start: from today's perspective, 2019 is not going to be an easy year. Not only are the conditions in our polysilicon business challenging. The risks to the world economy are also significant.

Experts expect the upswing to continue. But momentum is likely to slow noticeably. The main risks stem from global trade conflicts. Especially from tensions between the USA and China – the world's two largest economies. And from higher bilateral tariffs, which could slow trade and investment further. On top of this come geopolitical crises and political uncertainties, such as the outcome of Brexit.

For our business, we anticipate a slight decline in raw-material costs. That will help our chemical divisions somewhat. The market situation for polysilicon is still difficult. That is evident in the figures for the first two months. Our volumes rose significantly. But, at the same time, the price level for solar-grade polysilicon remains unsatisfactory. That is why the two-month sales figure at Polysilicon was slightly below the prior-year level. For the chemical divisions, total sales in the first two months grew somewhat compared with the same period last year. Mainly due to increased volumes.

In total, we expect to generate first-quarter Group sales of about 1.2 billion euros. Which puts us on par with the first-quarter of 2018. Turning to EBITDA, we anticipate a marked decline for the first quarter. Lower average prices for our products – especially for polysilicon – and considerably higher energy costs are weighing on earnings.

From today's perspective, we expect our chemical business to develop positively during the rest of the year. We expect to see rising volumes amid somewhat lower average prices. For our polysilicon business, we anticipate a strong increase in volumes. But average prices are likely to be substantially below last year's level.

In detail, we have the following expectations for our business divisions:

The Silicones division is likely to lift its sales this year by a low-single-digit percentage. Growth will be fueled by rising volumes and product-mix improvements.

For example, the construction sector offers new application opportunities for silane-modified hybrid polymers, with the promise of high growth rates. They can be used in novel sealants and adhesives, and in wear-resistant protective coatings for concrete floors. On the electromobility front, thermally conductive silicone elastomers are becoming an important material. They play an essential role in cooling and, thus, in the thermal management of the electric drive and batteries.

EBITDA at Silicones is anticipated to be markedly below last year due to lower prices for standard products. At around 20 percent, the EBITDA margin, though, is likely to remain well above our target margin of 16 percent for chemical business.

At the Polymers division, we expect sales to grow by a mid-single-digit percentage. Dispersions and dispersible polymer powders will both deliver gains. EBITDA is projected to be clearly above last year amid lower raw-material costs and higher prices for our own products. We forecast an EBITDA margin of about 14 percent.

The Polymers division continues to focus on polymeric binders for sophisticated coating and construction applications. A significant trend here is rising customer demand for sustainable, environmentally compatible solutions. We are seizing these market opportunities and developing appropriate product lines. For example, we are the world's first manufacturer able to produce commercial quantities of vinyl acetate-ethylene copolymer dispersions based on renewable resources.

We also forecast a mid-single-digit percentage rise in sales at Biosolutions for 2019. Growth will be driven by higher capacity utilization at our production site in Amsterdam and by higher volumes in other fields.

New market opportunities exist, for instance, for sport-related nutritional supplements. Products here include coenzyme Q10 and the herbal antioxidant curcumin. Both substances promote the endurance and regeneration of muscles. As the substances are poorly soluble in water, though, it is difficult for the human body to absorb them. Complexing them with our cyclodextrins boosts their bioavailability and enables them to be integrated into diverse products for sports enthusiasts.

EBITDA at Biosolutions is likely to surpass 30 million euros – which is markedly higher than last year.

The photovoltaic market is expected to continue growing this year. Competition in the solar industry, though, remains fierce. On the one hand, this creates uncertainty in the market. On the other hand, it means that the levelized costs for solar power are continuing to drop. That fact is strengthening the competitiveness of photovoltaics. In addition, solar energy has an important part to play in achieving global climate-protection targets. Both factors are expanding the market further. We expect newly installed photovoltaic capacity to amount to between 110 and 130 gigawatts globally this year.

After last year's contraction, we anticipate a strong increase in volumes at Polysilicon in 2019. In view of this, we expect sales at Polysilicon to grow by a low-double-digit percentage. EBITDA, on the other hand, is likely to be much lower than last year. Here, we currently project only a balanced result. The reasons for the drop are lower average prices for solar-grade polysilicon and higher energy prices. I would like to highlight that the insurance compensation payments for the loss event at Charleston, which are now expected this year, are not included in this guidance.

Given the general situation, we are doing our utmost to cut our costs further. The potential for this is considerable, not only in our polysilicon business. Indeed, we are working hard to enhance the cost situation in all other areas of the company. Our goal is to achieve a business value contribution this year totaling some 80 million euros, thanks to our ongoing efficiency programs.

At the same time, our focus at the Polysilicon division is becoming sharper. We want to gain market share among customers in the semiconductor industry and lift our volumes of polysilicon for monocrystalline solar wafers. We will benefit here from the high quality of our material.

In summary, our guidance is:

- Group sales are expected to increase by a mid-single-digit percentage.
- EBITDA is likely to be 10 to 20 percent lower than a year ago. This is due to lower average prices for polysilicon, price reductions for standard products, and rising energy costs.

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- We forecast an EBITDA margin substantially lower than a year ago.
- We expect the result from investments to be significantly below last year's level.
- Our capital expenditures for 2019 will amount to 400 million euros – which is not only lower than last year, but also below depreciation.
- Net cash flow will be clearly positive and substantially higher than last year.
- Net financial debt will be higher than last year, reflecting the impact of the new IFRS 16 accounting standard. It stipulates that lease liabilities are now also to be included in the calculation of financial liabilities.
- For Group net income, we expect a significant decline.

Ladies and Gentlemen,

It is very important to us at WACKER that we provide a realistic assessment of our business prospects. Above all, we are committed to clearly stating the risks we see. This is the case with our guidance today. It takes account of several factors that we cannot influence ourselves. These include:

- Macroeconomic risks to business.
- The projected energy-price trend in Germany.
- The development of exchange rates.
- And the future trend of polysilicon prices.

With the last point, in particular, we are cautious at present, as the signs are hard to read. What seems clear is: the solar market will continue expanding. But the true strength of future solar expansion – and, thus, of an increase in polysilicon demand – cannot be forecast in any detail at the moment. On the supply side, too, it is still unclear at present how many of the new polysilicon production lines announced will actually be built. And, on the other hand, the question is whether small-scale producers, who frequently start up and shutdown their plants, might exit the market permanently. If polysilicon capacities undergo consolidation and demand for photovoltaic systems climbs strongly at the same time, then I see a good chance of prices for solar silicon picking up, too. However, such a scenario cannot be taken for granted.

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As for electricity prices in Germany, it is to be feared they are going to rise significantly this year and in the coming years. That is probably the inevitable consequence of exiting nuclear energy and coal-fired power generation. The decisive point here is whether, and to what extent, policymakers are prepared to relieve industrial companies of the extra expenses involved.

My message here is clear: the electricity costs borne by energy-intensive companies in this country must not climb any further. Quite the opposite: they must decline. Otherwise, it will soon be impossible to produce anything in Germany at an internationally competitive level.

However right energy transition and climate protection are in the long term, we should not shoot ourselves in the foot. Germany's strong industrial base is the key to ensuring our prosperity and our jobs. And without prosperity and jobs, we cannot finance energy transition and climate protection. I get the impression that many people in this country are insufficiently aware of that causal link.

Indeed, chemical production is one of our most important core, cross-sector industries. We should not drive it out of Germany. If over-zealous energy policies cause us to throw the baby out with the bathwater, then, sooner or later, we will experience upheavals in Germany that no one can want. I am convinced that our approach to climate change needs a sense of reality and sound judgment. A false notion of being a trailblazer will lead us astray.

Ladies and Gentlemen,

Despite our subdued guidance for this year, I remain optimistic about our company's future development. Although the economy has clouded over, we think and act for the long term, preparing for the future. That is why we continue to seize the opportunities that arise in our business.

At the chemical divisions, in particular, demand for many of our products is very high. Accordingly, we are targeting investments on expanding facilities for intermediate and downstream products in our silicone business. Here, we want to strengthen our specialties portfolio in the coming years.

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Our goals are clear: we are preparing for the next growth step. We are enhancing our market positions. In doing so, we are pursuing the strategy set until 2020 of ensuring that investments remain below the level of depreciation during that period.

Although we have headwinds rather than tailwinds at present, WACKER is, and will remain, well positioned to shape the future successfully. We have the right products. We are developing innovative new products and technologies. And we hold leading positions in all of our key markets. We will continue firmly along our path.

Ladies and Gentlemen, I have arrived at the end of my review. We look forward to your questions.

Thank you.