WACKER

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Annual Press Conference for 2020

Speech by
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Check against delivery.

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

2020 was an extraordinary year for all of us. The coronavirus pandemic hit the economy with devastating impact. Public life ground to a halt in many countries around the world and, today, the pandemic still poses enormous economic, political and social challenges for us all.

To overcome this exceptional situation, we focused – and continue to focus – on three priorities: Protecting the health of our employees, keeping production running and supplying our customers, and safeguarding the company's long-term future. A year has passed since the initial shock wave and, today, we can see that we have steered WACKER soundly amid the pandemic turmoil. The effects of the pandemic are obviously reflected in WACKER's figures. Sales took a big hit especially in the second quarter of 2020, but in the second half of the year, we made up for most of that decline thanks to the growing demand for our products.

The pandemic still has a firm hold on Germany and the world in 2021. The restrictions remain substantial. But even as we take all necessary precautions against Covid-19, we are optimistic about this new year. We want to grow our sales, and to increase our EBITDA even more strongly. More about that later. First, I would like to take a detailed look at last year's facts and figures.

In 2020, the coronavirus pandemic resulted in the deepest global recession in almost a century. From a full-year perspective, economic output declined in every region except for China. Europe saw an especially strong decline, but many emerging-market economies also posted massive drops in gross domestic product. Overall, GDP was down 3.5 percent.

Amid these underlying conditions, WACKER generated sales of 4.69 billion euros in 2020, down 5 percent year over year. Lower prices, especially for silicones, were the main factor slowing sales – in total, by 150 million euros. Other contributing factors were reduced volumes and the exchange-rate effects of a weaker US dollar.

EBITDA – that is, earnings before interest, taxes, depreciation and amortization – came in at 666 million euros. That was 15 percent less than a year earlier and yielded an EBITDA margin of around 14 percent. Importantly, our prior-year EBITDA had included 112 million euros in insurance compensation. This payment arose from the 2017 incident at the Charleston site. Adjusted for this special income, the year-over-year decline in operating income was only 1 percent.

EBIT – earnings before interest and taxes – totaled 263 million euros. A key factor here was that depreciation and amortization fell markedly, to roughly 400 million euros in 2020. A year earlier, the figure had been over 1.3 billion euros. The reason was an impairment charge. In 2019, we had recognized an impairment of 760 million euros on our polysilicon facilities.

Our net income for the year was also clearly positive. We posted a profit of 202 million euros for 2020.

Our dividend policy is to distribute some 50 percent of our net income to our shareholders. The Executive and Supervisory Boards will therefore propose a dividend of 2 euros per share at the Annual Shareholders' Meeting. That corresponds to a payout of almost 100 million euros.

Ladies and gentlemen,

In 2020, our chemical business was once again the driver of sales and earnings. The fact that we did not grow in 2020 does not change this. Sales at our three chemical divisions totaled 3.8 billion euros. That is 80 percent of Group sales.

The highest sales came from WACKER SILICONES, our largest division. Its performance was noticeably slowed, though, by lower prices for standard silicones and by reduced volumes. The division posted annual sales of 2.24 billion euros. That was 9 percent less year on year. The main reason was the drop in demand caused by coronavirus. The decrease was particularly apparent with products for the automotive and textile industries. As a result, EBITDA also declined substantially, by 19 percent, to 388 million euros.

Our polymers business performed well. Demand from the construction industry remained high, despite the pandemic. The Polymers division generated sales of 1.3 billion euros in 2020. That was almost on par with the prior-year level. EBITDA climbed 39 percent to 271 million euros. Here we benefited from improvements in production costs and from lower raw-material prices.

Our Biosolutions division lifted both sales and earnings in 2020. Sales grew 1 percent to 246 million euros, mainly due to volume growth in biologics and cyclodextrins. EBITDA came in at 38 million euros, 23 percent higher than the year before.

After two difficult years, our polysilicon business stabilized in 2020, for several reasons:

- First – average prices for solar-grade polysilicon stopped falling.
- Second – we expanded our market share with semiconductor-sector customers.
- Third – we significantly reduced our production costs.

For the full year, our Polysilicon division generated sales of 792 million euros. That was a gain of 2 percent. Another positive point: the division has returned to operating profit, posting EBITDA of 5 million euros. A year earlier, its operating result – adjusted for special income of 112 million euros in insurance compensation – was still clearly negative.

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.

WACKER has always paid particular attention to having stable finances. They are the basis for investments and profitable growth – the foundation on which the company’s future is built. Especially in times of crisis. We therefore aligned our investment budget with the economically challenging situation. At 224 million euros, capital expenditures were clearly below the prior-year level. In addition, we lowered our current assets significantly by systematically reducing our inventories.

Both actions bolstered our net cash flow, which almost quadrupled to 698 million euros.

High cash inflows from operating activities coupled with sufficient liquidity were key to bringing our net financial debt down substantially. As of December 31, 2020, it amounted to only 68 million euros.

Our investing activities in 2020 remained centered on expanding capacities at our three chemical divisions – especially for our polymer products. In Ulsan, South Korea, we completed a new dispersion reactor and brought it on stream in late April. We are also expanding production capacity at our Nanjing polymer site in China. Here we are building a new reactor for dispersions and a spray dryer for dispersible polymer powders. The two facilities are scheduled to come on stream in the second half of next year.

Turning to Amsterdam, we invested in setting up coronavirus vaccine production capacity, as well as in facilities for producing biopharmaceuticals. We have an agreement with CureVac to make the Tübingen company's vaccine once it is approved. We have successfully completed the technology transfer and the test runs. Starting mid-2021, we aim to produce more than 100 million doses of the vaccine annually in Amsterdam. The site offers expansion potential, so that it can also meet rising demand in the future.

Aside from this, we invested in several small- and medium-scale projects for silicone intermediates and downstream products, and in infrastructure measures at our sites in Burghausen and Nünchritz.

All these investments will help us meet our customers' growing demand. Even amid the pandemic, we see high demand for many of our products.

Ladies and gentlemen,

Our business is very international in nature. We achieve more than 80 percent of our sales outside Germany, and 60 percent outside Europe.

Our sales in 2020 fell in all major regions due to the pandemic's effects. The biggest drop was in the Americas, where we posted sales of 833 million euros. That was 9 percent less than a year earlier, in part due to the impact of a weaker US dollar. Sales in Europe declined by 4 percent to 1.93 billion euros.

Asia is our second-largest market after Europe. Last year, we generated sales of 1.69 billion euros in Asia. That, too, was a decline of 4 percent. In Asia, we benefit from our strong presence in China. Sales there were just over 1 billion euros, only slightly below the 2019 level. That helped us offset some of the much stronger declines in the countries of southeast Asia.

Employee numbers fell last year. Worldwide, we had 375 fewer employees. WACKER currently has some 14,300 employees in total worldwide. 10,100 work in Germany and 4,200 at international sites.

Ladies and gentlemen,

A look at our net assets and financial position shows that we weathered the adversities of 2020 relatively well. You all know the saying "cash is king." In that spirit, we exercised prudence in our capital expenditures, managed our current assets consistently, and made substantial savings in non-personnel costs. All this helped boost our liquidity, which more than doubled year over year. It amounted to 1.34 billion euros at year-end. That is almost 20 percent of our total assets. We additionally have unused credit lines in excess of 600 million euros. On the equity and liabilities side, however, our provisions have also grown significantly. This is principally due to our pension obligations. They rose yet again last year and now account for nearly 40 percent of total equity and liabilities. That is why our equity ratio now stands at only 24 percent.

Steadily rising pension obligations are not limited to WACKER; they have been an issue at many companies for some time now. You all know the reason: the European Central Bank's zero-interest policy. There are no indications either that interest rates might rise again in the near future. We are increasingly concerned about this development. This year again, we additionally paid about 70 million euros into the

WACKER pension fund. For this reason, we are currently working on a fundamental reform of our company pension system.

Ladies and gentlemen,

What are our expectations for the current year? Although we are suitably cautious about the coronavirus situation, we have entered 2021 with optimism. Economic analysts expect global economic output to pick up again. The upswing is projected to be strongest in Asian countries, but Europe and the USA should also see robust growth.

Of course, the pandemic remains a source of significant risks. Another economic downturn could ensue if there are delays in vaccine supplies, for example, or if further outbreaks are not adequately contained. And in many countries, GDP will not have returned to 2019 levels by the end of 2021. But we expect our key industrial sectors to grow again in the medium term.

Business has been strong year-to-date. Demand is very high in all our business divisions. Group sales for the first two months are clearly higher year over year, as is EBITDA. Overall, we expect to generate first-quarter Group sales of almost 1.3 billion euros, exceeding the prior-year figure. Turning to EBITDA, we expect a substantial year-over-year increase in the first quarter. Tailwinds here come mainly from strong demand for our polysilicon and our construction products, and from generally lower production costs.

Our assumption is that our chemical business will perform well during the rest of the year. We expect to see volume growth and positive product-mix effects. In our polysilicon business, we also anticipate somewhat higher volumes and a better product mix. For the full year, prices for polysilicon are unlikely to decline versus 2020.

Now, what are our expectations for each of our business divisions?

Sales at our Silicones division are likely to rise by a mid-single-digit percentage. This is due to higher volumes for specialized applications. Thermally conductive silicone elastomers, for example, are gaining ground in electromobility. They play an essential role in cooling and thus in the thermal management of electronic components and electrical storage modules. Further examples include new fiber composites made from carbon or glass fibers and silicone resins. These composites are used in thermally stable or refractory components for lightweight construction. We expect EBITDA at the Silicones division to be slightly higher than last year and the EBITDA margin, too. Somewhat higher raw-material prices will slow earnings.

At our Polymers division, we also anticipate that sales will grow by a mid-single-digit percentage. Rising volumes in dispersions and dispersible polymer powders are supporting this growth. EBITDA is likely to decline substantially versus last year amid markedly higher raw-material costs. The EBITDA margin will also be lower for the same reason. It is likely to be between 15 and 18 percent. In recent weeks, though, raw-material prices have risen again steeply. This is due to production outages at manufacturers' facilities. As a result, it will become increasingly difficult to reach the lower end of this range.

The Polymers division remains focused on supplying polymeric binders for sophisticated construction, coating and bonding applications. In this area, customer demand for sustainable, environmentally compatible solutions is rising. By developing corresponding product lines, we are seizing these market opportunities. Biocide-free powder paints are one example. They are only mixed with water just before a wall is painted. The advantage is that they no longer require biocides to preserve them. In addition, it is now possible to mix just the right amount of paint for the job. This, in turn, means less waste, as no paint is left over.

At our Biosolutions division, we expect sales to climb by a low-double-digit percentage. Growth will mainly come from biopharmaceuticals. EBITDA should be slightly higher than last year, with the EBITDA margin matching last year's level.

The Biosolutions division will benefit from growth potential in the food and pharmaceutical markets. As a contract development and manufacturing organization for biopharmaceuticals, we are meeting demand growth through our sites in Jena, Halle and Amsterdam. At the Amsterdam site, we make vaccines and live microbial products, among other things. Currently, we are investing in new production facilities there.

At the start of the year, we strengthened our biologics business by making another acquisition. In early February, we acquired plasmid DNA manufacturer Genopis. The company operates several manufacturing lines at its site in San Diego. Plasmid DNA can be used either directly for nucleic-acid-based gene therapies and for vaccines, or as a starting point for such innovative therapeutic agents – for example to manufacture messenger RNA. Genopis' expertise in pDNA technology expands our portfolio and capacity as a contract manufacturer for the pharmaceutical sector. At the same time, the acquisition provides us with a local presence in the all-important US biologics market.

The photovoltaic market is likely to continue growing this year. Competition in the solar industry remains tough, and cost pressures are high. At the same time, the levelized cost of solar power continues falling. That strengthens the competitiveness of photovoltaics. One thing is quite clear: solar energy is crucial to achieving the world's climate-protection targets. We expect newly installed photovoltaic capacity to amount to between 150 and 180 gigawatts globally this year.

In our polysilicon business, we expect sales to rise by a mid-single-digit percentage in 2021, driven by an improved product mix and slightly higher volumes. Average polysilicon prices will not decrease. In recent weeks, volumes and prices for solar-grade polysilicon have climbed steeply. Consequently, sales might even rise by a low-double-digit percentage. We anticipate a clearly positive

EBITDA, well above the year-earlier figure. The EBITDA margin should climb significantly, too.

In summary, our guidance is:

- Group sales will climb by a mid-single-digit percentage.
- EBITDA will be 10 to 20 percent higher than a year ago.
- The EBITDA margin should rise slightly.
- Our capital expenditures will amount to around 350 million euros – and remain below depreciation.
- Net cash flow will remain clearly positive, though substantially lower than last year.
- Net financial debt will decline further. We anticipate a slight increase in net financial assets.
- Group net income should rise substantially.

Ladies and gentlemen,

That concludes my review of our expectations for the current year. On balance, we can see that, in the face of the pandemic's severe global economic impact, we have done really well so far. One thing that has helped us is the composition of our portfolio. Our products are found in a wide range of industries and applications. As a result, we can at least partially offset weaknesses in specific industries. This ability has once again proved its worth in the present crisis.

Our Shape the Future efficiency program has also helped us a lot. You will recall that, since late 2019, we have been working on a package of measures to make WACKER fit for the future. That means doing three things: Strengthening our customer orientation by enhancing our regional presence, making WACKER leaner, faster and more flexible, and cutting costs significantly.

To that end, we launched our comprehensive "Shape the Future" program. We are concentrating on three main areas: A new organizational structure, non-personnel cost savings, and job reductions. Our goal is to save 250 million euros every year, half in non-personnel costs and half in personnel costs. Our plan includes some

1,200 job cuts by the end of 2022. The focus is on WACKER's administrative departments and on the divisions' non-operational functions. Most of the jobs – some 1,000 – will go in Germany.

As regards non-personnel cost savings, we already took a big step forward last year. It improved our earnings by more than 50 million euros in 2020. This year, we expect to cut over 100 million euros in non-personnel costs.

To reduce jobs, we looked for socially responsible measures right from the start. We signed a framework agreement about this with employee representatives last October. It explicitly excludes forced layoffs in Germany.

To meet our job-reduction targets, we set up a voluntary program, offering phased-early-retirement and severance packages with attractive terms. This program ran until the end of January and received a good response. Nearly 500 employees came forward and accepted an offer under the program. We have thus taken a significant step toward our overall goal of saving roughly 250 million euros annually by the end of 2022.

We are also making progress on the new organizational structure. Since signing the framework agreement with employee representatives last autumn, we have been working on implementing the measures defined. Many units are already working in their new structures.

Ladies and gentlemen,

The coronavirus pandemic has shown that our world has become even more unpredictable. Volatility will remain with us. Permanent change has become the new normal. But WACKER is skilled at transformative change. Our courage to embrace change has made us stronger.

Change for us also means divesting our stake in Siltronic. By transferring the Siltronic stake to Taiwan's GlobalWafers, we intend to finalize our strategic goal of focusing our energy on our original core business – chemicals. GlobalWafers has secured a majority shareholding in Siltronic AG.

Although the takeover has not been finalized yet, as various merger-control and foreign-trade clearances are still outstanding, we have already passed some major hurdles. The German antitrust authority has confirmed that wafer customers will still have sufficient choice. And the Committee on Foreign Investment in the United States does not see any security-relevant issues involved here and has approved the transaction. Siltronic makes wafers, not chips. We are confident that the merger will go ahead as planned and that Siltronic and GlobalWafers will be able to chart their future path to success together.

Over the last 100 years, WACKER has resolutely seized new opportunities time and again. Take polymer chemistry, where we are the market leader by a wide margin. Or look at Silicones, where we are the world's number 2. Or take our promising business in bioengineered products, which we are strengthening and expanding through targeted investments and acquisitions.

Ladies and gentlemen,

A key part of our strategy is sustainability – the protection of our environment. We are convinced that sustainable business practices are a crucial success factor and will be even more important in the future.

Sustainability has been firmly rooted within WACKER for years. Of course, we want to be CO_2 neutral by 2050. WACKER will do its utmost, though, to attain this goal long beforehand. To do this, we have adopted a three-tiered approach:

First: to develop sustainable products for our customers. As an initial step, we intend to enhance our portfolio by 2030. We want 90 percent of our products to deliver a neutral or positive contribution to sustainability.

Second: to significantly improve our ecological footprint in production. This includes raising process efficiency at our plants and reducing energy and raw-material consumption. Further, it will also be necessary, to partially restructure our processes and our integrated production system. By 2030, we aim to have cut our specific carbon footprint by a third and halved our specific energy demand.

We have prepared a project proposal about using renewable energy to produce green hydrogen at our large Burghausen site and submitted it to the European Union for funding. With this project as the focal point, it will be possible to build a hydrogen network in southeast Bavaria and even southern Germany and Austria.

Third: to fully involve the supply chain so that production becomes permanently carbon neutral. Our goal is for 90 percent of our key suppliers to deliver a positive contribution to sustainability.

All in all, our approach shows that we think holistically.

The basis for climate neutrality and the many initiatives behind it – such as the European Union's Green Deal – is renewable energy. In the chemical industry and for WACKER, this chiefly means renewable electricity. The electrification rate of our processes today is already very high – at 60 percent. And the more renewable energy there is in Germany's energy mix, the higher our CO_2 savings will be. The important point, though, is that renewable energy must be readily available and affordable. The Green Deal will only succeed if electricity is provided at internationally competitive prices.

WACKER's products are making a significant contribution toward the energy transition. And they are an important basis for climate neutrality. Our customers are already achieving substantial reductions in CO_2 emissions today, thanks to WACKER products.

Take polysilicon, for example. One year's production of our high-quality material for sustainable solar energy enables our customers to avoid 466 million metric tons of CO_2 emissions. For 30 years, this will eliminate the output of a city the size of Hamburg. And every year, a new Hamburg is added.

A further example is dispersible polymer powder: 30 grams of WACKER's dispersible polymer powder per square meter can replace 10 kilograms of thick-bed mortar made of sand and cement. This lowers CO_2 emissions by 2.4 kilograms per square meter.

I have already mentioned our goal. By 2030, we want 90 percent of our products to make a neutral or positive contribution to sustainability. And by 2050, this will apply to our entire product range. At WACKER, lower CO_2 emissions for our products and resource-efficient production go hand in hand. According to sustainability auditor EcoVadis, WACKER already ranks among the top 1 percent of sustainability performers in the base-chemical industry. We are thus in an excellent starting position and intend to expand it resolutely.

Ladies and gentlemen,

We have a clear strategy and know where we want to go. We strongly believe in sustainable solutions – for our products, in our production processes, and in the supply chain. We have the right products, and we maintain close relations with our customers. Without chemicals, it will not be possible to solve the problems of our time – whether the coronavirus battle, climate change or the digital transformation. That is what drives us. That is what we work for every single day.

Thank you.