WACKER

Annual Report

Polymer Binders — Chemistry That Holds Our World Together

2017

As an innovative chemical company, WACKER makes a vital contribution to improving the quality of life around the world. We want to continue developing and supplying solutions that meet our own expectations of adding value for our customers and shareholders, and growing sustainably.

WACKER at a Glance

€ million	2017	2016[7]	Change in %
Results/Return			
Sales	4,924.2	4,634.2	6.3
EBITDA[1]	1,014.1	955.5	6.1
EBITDA margin[2] (%)	20.6	20.6	n.a.
EBIT[3]	423.7	337.5	25.5
EBIT margin[2] (%)	8.6	7.3	n.a.
Financial result	–88.7	–91.1	–2.6
Income from continuing operations before income taxes	335.0	246.4	36.0
Income from continuing operations	250.1	178.1	40.4
Income from discontinued operations	634.7	11.2	>100
Net income for the year	884.8	189.3	>100
Earnings per share from continuing operations (basic/diluted) (€)	4.85	3.44	40.7
Earnings per share (basic/diluted) (€)	17.45	3.61	>100
ROCE (%)	7.5	6.4	n.a.
Financial Position/Cash Flows			
Total assets	6,835.7	7,461.6	–8.4
Equity	3,169.3	2,593.2	22.2
Equity ratio (%)	46.4	34.8	n.a.
Financial liabilities	1,001.6	1,458.2	–31.3
Net financial debt[4]	454.4	992.5	–54.2
Capital expenditures (continuing operations)[5]	326.8	338.1	–3.3
Depreciation (continuing operations)	–590.4	–618.0	–4.5
Net cash flow (continuing operations)[6]	358.1	361.1	–0.8
Research and Development			
Research and development expenses (continuing operations)	153.1	150.0	2.1
Employees			
Personnel expenses (continuing operations)	1,198.0	1,101.2	8.8
Employees (December 31, number)	13,811	13,448	2.7

[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] Capital expenditures excluding acquisitions.
[6] Sum of cash flow from operating activities (excluding changes in advance payments received) and cash flow from long-term investing activities (before securities), including additions due to finance leases.
[7] Apart from statement-of-financial-position items, prior-year figures exclude Siltronic. Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations).

Annual Report

2017

Polymer Binders

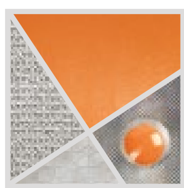
Chemistry That Holds Our World Together

A
For Our Shareholders

B
Combined Management Report

C
Consolidated Financial Statements

D
Further Information
Supervisory Board, Executive Board, Corporate Governance Report and Non-Financial Report



Polymer binders are used as adhesives for tiles, bind colorful pigments into spreadable paints and coatings, and ensure that textile layers stick to carpet backings.

Key Events

2017

February

In Burghausen, WACKER expanded its dispersions production capacity, increasing annual capacity to 60,000 metric tons. Investment spending for this amounted to some €25 million.

March

In an accelerated bookbuild, WACKER gave up its majority in Siltronic AG. In total, 6.3 million Siltronic shares were placed with institutional investors for €55.85 per share. WACKER still holds 30.8 percent of the shares in Siltronic after this transaction and thus remains the biggest individual shareholder in the company.

April

At the European Coatings Show in Nuremberg – the biggest of its kind in Europe – WACKER presented new polymeric binders and silicones, together with innovations for the construction, packaging and adhesives industries.

May

WACKER intensified its cooperation with innovative company founders by becoming involved in Germany's HTGF III fund.

May

WACKER strengthened its presence in high-growth Asia: in Jakarta, the capital of Indonesia, a new technical competence center for construction and adhesive applications opened its doors.

June

WACKER started up a new silicones R&D center in the USA, with the aim of pushing the development of new products in North America. The research and analytical laboratories are located in the university town of Ann Arbor in Michigan.

July

WACKER published its new sustainability report for 2015 and 2016. At our biggest production site in Burghausen, emissions, consumption and energy input have been reduced by 41 percent in the last ten years.

August

In São Paulo, WACKER joined customers in celebrating the 40th anniversary of its South American headquarters in Brazil. At the Jandira site near São Paulo, WACKER built a multifunctional facility for manufacturing antifoam agents and functional silicone fluids, which is already on stream.

September

At the US production site in Charleston, a technical defect led to the escape of hydrogen and an explosion, which damaged pipelines and a building. Production has shut down until the damage has been investigated and repair work completed.

October

WACKER presented the Alexander Wacker Innovation Award to a research team for developing high-temperature silicone fluids. The product, HELISOL®, can be heated up to 425 °C and its viscosity remains low even at –40 °C. In solar thermal power plants, it achieves efficiencies that are impossible with conventional heat-transfer media.

November

German President Frank-Walter Steinmeier visited WACKER's Nünchritz production site during his three-day tour of the Free State of Saxony. Accompanied by Minister President Stanislaw Tillich, he learned about WACKER's role as an economic player in the region, as well as about technical recruiting, training, and maintaining a work-life balance.

November

Ground-breaking in Ulsan, South Korea: WACKER is expanding its existing production facilities for dispersions and dispersible polymer powders. We are constructing a new spray dryer for dispersible polymer powders with a capacity of 80,000 metric tons, as well as a further reactor for dispersions based on vinyl acetate-ethylene copolymer (VAE). About €60 million is being spent on this project and production will start in the first quarter of 2019.

Polymer Binders | Chemistry That Holds Our World Together

Without them, the world would fall apart: they bind colorful pigments into spreadable paints and coatings, form the basis for adhesives and ensure that plasters adhere to facades and textile layers stick to carpet backings. Globally, these polymeric all-rounders are used by a wide variety of industries to make their products more effective, efficient, innovative and sustainable.


A
B
C
D
E
F

There's nowhere finer than your own home – and WACKER binders help make that living space even more comfortable and pleasant. Whether you live in a small apartment or large house, our polymers can be found in most modern construction applications.

A
ETICS/EIFS
VINNAPAS® binders ensure that external thermal insulation composite systems are efficiently bonded to facades.

B
Renders
Polymeric binders improve adhesion and processability and reduce dirt pick-up.

C
Tile Adhesives
VINNAPAS® increases the flexibility and elasticity of tile adhesives.

D
Waterproofing Membranes
Polymer-modified mineral waterproofing membranes are used to seal rooms exposed to moisture.

E
Smoothing Compounds
Dispersible polymer powders increase plasticity and reduce water absorption.

F
Self-Leveling Compounds
Polymer powders ensure smooth, even surfaces.

G
Architectural Coatings
The polymer technology combines high product performance with low VOC values.

H
Adhesives
VINNAPAS® provides adhesives with functionality, versatility and sustainability.

I
Paper
Vinyl acetate is ideal for paper and board applications.

J
Sealants
Polymeric binders are characterized by optimum filler-pigment compatibility and adhesion.

K
Technical Textiles
VINNAPAS® offers flexible solutions for challenges in the nonwovens market.

L
Carpets
Polymeric dispersions optimize the strength and flexibility of carpets.

Polymer Binders

At a Glance

The dispersions business first saw the light of day in 1938. On April 1 of that year, WACKER filed the patent for its polymerization process. Ever since then, we have produced dispersions on an industrial scale in Burghausen under the VINNAPAS® brand name.

In about 1953, chemist Dr. Max Ivanovits had a stroke of genius while drinking instant coffee. He thought the principle of pouring water onto powder would also work with WACKER's liquid dispersions. In 1957, WACKER brought the first spray dryer on stream in Burghausen to produce what are known today as dispersible polymer powders. VINNAPAS® polymer powder from WACKER has now been a best-selling product for some 60 years. In that time, WACKER has supplied over three million metric tons all over the world.

WACKER is the global leader in dispersible polymer powders and VAE dispersions.

In the early 1960s, WACKER engineers experimented with the chemical structure of polymer chains. They used other monomers to create entirely new properties. With vinyl acetate-ethylene copolymers (VAE), they achieved a quantum leap in effectiveness, and this innovative technology still forms the basis of WACKER POLYMERS' global success. The twin-track product line of dispersions and polymer powders still makes up some 25 percent of Group sales.

Over 3,000 Formulations

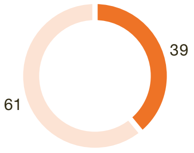
WACKER dispersions, dispersible polymer powders and solid resins are based on vinyl acetate. The raw material vinyl acetate monomer, in combination with other substances, such as ethylene, is the basis of over 3,000 applications-specific formulations for our customers around the world.

Each VINNAPAS® formulation offers special properties.

Dispersible Polymer Powder Market
in %

52% WACKER
48% Others

VAE Market
in %



39% WACKER
61% Others

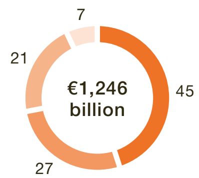
Market Worth Over US$30 Billion

Binders are in demand: the global market for polymer dispersions is currently worth over US$30 billion. For a long time, the world market was dominated by acrylic-based binders. In the last five years, however, vinyl acetate-ethylene dispersions have caught up. WACKER is the global leader in polymer dispersions and dispersible polymer powders based on VAE.

45%

of WACKER POLYMERS' sales are generated in Europe. We are currently achieving the highest growth rates in Asia, particularly China. In 2017, WACKER POLYMERS sold significantly more than 800,000 metric tons of dispersions and dispersible polymer powders.

Breakdown of Sales
in %



45% Europe
27% USA
21% Asia
7% Rest of the World

Five Sites

WACKER operates 23 production sites around the world, five of which are part of the WACKER POLYMERS integrated production system. From Cologne and Burghausen (Germany), Calvert City (USA), Nanjing (China) and Ulsan (South Korea), they supply growth markets around the world. The commissioning of the new dispersion reactor and spray dryer for dispersible polymer powders in Ulsan in 2019 will give WACKER POLYMERS a global production capacity of 1,000,000 metric tons, twice as much as in 2015.

The WACKER plant in Burghausen is the world's biggest integrated production site.

15 Technical Competence Centers

WACKER POLYMERS differs from other manufacturers in its close proximity to customers. Its goal is, together with the customer, to develop a solution tailored to local requirements. For this reason, it has a network of technical competence centers, which serve as a development and test lab for tailored polymer dispersions and dispersible polymer powders – thus creating optimum customer support locally. In parallel, the construction experts at the WACKER ACADEMY provide industry insider knowledge on construction trends, application expertise and practice-oriented training to local specialists.

Singapore Technical Center

1,500 Employees

Approximately one in every ten employees at WACKER works at WACKER POLYMERS, most of them in research, technical support and production. Almost 60 percent of them are based in Germany. Investments and expanding sales markets, especially in Asia, are causing the number of employees based outside Germany to rise at an above-average rate.

How Polymers Bind the Future

Eight Answers

Interview with Peter Summo, president of WACKER POLYMERS

From 2007 to 2017, WACKER POLYMERS almost doubled its sales. What are the ingredients in your recipe for success?

Peter Summo: We sell a binder. That may not sound like much, but with sales soon to reach a million metric tons per year, we are twice as big as our nearest rival. We are the only supplier who serves the global market with vinyl acetate-ethylene (VAE) copolymer dispersions and dispersible polymer powders. Another contributing factor was our takeover of two companies that we'd previously set up with Air Products. Our twin-track strategy is extremely successful. Our customers see us as a unique and reliable partner because we are in an ongoing dialogue with them via our 15 technical competence centers, and develop joint solutions with them. That is the real strength of our business model.

So you don't fear the competition?

Peter Summo: We don't make it easy for our competitors. We have over 50 percent of the global market in dispersible polymer powders. In the case of dispersions, it is over 30 percent. We have built up our expertise in the formulation of products over many decades. That is something other companies will first have to acquire. We have every reason to believe that the volume of binders used in the roughly 20 application fields that we supply will rise. That is why we are investing so heavily in expanding our production capacities – so that we benefit from this growth. At the end of 2017, a new reactor was commissioned in Burghausen. In 2019, a dispersion reactor and a spray dryer will go on stream in South Korea.

It sounds as though there is still unlimited potential …

Peter Summo: If you consider that 80 percent of all construction sites in the world still lay tiles using the traditional thick-bed method, namely with sand, cement and a little water, then there's still a lot of scope. Even if only 1 to 2 percent of the market each year changes to thin-bed technology, which requires polymers, that would be a huge volume for us.

Can you give us an example?

Peter Summo: In China, more and more people have a higher average income and can afford to buy high-quality products. In big cities there, entire ready-to-use bathroom pods for apartment blocks are delivered to the construction sector. That, too, is only possible with binders, since they make the adhesive flexible. Otherwise the tiles would fall off the walls on the way to the site. The same goes for India. Laying the expensive tiles that are used in Mumbai requires high-quality adhesives. This is precisely where our binders come into play.

But you altered WACKER POLYMERS' strategic alignment. Where did you make adjustments?

Peter Summo: We have invested a lot in the markets in the last ten years – now it's a matter of exploiting the opportunities to the maximum. In the future, we will make an even stronger distinction between our core business and new business fields. In our core business, we still have so much growth potential that we will be working to capacity for years to come. But in the medium and long term, it is important for us to establish new mainstays. That is why we now have teams that are fully focused on future business development. For example, with new technologies for road construction.

To what extent does sustainability shape your core business?

Peter Summo: Our products have low emissions and long life cycles and help to reduce CO_2 – that is precisely what our customers want. Our technology is used wherever high-quality products are called for, for example in the renovation market in Europe or the USA. Even in times of crisis, this business grows at a higher rate than global GNP, thus ensuring that we weather the various economic cycles.

Your biggest sales hit, the VINNAPAS® brand, is already 80 years old. What innovations will drive your future success?

Peter Summo: Polymers have long been high-performance products containing an amazing amount of innovation. There are wall paints that repel dirt, sealing slurries for waterproofing bathrooms, and high-tech adhesives. Some of our core applications require products made from renewable raw materials, and we are working on carbon-neutral solutions to meet this customer demand.

How will WACKER POLYMERS' world develop in the next ten years?

Peter Summo: Trends such as a growing world population, rising incomes, especially in Asia, and urbanization will be very good for our business. And then there's the whole sustainability aspect, which is generating demand for our products. We managed to double our business in the last ten years. I'm convinced that we will repeat that in the next ten.

Peter Summo took over as president of WACKER POLYMERS in October 2016. He has been at WACKER since 1995.

A

“All over the world, building construction is more and more sustainable, durable and energy-efficient. Our polymer binders are a very important key to success here.”

Tanja Gebhard, director of technology management for polymer binders for the construction industry

B

C

Building the Future

Binders for the World

WACKER's Product Portfolio Is Geared to Construction Trends

The Olympic Games are returning to the "Bird's Nest." For the 2022 Winter Olympic celebrations, the National Stadium in Beijing will once again become an international showcase. It is a flagship of contemporary architecture and state-of-the-art construction technologies, in which WACKER's products play a supporting role. All the stairs and corridors are overlaid with cementitious self-leveling flooring containing VINNAPAS® dispersible polymer powder. "Though only used in relatively small amounts, they have a significant effect," says Tanja Gebhard, director of technology management for polymer binders for the construction industry. "Our binders are based on vinyl acetate-ethylene copolymer technology (VAE technology). They ensure that the flooring is easy to process, perfectly level, and quickly becomes firm enough to walk on after application."

> "Though only used in relatively small amounts, they have a significant effect."
>
> Tanja Gebhard

No matter where in the world buildings are constructed, quality requirements are rising. More value is placed on efficient construction methods, sustainability and high-tech construction materials. In recent years, WACKER has consistently aligned its product portfolio with these trends. The huge potential market for these products can be seen with dry-mix mortars, for example. "It is estimated that 80 percent of the mortar used in the world is still not polymer-modified," says Gebhard. While polymer-modified construction products have long been the norm in industrialized countries, emerging markets and developing economies still have a lot of ground to make up. With its ties to local customers and its training programs and application seminars, WACKER is capturing a large number of new markets. "Our global network of technical centers and the WACKER ACADEMY play a crucial role in this," says Gebhard.

A
VINNAPAS® modified mortar mixes save up to 80% sand and cement.

B
Tanja Gebhard has been responsible for technology management for polymeric construction binders since January 2017.

C
At the technical competence center in Burghausen, construction products are tested in the climatic chamber.

> "Our global network of technical centers and the WACKER ACADEMY play a crucial role in this."
>
> Tanja Gebhard

Large-Format Tiles – a Mark of Prosperity in Emerging Economies

The number of people living in cities is increasing. Indeed, it is predicted that, by 2050, urban dwellers will number some seven billion – the total population of the Earth today. This trend will stimulate the construction industry, too. As incomes rise, there will also be a need for custom design. "People want large-format, high-quality tiles, which is driving demand for our products," says Gebhard. VINNAPAS® dispersible polymer powders ensure good adhesion and the necessary flexibility of the tile adhesive, and even out the stresses between the tile and substrate. It is also very important that the tiles can be laid using the thin-bed technique. That means they are easy to apply, less time, sand and cement are needed, and, most importantly, emissions are lower. The struggle for sustainable development will be won or lost in the cities.

Safety for Large Structures

A Protective Sheath Against Fire

Whether sports stadiums, skyscrapers or airport terminals – modern buildings often have a steel skeleton. Because they have a low dead load, but a high load-bearing capacity, they are usually easy to assemble. Steel structures are therefore widespread, especially in Asian megacities.

But steel has an Achilles' heel: it can't withstand high temperatures. When the temperature reaches 500 °C, the steel frame quickly loses its strength. The material expands, forcing other components out of the way – the building threatens to collapse.

However, there is a solution to the problem: intumescent coatings can provide reliable fire protection. During a blaze, the special coatings inflate by as much as ten to one hundred times their original thickness, forming an insulating foam cladding around the steel girders. The foam slows the rate at which the steel heats up, greatly delaying the time taken to reach the critical 500 °C.

Using the right binder is key to this process because it determines how fast the layer of foam forms and how thick it is around the steel columns. Without polymer dispersions from WACKER, the coating would be too brittle, would not adhere to the metal substrate, or might easily spall off.

New Development from South Korea

The sandwich panels that are often installed as the walls or ceilings of warehouses or production buildings ignite in the event of a fire. Dr. Jae-Ha Kim, head of WACKER's polymer business in Asia, and his team therefore developed innovative fire-retardant VAE dispersions especially for this purpose. The panels usually consist of two thin sheets of steel or aluminum and a foam layer of expanded polystyrene (EPS), which provides the necessary insulation.

Thanks to the new dispersions from the research lab in Seoul, the panels retain their shape and do not collapse – even under intense heat and even if they have been completely carbonized. "Since the shape remains stable, the panels do not break down," he explains. "The buildings can thus withstand a fire for much longer, giving rescue teams more time to extinguish the fire and save lives."

When the temperature reaches 500 °C, steel frames soften rapidly, and the buildings are in danger of collapse.

D
Skyscrapers in Shanghai: steel structures are very widespread, especially in Asia.

E
Ideal for modern high-rise buildings: steel skeletons are lightweight, support heavy loads and are easy to erect.

F
Unconventional stadium architecture: the "Bird's Nest" in Beijing

Against Fire, for the Environment

An additional benefit is that the dispersions are water-based. Since 2014, construction materials in South Korea have also had to meet stricter environmental protection requirements. So, WACKER experts developed an alternative to solvent-based binders. WACKER is not only making an important contribution to the safety of buildings, but is also protecting the environment.

D

“The buildings can thus resist a fire for much longer, giving rescue teams more time to extinguish the fire and save lives.”

Dr. Jae-Ha Kim, head of polymer business in Asia

E

F

A Local Presence

Taking the Pulse of Customers and Markets

G

Lilyana Budyanto's résumé is as international as WACKER's business. Born in Indonesia, she spent part of her childhood in Hong Kong and mainland China, studied in Singapore, and then did her Master's in the Netherlands. She has been in strategic marketing at WACKER Singapore since 2016, serving countries as diverse as Cambodia and South Korea.

For WACKER POLYMERS, Southeast Asia is an attractive market with many distinctive local features and high growth rates. Over the past five years, sales here have expanded by more than 11 percent annually on average. In developing countries such as Myanmar or Cambodia, Budyanto mainly performs pioneering work. These countries often do not have much experience with modern construction materials and technologies. First and foremost, it is important to show customers why it is worthwhile switching from thick-bed to thin-bed technology for laying their tiles. Budyanto and her team try to make direct contacts locally. They share information with universities and work together with local authorities and trade associations. "We have to understand their needs before we can develop, serve and grow the market," she says.

G
Lilyana Budyanto on her way to a customer

H
Adhesion test for VINNAPAS® mortar mixes

I
Outdoor weathering with real-time test

Unique WACKER Philosophy

Many manufacturers in the region depend heavily on distributors for construction products. WACKER's philosophy is entirely different, relying on the presence of dedicated local customer teams in each country. "We speak our customer's language, understand the local requirements, and know the local climatic conditions and what raw materials are available," says Budyanto. The region's service network is getting more closely meshed all the time. In May 2017, the latest technical competence center opened its doors in Jakarta, the capital of Indonesia. At the same time, technical service teams are underway in this nation of countless islands and 260 million inhabitants with "WACKER on Wheels" or WOW for short. WOW is a mobile test lab and showroom, accommodated in a small truck. Whenever they visit construction sites, WACKER experts and dry-mix mortar manufacturers use WOW to demonstrate the advantages of dry-mix mortar to building contractors and tradespeople.

The way WACKER embraces customer proximity pays off. In Indonesia, WACKER succeeded in developing cost-effective cementitious waterproofing membranes together with a customer, for waterproofing basements, bathrooms and swimming pools. This market segment offers significant growth opportunities, all over the world. "Innovations like these are only possible if we are active locally and understand the entire value chain," explains Budyanto.

H

“We speak their language, understand local requirements and know what specific climatic conditions and raw materials are present locally.”

Lilyana Budyanto, marketing manager for construction polymers in Southeast Asia

I

J

“We learn a tremendous amount from one another and we spur each other on to obtain the best results.”

Jeremy Reed, head of production technology at Calvert City

K

L

At Every Site

World-Class Production

Jeremy Reed knows every angle, every valve and every pipe at WACKER's production site in Calvert City, a small town in the US state of Kentucky. In 2015, he was responsible for building the new dispersion reactor with 85,000 metric tons' annual capacity, which everyone here just calls "CC6." The Calvert City plant is the biggest vinyl acetate-ethylene copolymer (VAE) dispersion plant in America. Every year, several hundred thousand tons of VINNAPAS® dispersions are manufactured here. Now, Reed is part of an international team of production engineers who want to bring WACKER POLYMERS plants up to world class.

A 360-Degree Comparison of all Plants

The plants at Burghausen and Cologne (Germany), Nanjing (China), Ulsan (South Korea) and Calvert City already operate extremely efficiently. To make them even better, the WACKER POLYMERS division initiated a project in 2017 that is pulling every lever to increase productivity and production safety. If the ambitious goal of doubling sales in the next ten years is to be achieved, production will play a prominent role.

The program started with a comprehensive systematic analysis of each individual plant. Ten criteria were analyzed, including safety and efficiency of the production systems, raw-material supply, infrastructure conditions, logistics inside and outside the plant, and sustainability in production. The business division completed this 360-degree comparison in early 2018. In the next step, every site will be measured against each criterion to determine where it already meets the high standards, and where it still has room for improvement. Finally, the potential for transferring the model processes (best practice) to other sites will be examined. The key point is to take into account the different complexities in the plants, since not all the sites will manufacture the same products. Where the respective site managers and production managers do not have the resources themselves to implement the measures satisfactorily, they receive support from their counterparts at other sites.

> "There's no point in everyone reinventing the wheel all the time."
>
> Jeremy Reed

Jeremy Reed considers sharing experience with the production engineers at the other sites an absolutely essential resource. "We learn a tremendous amount from one another and we spur each other on to obtain the best results," he says. His colleagues' networked knowledge is available digitally, and is pooled by all the sites. "There's no point in everyone reinventing the wheel all the time," says Reed. The program also serves to keep a lead over other companies in the industry. Top quality and world-class sites are the best immunization against competition.

J
Jeremy Reed, head of production technology at Calvert City

K/L
World-class production: the new dispersion reactor in Burghausen

Smart Binders

Convenient, Safer, More Sustainable in Everyday Use

This carpet does not smell. At any rate not like a new carpet straight from the factory. The reason for the different odor is the polymer binder in the carpet backing. When new customers visit Dominique Nely in Burghausen, she is only too pleased to demonstrate this using a carpet strip coated with VAE polymer dispersion from WACKER, and is delighted to see their astonished faces.

In the USA, the biggest carpet market in the world, VAE dispersions have already triumphed over rival materials. In the last three years alone, WACKER has significantly boosted its sales among the leading US carpet manufacturers. Compared to their rivals, WACKER binders offer a range of advantages: their price fluctuates less, they hardly emit any volatile organic compounds, they are flame-resistant, easy to process – and practically odor-free.

Meeting High Standards

Rising affluence is driving the demand for products that make people's daily lives more convenient, safe and sustainable. Dominique Nely can list a whole range of examples where WACKER binders make a significant contribution to meeting precisely these customer needs.

The healthcare and food industries have particularly high standards. Tablet blisters are an extremely sensitive product. The tablets must be hermetically packaged to keep out microorganisms or humidity. Polymer binders from WACKER firmly bond the aluminum foil and polymer to one another, while still allowing the package to be easily opened. This principle is also used for sensitive foods. The aluminum foil lid on the yogurt tub is coated with VINNOL® binder, which maintains a seal between the tub and aluminum lid while ensuring the yogurt does not come into contact with the aluminum. The same applies to processed cheese packaging, where the binder ensures that the thin aluminum foil can be sealed at low temperatures and pressures, and that the cheese does not melt while still on the packaging line.

M
With VINNOL® solid resins, blister packs remain airtight and sterile.

N
Dominique Nely, head of binders business for consumer goods and industrial applications

O
The tensile test measures the wear resistance of carpets.

Perfect Surfaces for Households and Industry

Whether on walls, floors or terraces – marks and dirt are unwelcome. The market for dirt-repellent surfaces is growing by over 6 percent a year on average. Dominique Nely and her team have developed special dispersions that protect walls and concrete floors against a variety of stains. "From coffee and red wine to colored pencils – the marks can be easily wiped off," she says. Her tests in the dispersions lab in Burghausen are an impressive confirmation of that. She scribbles with lipstick on a freshly painted wall, and then wipes a wet cloth with detergent over the white surface until you might imagine that the plaster would show through. The coat of paint, containing a newly developed specialty dispersion, is not wiped away – but the lipstick has gone completely.

These dispersions can also be used to impregnate terrace paving or concrete flooring. Once applied, they protect against rust or are absorbed into the pores so effectively that the floors can even be cleaned with a high-pressure washer.

Perfect surfaces are required not only in homes, but also in industry. The car paintwork only gets a high-gloss finish if the body parts are extremely smooth and level. Car bodies contain several square meters of fiber-reinforced plastics. These lightweight components improve fuel consumption and reduce CO_2 emissions.

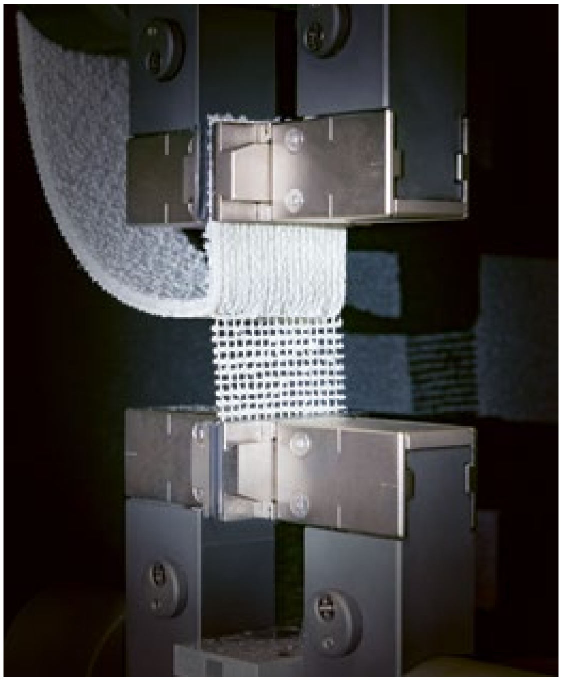
M

“We have only just begun to tap the application potential of smart binders.”

Dominique Nely is responsible for binders for consumer goods and industrial applications in Western Europe.

N

O



The market for dirt-repellent surfaces is growing by over 6 percent annually.

However, they have a significant drawback. They shrink during manufacture, resulting in deformed components and irregular surfaces. Adding VINNAPAS® solid resins reduces shrinkage to a trifling 0.05 percent. This produces extremely smooth, glossy and homogeneous surfaces that are not only easy to process, but are also ideal for painting.

P
Dispersion reactor at WACKER's Burghausen site

Q
Testing the abrasion resistance of dispersion paints

P

Q

Colorful Cocktails

Customized Mixing of Wall Paints

Burgundy red, mint green or lemon yellow – the colors we use to decorate our homes are a matter of personal taste. But, until recently, home-improvement enthusiasts in South America – unlike their counterparts elsewhere – had no chance of buying custom colors in home-improvement stores. But with the support of WACKER POLYMERS, an American manufacturer of paint-mixing machines is taking a new approach. An automated mixing system can produce personalized colors and different qualities as quickly as mixing a cocktail.

Instead of mixing conventional, usually white, paint with pigment pastes, this new process produces the customized paint directly from the raw materials. The paint-mixing machine draws pigments, additives and a VINNAPAS® binder based on vinyl acetate-ethylene copolymer (VAE) dispersion from different tanks and feeds them into the paint formulation. Since the paint is freshly prepared, so to speak, retailers don't need to stock large amounts of it.

Bringing Color into Play

"Paints made with VAE dispersions also have low emissions and low odor. That makes them ideal for decorating living and work areas," says Cristiane Fagundes, head of sales and marketing for construction polymers in South America. The paint-mixing system has meant a minor revolution for South American home decorators. It offers a variety of options for individualized wall decoration, with permanently bright paints that also do not pose a hazard to health. "We see enormous potential for our VAE dispersions, since the regional market increasingly demands quality products," says Fagundes. And that is what WACKER supplies, in all the shades of the rainbow.

R

"We see enormous potential in South America for VAE dispersions in paint-mixing systems."

Cristiane Fagundes,
head of sales and marketing for construction polymers, South America

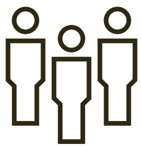
S

R
Interior paints take on a variety of vibrant colors, thanks to binders from WACKER.

S
VINNAPAS® ensures the required adhesion of the pigments in the paint.

The Future Starts Today

Solving Tomorrow’s Challenges



Urbanization – Increasing Numbers of People Are Moving to Cities

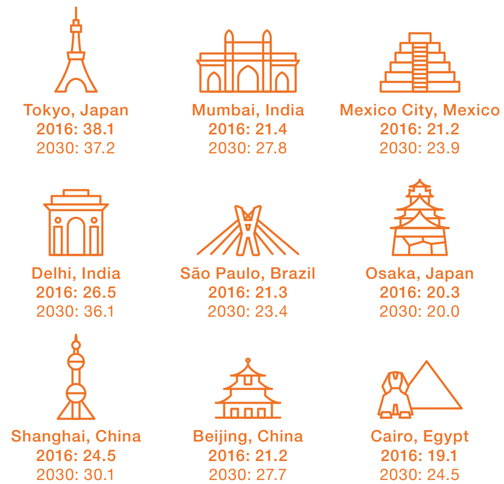
A new megacity arises every 16 months. The United Nations defines them as areas with over ten million inhabitants. They are a phenomenon of the globalized world, and are chiefly rising up in emerging markets, where 24 of the world’s current 31 megacities can be found.

This trend confronts our world with one of the biggest challenges of the century. Cities are already responsible for about 80 percent of all greenhouse gas emissions. The battle against climate change will therefore be decided in the cities. That can only succeed if the building infrastructure – its communications, mobility and energy systems – is climate-neutral.

Every year, about 15 billion metric tons of sand is quarried for use in new construction projects – far more than can be replenished naturally. That is leading to unprecedented overexploitation. Sand and cement are the key materials for manufacturing dry-mix mortars. At the same time, cement production causes high CO_2 emissions. One metric ton of cement releases up to a metric ton of greenhouse gas. About 40 percent of that can be attributed to the energy consumed in this high-temperature process; about 60 percent is a byproduct of the chemical conversion of limestone and cement.

The Biggest Megacities in the World

Population in millions



Source: United Nations

Sustainable Products Save Resources

With its products, WACKER is working toward promoting climate-friendly construction techniques all over the world. One example is reducing the amount of sand and cement they consume. WACKER binders make modern thin-bed technology possible, which saves up to 80 percent sand and cement compared to the traditional thick-bed technique. This reduces not only material consumption at the construction site, but also time and costs.

We also offer sustainable solutions for other important application fields. In summer, concrete and asphalt cause cities to heat up severely, resulting in heavy rainfall that continually pushes sewer systems to their limits. The optimum solution to this is pervious concrete. It is coarse-grained and contains many cavities, allowing rainwater to drain away more easily, reducing the occurrence of puddles or accumulated water. The ETONIS® concrete admixture developed by WACKER can be used to produce a new generation of high-performance pervious concrete.

With our products, we are helping to build the cities of the future.

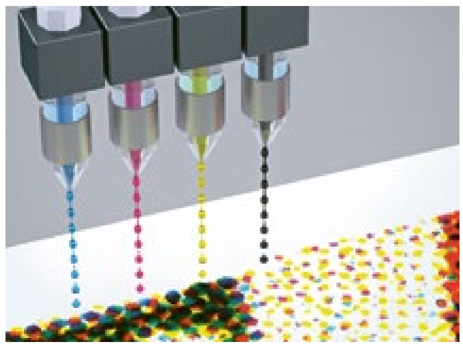
For new urban concepts, such as the “sponge cities” in China, which soak up rain and wastewater, highly efficient products such as our binders play an important role. In the coming years, China will modify around 80 percent of its urban areas to absorb and reuse over two thirds of rainwater. Better use of rain and wastewater requires efficient sewers, pipes and tanks. In mineral waterproofing membranes, VINNAPAS® binders provide the sealing materials with the necessary strength, adhesion and flexibility. A two-to-three-millimeter layer is already enough to achieve effective waterproofing.

There is also huge potential for reducing the energy consumption of existing structures through energy-focused building refurbishment. According to a current study by the European Union, buildings could achieve a neutral carbon footprint if 97 percent of all buildings were refurbished along energy lines. With its VINNAPAS® products, WACKER can make a considerable contribution to meeting this goal. Adding 2 to 3 percent mortar is enough to bond insulating systems and masonry securely and firmly.

Printing in New Dimensions

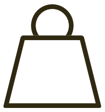
At major urban construction sites, the passersby usually don’t see much of the construction work at all. Their view is blocked by huge banners and billboards, intended to draw attention to the client. These outsized texts and images are increasingly being produced using digital printing.

Along with 3D printing, digital printing has become the second biggest innovation field in recent years. Over the next five years, experts predict annual growth of about 13 percent on average for digital printing for packaging and advertising. Digital printing offers a whole range of advantages: since a rigid printing plate is not needed to apply the ink, and no time is required to set up the printing machine, even small or last-minute orders can be processed quickly and easily. Three-dimensional objects can be printed as well as two-dimensional billboards, leaflets and advertising banners.



VINNOL® binders enhance the brilliance of digital color printing.

Special binders are necessary to bond printing inks firmly to flexible surfaces, defy wind and rain, and retain their brilliance. A bright, pin-sharp image requires a high resolution, since the ink droplets must be very small and finely distributed. However, the smaller they become, the less viscous the printing ink needs to be – but at the same time the pigment particles are all the more likely to clump together and block the printing nozzle. WACKER has developed new binders under its VINNOL® trademark, which help to strike a balance between these two contradictory needs. The binders also satisfy the strict legal requirements for food contact, for example those of the US Food and Drug Administration. These binders can be used not only for large-area advertising banners and billboards, but also for food packaging – another big growth market.



1,000,000 Metric Tons Production Capacity by 2019

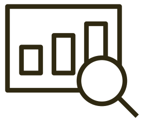
Seven of the ten most heavily populated countries are in Asia. No wonder, then, that demand for high-quality construction materials is growing at a huge rate there. With production facilities in China and South Korea, we already have a local presence at our customers' sites and in growth markets, and are strategically expanding this lead.

Capital Investment in Ulsan, South Korea

We are currently building a new spray dryer for dispersible polymer powders with a total capacity of 80,000 metric tons per year at our Ulsan site. We are also building another reactor for VAE dispersions. This will double our VAE capacity in South Korea, and create a plant complex that will be one of the biggest of its kind in the world. This reactor represents an investment of about €60 million.

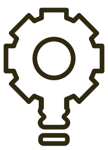
When the expansion in South Korea is completed, WACKER will have achieved a new record: we will have reached a global capacity of one million metric tons of VAE produced on three continents.

WACKER is the only company in the world with world-class production sites for dispersible polymer powder and dispersions in Europe, the Americas and Asia. This twin-track approach is a key to our success. In recent years, WACKER has continually modernized and expanded its plants, and made them fit for the future. In the five years from 2015 to 2019, we will have created a total of 500,000 metric tons of new capacity for polymer binders. In this way, with our investments in state-of-the-art systems and processes, advanced infrastructure and networked transport and logistics strategies, we have created a unique integrated production system.



Over 31,000 Analyses

in only one year. That is the figure that the analytics unit at our corporate R&D presented when it calculated how much work it had performed on behalf of the WACKER POLYMERS division in 2017 alone. After all, we work continually on improving the quality and range of our products. And our success proves us right: today, we have an extensive technology platform of polymer binders for a wide variety of industries. They provide adhesives, paints, mortars, carpets, nonwovens and many other products with exactly the properties they need. To sum up: WACKER binders are a key component that make many of our customers' innovations possible – now and in the future.



50 Innovation Projects

are in the pipeline. When developing products and processes, and enhancing its own business, WACKER POLYMERS adopts an approach that is all about discovering what is new. This openness to what is new is a key building block for the future success of WACKER POLYMERS. We are currently working on 50 innovation projects, about half of which are aimed at improving products that are already successful. A quarter of the projects concentrate on the development of new products, and on process and productivity innovations in production.

For Our Shareholders

25

40

VINNAPAS® 5010 N
Whether in tile adhesives, thermal insulation or finishing plaster – dispersible polymer powders are found in countless everyday construction applications.

A

For Our Shareholders

Dear Shareholders,

In 2017, WACKER continued on its growth trajectory. Sales climbed by more than 6 percent to €4.92 billion. EBITDA (earnings before interest, taxes, depreciation and amortization) also rose by over 6 percent despite substantially higher raw-material prices. It reached €1.01 billion, outperforming our forecast. This lifted Group net income from continuing operations, which was 40 percent higher than the year before.

Other key financial indicators also reflected how good the business year was. We reduced net financial debt to below €500 million. Net cash flow was again high at around €360 million.

Our good figures are the result of our employees' strong team performance. On behalf of the entire Executive Board, I wish to thank all our employees worldwide for their hard work and their outstanding commitment and dedication.

Fiscal 2017 was a special year for WACKER. We completed a key strategic step on March 15 last year, when we gave up our majority ownership of Siltronic AG. In the future, Siltronic will appear in our figures as a significant shareholding, but no longer as a business division in its own right.

We are now intensifying our focus on chemicals and our polysilicon business. We are certain that we chose a good time to sell our majority stake to other investors. Siltronic is in very good economic shape. The semiconductor market continues to perform robustly and, with our remaining stake of some 30 percent in Siltronic, we are benefiting from this favorable trend.

Last year's many positive results were overshadowed by an incident that affected us deeply. In early September, a technical malfunction caused a hydrogen explosion at our new polysilicon site in Charleston, Tennessee (USA), damaging a plant section there. The most important thing for us was that no one came to any harm. That was a great relief.

Working with an independent team of experts, we investigated the root cause of the incident with the utmost care and diligence. We will only start up the plant again after it has passed all the necessary tests. Given our present state of knowledge, we can begin ramping up production there during Q2 2018.

At our three chemical divisions, last year was marked by substantial volume growth. It was so strong that we readily absorbed the higher raw-material costs and lower prices for some of our products. We benefited especially from the continued high demand for our silicone products – a trend that meant we did not fully meet our customers' needs. Once again, our chemical divisions increased their EBITDA, which totaled around €690 million.

WACKER POLYSILICON achieved strong market growth amid persistently decreasing average prices. As a result, the division lifted its sales slightly. Even higher growth, though, was held back by the loss of production at Charleston. It reduced the polysilicon volumes available for sale by about 6,000 metric tons. EBITDA was slightly higher year over year. This was a very good result, since operating costs were still incurred after Charleston's shutdown and no significant insurance compensation has been received as yet.

We established the basis for WACKER's future success in 2016 when we introduced our five-point strategy. It outlines our clear targets and visions for developing WACKER. These have not changed. We remain firmly on course, always trying to seize every opportunity that arises.

The goal of our dividend policy is to ensure that our shareholders benefit even more from our profitability. Given our good net income for 2017, our successful placement of Siltronic shares on the capital market and our low debt-to-equity ratio, the Supervisory and Executive Boards will propose to the Annual Shareholders' Meeting in May 2018 that an extra €2 per share should be distributed on top of a dividend of €2.50 per share. The total payout for 2017 thus amounts to €4.50 per share.

We are optimistic that 2018 will be a good year for WACKER. Sales growth will not be as robust as last year. Momentum will be dampened by strong currency headwinds and by amendments to accounting standards. But we are confident of lifting EBITDA by a mid-single-digit percentage. We expect Group net income from continuing operations to rise markedly.

In the current year, WACKER will also increase its investments. Our focus will clearly be on our silicones business. As in the past, we see strong demand for our silicone products. We want to use this positive market trend to reinforce our position as the world's second-largest supplier. That is why over half of the roughly €470 million budgeted for capital expenditures will go into silicones. We are investing from a position of financial strength and have excellent prospects for expanding our share of this growth market.

One topic that is high on every company's agenda at the moment is digitalization. WACKER is no exception. The key question is what approach to take. We see three action areas for the future:

— We must develop new sales and communications systems and deploy them to intensify our customer relationships.

— We will use digital technologies and data to enhance security, efficiency and productivity throughout the supply chain and, by doing so, create value.

— The basis for digital transformation is a high-performance, forward-looking IT infrastructure, coupled with a mindset that anchors digital business processes even more firmly into our daily work.

Digitalization will not happen overnight. It will be our constant companion in the years ahead as we make our way into the digital era. Our approach is to take the initiative – not in a rush, but with all due care. Clearly, the wealth of expertise and experience gained in the pre-digital age is still valuable.

This valuable asset must be adapted to the needs of the future. We have already identified a broad variety of topics and have entered them on a digital map. Over half of them affect core business processes at our production facilities.

Digitalization underscores a basic fact: the world is changing. And we must rise to this challenge. We have proven again and again that we can. Throughout the 104 years of our company's history, adaptability and the will to change have stood out as characteristic strengths. And, above all, we think and act for the long term. That is what pays off over time.

On behalf of the entire Executive Board, I wish to thank our customers and suppliers for all their support and cooperation, and our shareholders for their trust. We see multiple opportunities for WACKER in the future and look ahead with optimism, and hope that you will stay with us on this path.

Munich, March 2018

R. Staudigl

Dr. Rudolf Staudigl

President & CEO of Wacker Chemie AG

Executive Board

Dr. Christian Hartel

WACKER POLYMERS
Human Resources
(Personnel Director)
Corporate Engineering
Region: Asia

Dr. Rudolf Staudigl
President & CEO

WACKER POLYSILICON
Executive Personnel
Corporate Development
Corporate Communications
Investor Relations
Corporate Auditing
Legal
Compliance
Retirement Benefits

Dr. Tobias Ohler

SILTRONIC (until March 14, 2017)
Corporate Accounting and Tax
Corporate Controlling
Corporate Finance and Insurance
Information Technology
Procurement & Logistics
Region: The Americas

Auguste Willems

WACKER SILICONES
WACKER BIOSOLUTIONS
Sales & Distribution
Corporate Research & Development
Intellectual Property
Site Management
Corporate Security
Environment, Health, Safety
Product Stewardship
Regions: Europe, Middle East

Report of the Supervisory Board

Dr. Peter-Alexander Wacker

Chairman of the Supervisory Board of Wacker Chemie AG

Dear Shareholders,

After a phase of high capital expenditures, WACKER entered a new stage in its strategic alignment last year. This stage is marked by high liquidity, by capital expenditures below depreciation and by low net financial debt. As a result, we are enhancing the company's financial strength and establishing a basis for increasing investment in research and development, and in the fields of the future. Our focus is on new technologies, such as electromobility and promising biotech business. At the same time, we are pushing the digitalization of our business processes to expand our customer relationships and possibly to develop new business models.

WACKER's success lies in the fact that we have generated strong organic growth over the past few years with products that are recognized for their high quality. We continue to see major opportunities and potential for achieving further organic growth. Consequently, we have no reason to undertake any major acquisitions, even though our financial position is very good. Our priority is to optimally use the growth potential of our attractive product portfolio. We have paved the way for this by enhancing our global position in recent years.

By selling our majority stake in Siltronic AG to institutional investors in March 2017, we have realigned the WACKER Group. Through this transaction, we have achieved our strategic goal of giving Siltronic its independence. WACKER's position has become less capital intensive and less volatile as a result. Our focus is now on our applications expertise in chemicals and on strengthening the related supply chains. The transaction of March 15 was also a turning point for Siltronic. The company is now making its own way after 50 years as part of the WACKER Group. Our remaining stake of just over 30 percent in Siltronic underscores our confidence in the company's promising business prospects.

Fiscal 2017 was a good year for WACKER, a fact that is reflected in a higher dividend. WACKER's employees played a major part in this success. The Supervisory Board of Wacker Chemie AG thanks them for all their achievements and high level of commitment.

Continuous Dialogue with the Executive Board

At WACKER, sound corporate governance and control are built on a relationship of trust between the Executive Board and Supervisory Board as they work closely together in the company's interest. In 2017, the Supervisory Board performed – with great diligence – the duties incumbent upon it under law, the Articles of Association and its own Rules of Procedure. The Supervisory Board was involved at an early stage in every decision of fundamental significance for the company.

In both written and oral reports, the Executive Board regularly provided us with timely and comprehensive information on corporate planning, strategic development, business operations, and the current state of Wacker Chemie AG and the Group, including the risk situation and compliance issues. Outside of the scheduled Supervisory Board meetings, the Chairman of the Supervisory Board also remained in close contact with the Executive Board, especially with the CEO, and was kept informed of the business situation, current trends and key business transactions. Any deviations from business plans and targets were explained to the Supervisory Board in detail.

Wherever required by statutory provisions or the Articles of Association, the Supervisory Board voted on the reports and proposals of the Executive Board after detailed examination and discussion.

In the reporting year, we paid particularly close attention to investment projects, the current earnings situation, including the risk position and risk management, as well as the company's liquidity and financial position.

The Supervisory Board held four ordinary meetings in 2017, two in the first half of the year and two in the second. Between meetings, the Executive Board informed us in detail by means of written reports about all projects and plans of particular importance to the Group. At its full meetings and in its committees, the Supervisory Board discussed in detail, on the basis of the reports submitted by the Executive Board, business transactions of importance to the company. The full meetings were prepared by shareholder and employee representatives in their own separate sessions.

All members of the Supervisory Board were present at all of its meetings, and all committee members attended all of their respective committee meetings.

The Supervisory Board's Main Areas of Deliberation

The development of sales, earnings and employment at the Group and its individual segments were the subject of regular deliberations in the full meetings. At each meeting, the Supervisory Board evaluated the Executive Board's performance – on the basis of Executive Board reports – and discussed strategic development opportunities and other key topics with the Executive Board. There was no need for additional monitoring measures, such as the inspection of corporate documents or the appointment of experts.

Major areas of deliberation dealt with by the Supervisory Board were:

- The sale of the majority stake in Siltronic AG
- Current and future investment projects, in particular spending on a reactor and dryer in South Korea
- The anti-dumping proceedings against the solar industry in the USA, EU and China; their impact on WACKER; and corresponding courses of action
- The explosion in a plant at the production site in Charleston, Tennessee (USA) and its consequences
- Performance of the share price
- Group financing activities
- Renewal of the contracts of the president and CEO Dr. Rudolf Staudigl and Executive Board member Dr. Christian Hartel
- The topic of diversity (including setting the target for the proportion of women on the Executive Board, and approving new targets for the composition of the Supervisory Board, as well as a skills profile)

The Supervisory Board discussed the WACKER Group's plans for 2018 at its meeting of December 7, 2017. On that occasion, the Supervisory Board also dealt with medium-term corporate plans for the period 2018–2022. In addition, it discussed and approved the capital-expenditure budget for 2018.

Work in the Committees

The Supervisory Board is assisted in its work by the committees it has constituted. WACKER's Supervisory Board has created three committees – an Audit Committee, an Executive Committee, and a Mediation Committee (the latter in accordance with Section 27 (3) of the German Co-Determination Act (MitbestG)). With the exception of the Audit Committee, which is chaired by Franz-Josef Kortüm, Dr. Peter-Alexander Wacker, the Chairman of the Supervisory Board, chairs the committees.

The Audit Committee met four times last year. Its work included the audit of the annual financial statements of Wacker Chemie AG and the Group for 2016 and of the consolidated interim financial statements for the first half-year. It also discussed the Group's quarterly financial figures and issues relating to risk management, compliance and auditing. The committee monitored the independence of the auditors and also discussed the additional services they had provided. At the end of 2016, the Audit Committee had submitted a recommendation to the Supervisory Board for the latter's proposal at the Annual Shareholders' Meeting for appointment of the auditors for 2017. It subsequently awarded the auditing contract for 2017 and determined the focus of auditing.

The Executive Committee met four times in 2017, discussing personnel matters in relation to the Executive Board (e.g. determining overall compensation, setting the performance goals for variable compensation, and preparing a recommendation to the Supervisory Board regarding renewal of the contracts of Dr. Staudigl and Dr. Hartel).

The Mediation Committee did not need to be convened last year.

The Supervisory Board was regularly informed about the committees' work.

Corporate Governance

Last year, the Supervisory Board again looked closely at corporate-governance standards. At its meeting of December 7, 2017, the Supervisory Board discussed application of the German Corporate Governance Code and adopted the annual Declaration of Conformity that must be submitted jointly by the Executive and Supervisory Boards in accordance with Section 161 of the German Stock Corporation Act (AktG). Shareholders can access the Declaration on the company's website.

In its Corporate Governance Report, the Executive Board provides details – also on behalf of the Supervisory Board – of corporate governance at WACKER in accordance with Item 3.10 of the German Corporate Governance Code.

➪ For further details, please refer to page 177

At its meeting in December 2017, the Supervisory Board also discussed the efficiency of its activities and found that it works efficiently – one reason being the regular preliminary discussions regarding the Supervisory Board meetings.

Audit of the Annual Financial Statements of Wacker Chemie AG and the WACKER Group

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Wacker Chemie AG for 2017, the consolidated financial statements and the combined management report (as of Dec. 31, 2017), as prepared by the Executive Board, including the relevant accounts.

The Supervisory Board's Audit Committee had awarded the auditing contract in accordance with the resolution of the Annual Shareholders' Meeting of May 19, 2017. The auditors issued an unqualified audit report.

The auditors also examined the risk management system in accordance with Section 91 of the German Stock Corporation Act (AktG). The audit verified that the risk management system and internal control system meet the legal requirements. No risks endangering the continued existence of the company were identified. The auditors also carried out a voluntary review of the combined non-financial report for Wacker Chemie AG and the Group. Their review confirmed that this report, too, meets the legal requirements.

The financial-statement documents (including the auditors' reports, the combined management report and the Executive Board's proposal for the distribution of profits) were submitted to all the Supervisory Board members in good time.

At its meeting of February 26, 2018, the Audit Committee examined and discussed in detail the above-mentioned financial statements, the combined management report, the combined non-financial report for Wacker Chemie AG and the Group (as per Sections 289b and 315b of the German Commercial Code (HGB)) as well as the auditors' reports. At its meeting of March 6, 2018, the full Supervisory Board closely examined and discussed the relevant annual accounting documents – including the combined non-financial report for Wacker Chemie AG and the Group – with knowledge and in consideration of both the report of the Audit Committee and the auditors' reports. The auditors took part in the deliberations at both meetings. They reported on the main results of the audit – in particular the key audit matters described in the auditors' report – and were available to answer questions and provide supplementary information.

After concluding our own examination, we have no objections to raise to the annual financial statements of Wacker Chemie AG, the consolidated financial statements, the combined management report, the combined non-financial report for Wacker Chemie AG and the Group, or the auditors' reports.

We therefore approve the annual financial statements of Wacker Chemie AG and the consolidated financial statements as of December 31, 2017 as prepared by the Executive Board. The annual financial statements of Wacker Chemie AG are hereby adopted. We concur with the Executive Board's proposal for the distribution of retained profit.

Changes in the Composition of the Supervisory and Executive Boards

As a result of the deconsolidation of Siltronic AG on March 15, 2017, Hansgeorg Schuster – an employee representative on the Supervisory Board and an employee of Siltronic AG – stepped down from the Supervisory Board at the end of March 14, 2017. We thank him for his work on the Board and wish him all the best for the future. At the Executive Board's request, Barbara Keller was appointed to the Supervisory Board as an employee representative by order of the District Court of Munich on April 24, 2017.

At its meeting of December 7, 2017, the Supervisory Board renewed the contracts of president and CEO Dr. Rudolf Staudigl and Executive Board member Dr. Christian Hartel. At Dr. Staudigl's request, the Supervisory Board renewed his current contract, which runs until September 30, 2018, for a further three years only (until September 30, 2021). Dr. Hartel's contract, which runs until October 31, 2018, was renewed for a further five years until October 31, 2023.

The Supervisory Board expresses its thanks to the Executive Board and to the company's employees and employee representatives. Their good work and dedication helped Wacker Chemie AG have another successful year.

Munich, March 6, 2018
The Supervisory Board

Dr. Peter-Alexander Wacker
Chairman of the Supervisory Board of Wacker Chemie AG

WACKER Stock in 2017

WACKER's share price was influenced by a range of factors during 2017. The stock's performance was supported not only by the deconsolidation of Siltronic AG, with WACKER giving up its majority ownership in March 2017 and remeasuring its remaining stake, but also by the good news that came from the solar and semiconductor industries during the year. The significant increase in the share price reflected the ongoing strength of WACKER's chemical divisions, especially WACKER SILICONES.

Global stock markets performed solidly in the first quarter of 2017. Despite increased political uncertainty in Europe and the USA and ongoing geopolitical crises, the major stock market indices recorded noticeable gains from January through March. Financial markets in Germany were buoyed by the unchanged accommodative monetary policy of the European Central Bank. In the United States, stock prices were lifted by hopes of a multi-billion-dollar, federal infrastructure-spending program and tax cuts for businesses. To counter the risk of the US economy overheating, the US Federal Reserve Bank raised the federal funds rate by 0.25 percentage points in mid-March, from 0.75 percent to 1.0 percent.

Both the DAX and the MDAX rose more than 7 percent in the January-through-March quarter. WACKER stock started Q1 2017 at €98.85 and initially posted substantial gains, supported by positive analyst comments. After reaching a high of €114.30 on January 26, the share price came under pressure. The factors involved here included concerns among market participants about the impact of rising raw-material prices and lower solar-silicon market prices. The share price subsequently declined, reaching its low for the quarter of €96.55 on March 31. That was 2 percent lower than at the start of the year and corresponded to a market capitalization of €4.80 billion.

Global stock markets continued to perform well in the second quarter of 2017, but they were also relatively volatile. Political events, such as the French presidential election result, strengthened market participants' optimism. Uncertainty, on the other hand, was prompted by the interest-rate rise of mid-June in the USA, by the US administration's efforts to establish trade barriers, and by speculation about an imminent end to the eurozone's accommodative monetary policy. As a result, the major stock indices gave back a large part of their earlier gains near the end of the second quarter.

While the MDAX added over 2 percent overall between April and June, the DAX closed only marginally above its level at the end of March. WACKER stock started Q2 2017 at €96.55. Amid occasional pullbacks, it initially posted substantial gains until mid-May. After reaching a high of €103.00 on May 16, it came under increasing pressure in the weeks that followed. Contributing factors here were continued concerns among market participants that rising raw-material prices for chemicals and declining polysilicon market prices could impair WACKER's earnings prospects. The share price reached its low for the year of €91.34 on June 16. By the end of June, WACKER stock had recovered some of its losses to close the quarter at €95.05 on June 30, down about 2 percent from the beginning of the quarter. WACKER's market capitalization was €4.72 billion.

The volatility in global equity markets continued into the third quarter of 2017. It was not until the end of the quarter that share prices gained some ground. Factors in this trend included ongoing geopolitical crises and continued political uncertainty in the USA and Europe. Additionally, market confidence was particularly impacted by the US Federal Reserve Bank's increasingly restrictive monetary stance and by speculation about an approaching end to accommodative monetary policy in the eurozone. The Federal Reserve raised the federal funds rate again in mid-June and announced that it would begin to normalize its balance sheet as of October. The European Central Bank, on the other hand, did not change course, deciding to leave its main refinancing rate unchanged at zero in early September.

Germany's benchmark indices trended sideways for most of the third quarter. By the end of August, the MDAX had not made any sustained gains. Over the same period, the DAX was at times noticeably below its opening level for the quarter. It was not until mid-September that a slight upward trend gained traction. During the full three-month period, the DAX rose just over 4 percent, while the MDAX gained over 6 percent. In Q3 2017, WACKER stock performed considerably better than the market as a whole. It started at €95.05 and reached its reporting-quarter low of €94.00 on July 10, before making substantial gains in the weeks that followed. After a slight pullback mid-August, the stock price began climbing again, buoyed by positive comments from analysts. It reached its reporting-quarter high of €123.65 on September 28 and finished trading the following day at €121.30. That was 28 percent higher than at the start of the quarter and corresponded to a market capitalization of €6.03 billion.

The DAX and the MDAX both rose by 1 percent in the fourth quarter. WACKER's share price moved upward, outperforming the two German benchmark indices by a wide margin.

In early October, WACKER held its Capital Market Day in London. The company's Executive Board used the occasion to affirm the corporate strategy and discuss current market developments. The stronger-than-average increase in the share price at year-end was driven by the rapid recovery in demand for high-quality polysilicon and by positive business trends at the chemical divisions, especially WACKER SILICONES, as well as by favorable earnings expectations for Siltronic. From early October to year-end, Wacker Chemie AG stock gained 34 percent, advancing from €121.30 to €162.20. Market capitalization at year-end was €8.06 billion.

Discussions with market participants during the year focused increasingly on the successes and market prospects of the chemical divisions.

Performance of WACKER Stock Compared with DAX and MDAX

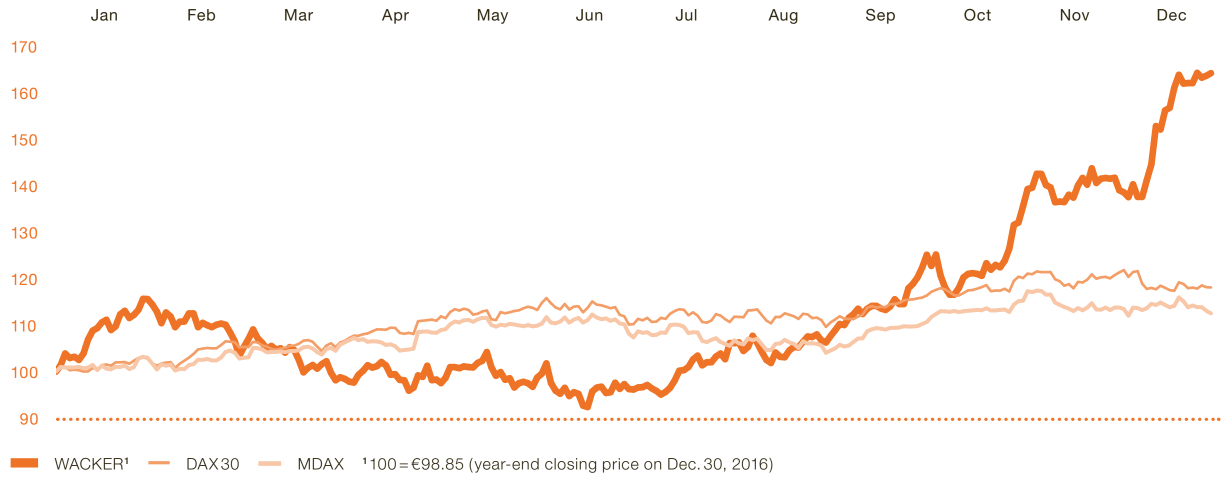
In full-year 2017, the DAX and MDAX indices gained 13 percent and 18 percent, respectively. WACKER's share price increased by 64 percent during the same period. The stock started the year at €98.85 (year-end closing price on December 30, 2016) and at year-end stood at €162.20.

A.2 Facts & Figures on Wacker Chemie AG's Stock

€	
Year-high (on Dec. 22, 2017)	162.25
Year-low (on June 16, 2017)	91.34
Year-end closing price (on Dec. 30, 2016)	98.85
Year-end closing price (on Dec. 29, 2017)	162.20
Performance for the year (without dividend) (%)	64.09
Year-end market capitalization (shares outstanding; prior year: 4.91) (billion)	8.06
Average daily trading volume[1] (prior year: 15.8) (million)	20.2
Earnings per share from continuing operations (prior year: 3.61)	4.85
Dividend per share (proposal)	2.50
Additional bonus of	2.00
Total dividend	4.50
Dividend yield[2] (%)	4.0

[1] Trading platforms (Xetra, Chi-X and Turquoise)
[2] Dividend proposal based on an average weighted share price of €111.62 in 2017

A.1 WACKER Share Performance (indexed to 100)[1]



[1] 100 = €98.85 (year-end closing price on Dec. 30, 2016)

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Earnings per Share of €4.85

Earnings per share (EPS) are calculated by dividing net income allocable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the year. In the reporting period, the number of shares in circulation was 49,677,983. On this basis, the EPS was €17.45. The EPS from continuing operations was €4.85.

Dividend Payment of €2.00 per Share

At the Annual Shareholders' Meeting of Wacker Chemie AG held in Munich on May 19, 2017, all Executive Board and Supervisory Board proposals were adopted by large majorities. WACKER distributed a shareholder dividend for 2016 totaling €99.4 million (€99.4 million for the year before). The dividend per dividend-bearing share was €2.00 (€2.00 the year before). The dividend yield based on WACKER's average share price in 2016 was 2.6 percent (2.2 percent the year before).

A.3 Dividend Trends

€	2016	2015	2014
Dividend	2.00	2.00	1.50
Dividend yield (%)	2.6	2.2	1.7
Net result for the year (allocable to WACKER's shareholders) (million)	179.2	246.7	203.8
Dividend payout (million)	99.4	99.4	74.5
Distribution ratio (%)	55.5	40.3	36.6

Shareholder Structure

Wacker Chemie AG's largest shareholder is Dr. Alexander Wacker Familiengesellschaft mbH, Munich. It holds over 50 percent of the voting shares in Wacker Chemie AG (2016: over 50 percent). Blue Elephant Holding GmbH (Pöcking, Germany) once again had no voting-share changes to report in 2017, with its holding in Wacker Chemie AG remaining at over 10 percent (2016: over 10 percent).

Free Float: Strong Base in Europe

According to our shareholder analysis (December 31, 2017), the number of shareholders in North America continued to decrease during the year. In December 2016, the level of US-held shares was 29 percent. A year later, it was 25 percent. Canadian shareholders were no longer represented (2016: 5 percent). The proportion of German shareholders was stable at 31 percent (2016: 31 percent). Our strongest shareholder growth in 2017 came from the UK, where investors held 20 percent of the shares (2016: 15 percent). By comparison, shares held by investors from the rest of Europe – excluding Germany and the UK – increased slightly, from 20 to 21 percent. In 2017, a further 3 percent of shares was held outside of Europe (2016: 0 percent), mainly due to increased interest among Australian investors.

A.4 Useful Information on WACKER Stock

ISIN	DE000WCH8881
German security identification number (WKN)	WCH888
Frankfurt Stock Exchange	WCH
Bloomberg	CHM/WCH.GR
Reuters	CHE/WCHG.DE
Capital stock	€260,763,000
Number of shares (Dec. 31, 2017)	52,152,600
Number of shares outstanding	49,677,983

Market Capitalization and Weighting (Weighting as of December 30, 2017)

WACKER's year-end market capitalization increased from €4.98 billion to €8.06 billion (total stock without treasury shares). WACKER's MDAX market capitalization based on the free float was €2.8 billion (2016: €1.4 billion). WACKER thus had an MDAX weighting of 1.44 percent, after 0.84 percent in the prior year, and is currently ranked 22nd by 12-month trading volume (2016: 27th) and 27th by market capitalization (2016: 41st) among the 50 companies in the index.

WACKER's GEX weighting was 10.44 percent. Deutsche Börse AG's GEX mid-cap index (introduced in January 2005) comprises owner-dominated companies listed in the Prime Standard on the Frankfurt Stock Exchange. At year-end 2017, WACKER ranked second in the GEX weighting.

Trading Volume

In the reporting year, the average daily trading volume on the Xetra, Chi-X and Turquoise trading platforms for WACKER stock was approximately 181,000 shares and thus below the prior-year figure of around 203,000 shares.

WACKER Communicates Closely with Capital Markets

Key elements of our corporate strategy include achieving organic growth, investing in promising markets and reducing capital intensity across all segments. These priorities are reinforced through continuous and open communication with institutional and private investors and with analysts.

On many occasions, Executive Board members attended events in person to answer questions from capital-market participants. There were 22 roadshows with a total of 33 roadshow days in Germany, Europe, the USA and Asia. About 500 meetings were held in total, both in person and by telephone, as well as some 80 group discussions. WACKER participated in various international conferences and gave presentations at the following events:

- Oddo Forum in Lyon
- Commerzbank German Mid-Cap Investment Conference in New York
- Kepler Cheuvreux German Corporate Conference in Frankfurt am Main
- HSBC Sustainability Conference in Frankfurt am Main
- Bankhaus Lampe Deutschlandkonferenz in Baden-Baden
- Mainfirst Corporate Conference in Copenhagen
- Credit Suisse Global Chemicals and Agriculture Conference in London
- Deutsche Bank: German, Swiss and Austrian Conference in Berlin
- Commerzbank Sector Conference in Frankfurt am Main
- Bankhaus Lampe German Technology Seminar in Zurich
- Macquarie 10th Alternative Energy Conference in London
- Goldman Sachs/Berenberg German Corporate Conference in Munich
- Baader Investment Conference in Munich
- Baird Industrial Conference in Chicago
- Morgan Stanley 16th Annual Asia Pacific Summit in Singapore
- German Equity Forum in Frankfurt am Main
- HSBC Zurich Investors Conference in Zurich
- Bank of America Merrill Lynch: European Chemicals Conference in London
- Berenberg European Corporate Conference in London

On October 4, 2017, Wacker Chemie AG hosted investors and analysts at its 9th Capital Market Day in London. A great number of visitors attended the afternoon event at the Design Museum in London to learn more about the WACKER Group's current positioning and strategies. It also gave participants the chance to meet WACKER's management personally and ask numerous questions.

A.5 Banks and Investment Firms Covering and Rating WACKER

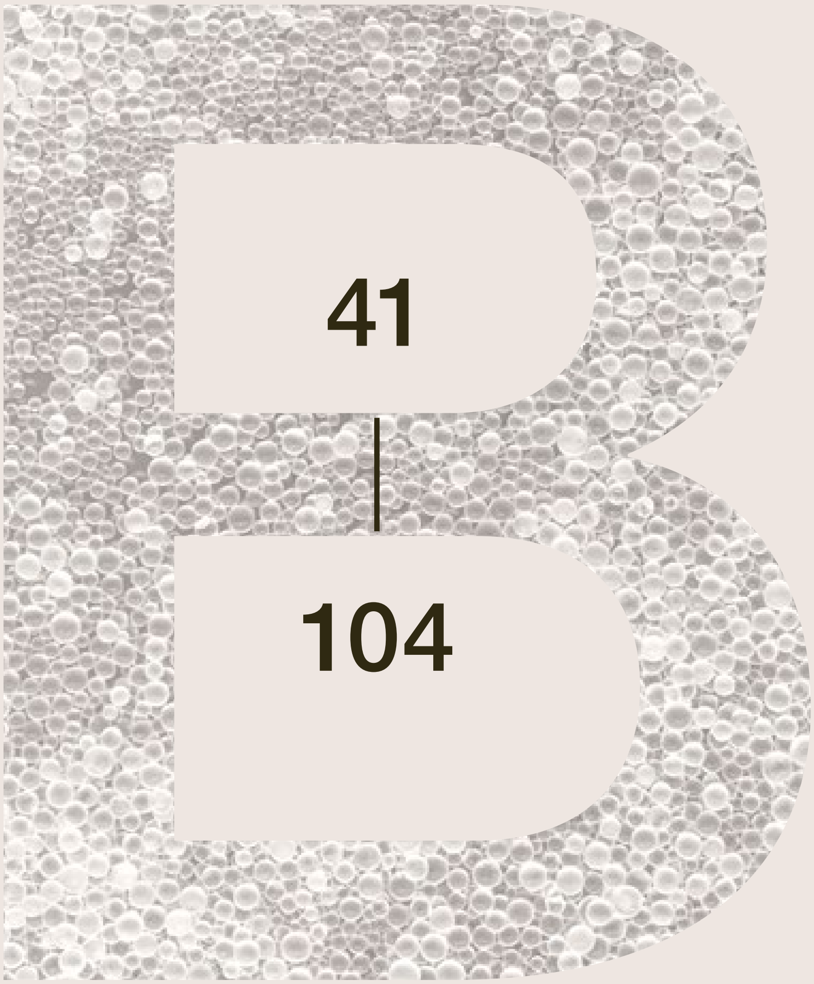
Bankhaus Lampe KG	Kepler Cheuvreux
Berenberg	J.P. Morgan Cazenove Ltd.
Citi Investment Research	Landesbank Baden-Württemberg
Commerzbank Corporates & Markets	Macquarie Capital (Europe) Ltd.
Credit Suisse Securities (Europe) Ltd.	Mainfirst
Deutsche Bank AG	Morgan Stanley & Co. International Ltd.
DZ Bank AG	Norddeutsche Landesbank
fairesearch GmbH & Co. KG	Société Générale
HSBC Trinkaus & Burkhardt AG	UBS Ltd.
Independent Research GmbH	Warburg Research GmbH

As of the end of December 2017

In 2017, many investment banks changed their analysts. As a result, there will be a new group of analysts covering WACKER in the future. Their number in 2017 was 20 (2016: 23). During the year, analysts' consensus price target for WACKER stock rose. In Q1, the average price target for WACKER stock was €105 (13 estimates). At year-end 2017, though, analysts set their fair-value price target at €135 on average (17 estimates), which was 29 percent higher than at the start of the year.

On our website, we regularly report on the consensus of analysts' expectations for the current year. Moreover, our website offers extensive information on WACKER stock. In addition to financial reports, a Fact Book, presentations and publications (viewable online or downloadable), our website lists all our key financial-calendar dates, along with information on who to contact with questions. Videos of our annual press conference and other events are also available for online viewing, or as an audio stream. Investors can additionally subscribe to an email newsletter that provides immediate updates on new developments in the Group. As was the case last year, we are also offering an online version of our Annual Report for 2017.

Combined Management Report



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VINNAPAS® UW 1 FS

From parquet adhesives
to automotive body parts –
a wide range of applications
contain solid resins.

B

Combined Management Report

Group Business Fundamentals

Business Model of the Group

WACKER is a global company with state-of-the-art specialty chemical products. Our portfolio includes over 3,200 products supplied in over 100 countries. WACKER products are found in countless everyday items, ranging from cosmetic powders to solar cells.

Silicon Is Our Main Starting Material

Most of our products are based on inorganic starting materials. Silicon-based products account for about 70 percent of WACKER sales, and products that are primarily ethylene-related for 30 percent. Our customers come from virtually every major industry, including base chemicals, electrical engineering and electronics, the solar, textile and food sectors, consumer goods, medical technology and biotech. As a manufacturer of silicones and polymers, WACKER has a particularly strong presence in the construction and automotive sectors. WACKER is one of the world's largest manufacturers of polycrystalline silicon for the solar industry.

Technical Competence Centers Support Sales and Marketing Activities

WACKER operates all over the world. Our sales strategy is centered around expanding our presence in growth markets. In total, WACKER has 50 sales offices in 32 countries. Our sales organization is supplemented not only by a network of technical competence centers, where customers learn about WACKER's product portfolio, but also by the WACKER ACADEMY, where we offer technical training programs about our products and their application fields. We opened two new technical competence centers in 2017: one in Jakarta (Indonesia) and one in Istanbul (Turkey). WACKER also opened a new research and development center for silicones in Ann Arbor, Michigan (USA).

23 Production Sites

WACKER's integrated global production system consists of 23 production sites (2016: 26). Nine are in Europe, seven in the Americas and seven in Asia. The Group's key production location is Burghausen (Germany). At this site alone, we have some 7,900 employees (including temporary workers and trainees). In 2017, Burghausen manufactured around 900,000 metric tons of product, accounting for almost 50 percent of the Group's production output. Nünchritz is WACKER's second multidivisional site alongside Burghausen.

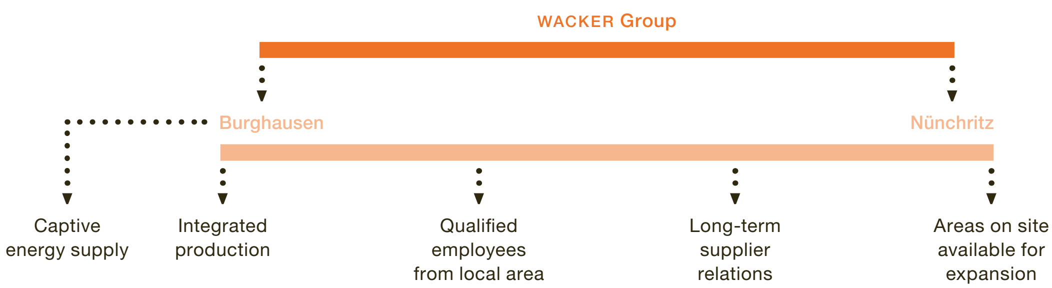
See Figure B.2 on page 44

Legal Structure

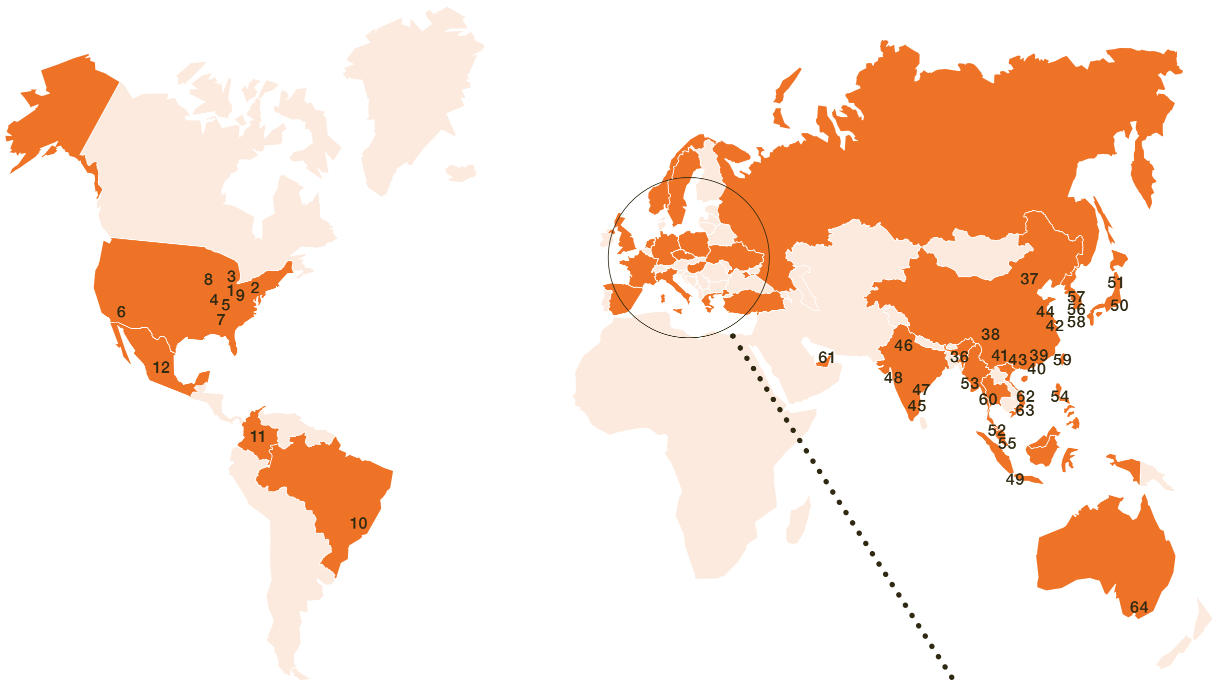
In November 2005, WACKER became a stock corporation (AG) under German law. Headquartered in Munich, Wacker Chemie AG holds a direct or indirect stake in 51 companies belonging to the WACKER Group. The consolidated financial statements cover 49 fully consolidated companies. Three companies are accounted for using the equity method. Wacker Chemie AG and a number of its subsidiaries also have branch offices, but they are of only minor significance for the Group.

For more information about changes in the scope of consolidation and the resulting effects, please refer to the Scope of Consolidation section in the Notes to the Consolidated Financial Statements.

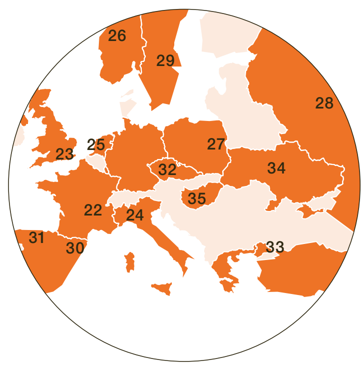
B.1 Key Factors for Multidivisional Sites



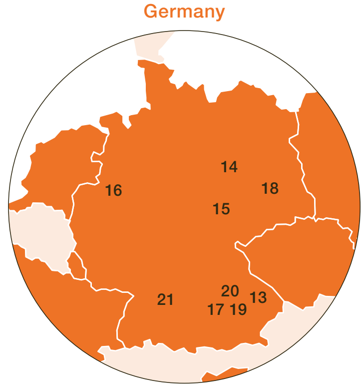
B.2 WACKER's Production and Sales Sites and Technical Competence Centers[1]



Europe



Germany



North and South America

1 **Adrian, Michigan,** USA 🏭 ● ▲
2 **Allentown, Pennsylvania,** USA ● ▲
3 **Ann Arbor, Michigan,** USA ▲
4 **Calvert City, Kentucky,** USA 🏭
5 **Charleston, Tennessee,** USA 🏭
6 **Chino, California,** USA 🏭 ●
7 **Dalton, Georgia,** USA ▲
8 **Eddyville, Iowa,** USA 🏭
9 **North Canton, Ohio,** USA 🏭 ●
10 **Jandira, São Paulo,** Brazil 🏭 ● ▲
11 **Bogotá,** Colombia ● ▲
12 **Mexico City,** Mexico ● ▲

Europe

13 **Burghausen,** Germany 🏭 ● ▲
14 **Halle (Saale),** Germany 🏭
15 **Jena,** Germany 🏭 ●
16 **Cologne,** Germany 🏭
17 **Munich,** Germany ●
18 **Nünchritz,** Germany 🏭 ● ▲
19 **Riemerling,** Germany ●
20 **Stetten,** Germany 🏭
21 **Stuttgart,** Germany ●
22 **Lyon,** France ●
23 **Bracknell,** Great Britain ●
24 **Milan,** Italy ●
25 **Krommenie,** Netherlands ●
26 **Kyrksæterøra, Holla,** Norway 🏭
27 **Warsaw,** Poland ●
28 **Moscow,** Russia ● ▲
29 **Solna,** Sweden ●
30 **Barcelona,** Spain ●
31 **León,** Spain 🏭
32 **Plzeň,** Czech Republic 🏭 ●
33 **Istanbul,** Turkey ● ▲
34 **Kiev,** Ukraine ●
35 **Budapest,** Hungary ●

Asia

36 **Dhaka,** Bangladesh ●
37 **Beijing,** China ●
38 **Chengdu,** China ●
39 **Guangzhou,** China ●
40 **Hong Kong,** China ●
41 **Nanjing,** China 🏭
42 **Shanghai,** China ● ▲
43 **Shunde,** China 🏭 ● ▲
44 **Zhangjiagang,** China 🏭 ●
45 **Chennai,** India ●
46 **Delhi,** India ●
47 **Kolkata,** India 🏭 ● ▲
48 **Mumbai,** India ● ▲
49 **Jakarta,** Indonesia ● ▲
50 **Tokyo,** Japan ●
51 **Tsukuba (Akeno),** Japan 🏭 ▲
52 **Kuala Lumpur,** Malaysia ●
53 **Yangon,** Myanmar ●
54 **Makati City,** Philippines ●
55 **Singapore** ● ▲
56 **Jincheon,** South Korea 🏭
57 **Seoul,** South Korea ● ▲
58 **Ulsan,** South Korea 🏭
59 **Taipei,** Taiwan ●
60 **Bangkok,** Thailand ●
61 **Dubai,** United Arab Emirates ● ▲
62 **Hanoi,** Vietnam ●
63 **Ho Chi Minh City,** Vietnam ●

Australia

64 **Melbourne, Victoria,** Australia ● ▲

🏭 Production site
● Sales site
▲ Technical competence center

[1] Only majority-owned subsidiaries and joint ventures

Four Business Divisions

WACKER is based on a matrix organization with clearly defined functions. Since March 15, 2017, the Group has had four business divisions. On selling 6.3 million shares of its stake in Siltronic AG, WACKER gave up its majority ownership of the company and, since then, has accounted for its stake using the equity method. As a result of the sale, Siltronic AG ceased being a business division of the WACKER Group.

➪ **For further information on the deconsolidation of Siltronic AG, please refer to the Scope of Consolidation section in the Notes to the Consolidated Financial Statements.**

Each business division has global responsibility for its products, manufacturing facilities, markets, customers and results. Regional organizations are responsible for all business in their respective countries. WACKER's corporate departments primarily provide services for the whole Group, although some also have production-related functions.

➪ **See Figure B.5 on page 46**

Management and Supervision

In compliance with the German Stock Corporation Act (AktG), Wacker Chemie AG has a two-tier management system, comprising an Executive Board and Supervisory Board. The Executive Board has four members.

Wacker Chemie AG is the parent company and thus determines the Group's strategy, overall management, resource allocation, funding, and communications with key target groups (especially with the capital market and shareholders).

B.3 Executive Board Responsibilities

Dr. Rudolf Staudigl
President & CEO
WACKER POLYSILICON
Executive Personnel, Corporate Development, Corporate Communications, Investor Relations, Corporate Auditing, Legal, Compliance, Retirement Benefits

Dr. Christian Hartel
WACKER POLYMERS
Human Resources (Personnel Director), Corporate Engineering
Region: Asia

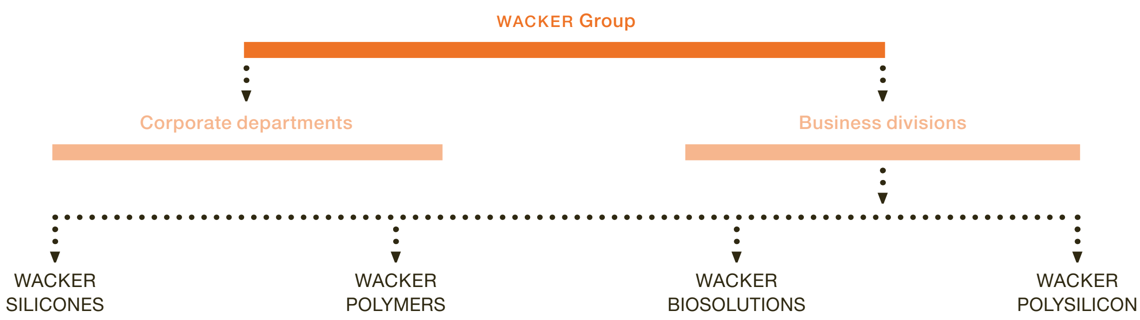
Dr. Tobias Ohler
SILTRONIC (until March 14, 2017)
Corporate Accounting and Tax, Corporate Controlling, Corporate Finance and Insurance, Information Technology, Procurement & Logistics
Region: The Americas

Auguste Willems
WACKER SILICONES
WACKER BIOSOLUTIONS
Sales & Distribution, Corporate Research & Development, Intellectual Property, Site Management, Corporate Security, Environment/Health/Safety, Product Stewardship
Regions: Europe, Middle East

Executive Board and Supervisory Board in 2017

At its meeting of December 7, 2017, the Supervisory Board of Wacker Chemie AG confirmed the re-appointments of president and CEO Dr. Rudolf Staudigl and Executive Board member Dr. Christian Hartel. Dr. Rudolf Staudigl's contract was renewed for a further three years (until September 30, 2021) and that of Dr. Christian Hartel for five years (until October 31, 2023). Effective January 1, 2017, Manfred Köppl was elected as the new deputy chairman of the Supervisory Board. Hansgeorg Schuster joined the Supervisory Board on January 1, 2017, but then left it due to the sale on

B.4 Group Structure



March 14, 2017 of shares in Siltronic AG. At the Executive Board's request, Barbara Kraller was appointed to the Supervisory Board by order of the District Court of Munich on April 24, 2017.

Declaration on Corporate Management

The declaration on corporate management required by Sections 289f and 315d of the German Commercial Code (HGB) is included in the corporate governance report. This declaration, which does not form part of the combined management report, is also available online. It contains the Executive and Supervisory Boards' work procedures, the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), and information on key corporate management practices.

www.wacker.com/corporate-governance

Non-Financial Statement

The non-financial statement that is to be submitted in accordance with Sections 315b, 315c and 289b–c of the German Commercial Code (HGB) is included in the annual report in the form of a non-financial report for the Group. It forms part of the combined management report and is also available on the internet and in the online version of our Annual Report 2017. It has also been published in the Federal Gazette. This non-financial report includes a description of the Group's business model as well as details of environmental concerns, social issues and personnel matters as well as information on respect for human rights and on combating corruption and bribery. In compliance with the revised International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information," the non-financial report for the Group was reviewed by KPMG AG, Wirtschaftsprüfungsgesellschaft, the auditors of the consolidated financial statements. Content provided in the non-financial report for the Group has been removed from the Group management report in order to avoid repetition.

https://reports.wacker.com/2017/annual-report/

Executive Board and Supervisory Board Compensation

Executive Board compensation contains both fixed and variable components. The main features of the compensation system for the Executive Board and Supervisory Board are described in the compensation report, which is included in the corporate governance report. The compensation report also forms part of the combined management report.

Key Products, Services and Business Processes

Overall, the range of products and services at each of our divisions remained unchanged in 2017. In several application areas, though, we expanded our product portfolio. With over 2,800 products, WACKER SILICONES has our broadest offering. The division produces both specialties and standard products, primarily used as starting materials in silicone production.

WACKER POLYMERS makes state-of-the-art binders and polymeric additives (such as dispersible polymer powders and dispersions). These are used in diverse industrial applications or as base chemicals. Customers range from the paint and coating sectors to the paper and adhesive industries. The main customer for polymer binders is the construction industry.

WACKER BIOSOLUTIONS supplies customized biotech and catalog products for fine chemicals. Products include pharmaceutical proteins, cyclodextrins, cysteine, polyvinyl acetate solid resins (for gumbase), organic intermediates and acetylacetone. The division focuses on customer-specific solutions for growth areas, such as food additives, pharmaceutical actives and agrochemicals.

WACKER POLYSILICON produces hyperpure polysilicon for the semiconductor sector and, above all, the solar sector.

B.5 Group Structure in Terms of Managerial Responsibility

Integrated Production System – WACKER's Greatest Strength

The highly integrated material loops at its major sites in Burghausen, Nünchritz and Zhangjiagang are one of the WACKER's key competitive advantages. The basic principle of integrated production is to use the byproducts from one stage as starting materials for making other products. The auxiliaries required for this, such as silanes, are recycled in a closed loop. Waste heat from one process is utilized in other chemical processes. Integrated production not only cuts energy and resource consumption, but also improves the use of raw materials in the long term, and integrates environmental protection into our processes.

Major Sales Markets and Competitive Positions

The competitive positions of WACKER's three biggest divisions by sales were unchanged in 2017. Globally, we rank among the top three suppliers for silicones, for dispersions and dispersible polymer powders based on vinyl acetate-ethylene (VAE), and for polysilicon. For a number of products we are the world leader. Asia is the key sales region for our products, followed by Europe and the Americas.

Competitive Positions of WACKER's Divisions

WACKER SILICONES is number two in the world and leads the market in Europe. WACKER is the global market leader in building-protection silicones. With their wide range of properties, silicones are used in every major industry. The largest growth potential lies in Asia.

WACKER POLYMERS is the world's largest producer of VAE dispersions and dispersible polymer powders. WACKER is the only company in the market to have a complete supply chain for dispersions and dispersible polymer powders in Europe, the Americas and Asia. At this division, too, we see Asia as the region with the largest growth potential.

WACKER BIOSOLUTIONS is the global market leader in cyclodextrins and cysteine, and in polyvinyl acetate solid resins for gumbase. We hold a small but promising market position as a producer of bacterial pharmaceutical proteins and are continually working to expand that position. The division also offers fine chemicals in profitable niches.

Business at WACKER POLYSILICON is marked by volume growth and intense competition. Determining factors are the solar industry's demand for polysilicon and market trends in the world's solar sector. WACKER POLYSILICON is number two in the world in terms of production capacity. Our sales volume exceeded 70,000 metric tons in 2017.

Economic and Legal Factors

WACKER sells its products and services to virtually every industry. Although our individual business divisions are not immune to economic fluctuations, their impact and onset may vary. We are able to mitigate the impact of these fluctuations, thanks to our product portfolio and broad customer base.

Orders

The terms for orders placed with WACKER vary from division to division. Most orders received by WACKER SILICONES are short term, though a small number are long term. Goods are usually shipped within three months of receipt of order. At WACKER POLYMERS, business is based on contracts and framework agreements with terms of up to one year. Around 30 percent of incoming orders are short term. WACKER POLYSILICON concludes short- and medium-term contracts. As a rule, we aim for fixed contracts with negotiated prices and quantities. Due to varying order-placement procedures at the Group and its divisions, order-level reporting is not very meaningful and hence does not serve as an indicator in our monthly reports.

B.6 WACKER's Competitive Positions

	Number 1	Number 2	Number 3
WACKER SILICONES	DowDuPont	WACKER	Momentive
WACKER POLYMERS	WACKER (dispersible polymer powders/ VAE dispersions)	Akzo Nobel (Elotex) (dispersible polymer powders)/ Celanese (dispersions)	Dairen (dispersible polymer powders/ dispersions)
WACKER POLYSILICON	GCL-Poly	WACKER	OCI

Operational Metrics as Leading Indicators of Future Developments

By referring to specific leading indicators based on operational metrics, we try to factor potential developments into our business plans and to allocate capacities accordingly. Since our operations are based on diverse businesses and markets, we use a number of leading indicators to gain insights into potential developments at each of our business divisions.

Economic Factors Impacting Our Business

The main economic factors influencing WACKER's business remained unchanged in many areas. Accounting for around 44.1 percent of production costs, energy and raw-material costs had the largest impact in 2017.

Energy and Raw-Material Costs

As a chemical company, we belong to an energy-intensive industry and require diverse raw materials to manufacture our products. Consequently, higher energy and raw-material costs affect our cost structure. WACKER constantly strives to keep costs at a competitive level. By generating our own power at Burghausen and Nünchritz, we reduce our energy-procurement needs and, consequently, the cost risk. Amendments to the regulatory framework, such as grid charges, energy or electricity taxes or levies relating to the German Renewable Energy Act (EEG), can negatively affect WACKER's energy costs both directly and indirectly – e.g. through higher grid charges or fees. We continually focus on improving our energy efficiency. The goal is to reduce specific energy consumption by half between 2007 and 2022. When procuring raw materials, we ensure favorable pricing and achieve price flexibility by sometimes concluding contracts with varying terms, with more scope regarding volumes, or with regular price adjustments that reflect wholesale market prices.

Exchange-Rate Fluctuations

As a rule, WACKER hedges against exchange-rate fluctuations. We hedge about half of our dollar exposure for each subsequent year with a mix of derivative currency-hedging transactions. In determining sensitivity, we simulate a 10-percent devaluation of the US dollar against the euro. Without hedging, an increase in the euro against the US dollar would have negatively impacted EBITDA by around €50 million.

State-Regulated Incentive and Feed-In Tariff Programs for Renewable Energy Sources

As one of the world's leading suppliers of hyperpure polycrystalline silicon, we are affected by regulatory changes to incentive and feed-in tariff programs for renewable energy sources. Substantially lower prices for solar modules and cells have greatly increased the competitive advantage of solar energy over fossil fuels and other methods of generating energy. The cost of manufacturing photovoltaic products is expected to continue decreasing, which will further reduce dependence on state-regulated incentive and feed-in tariff programs over the next few years. Our assumption is that, in a few years, solar energy will get along even without special incentives, particularly in combination with cost-efficient storage possibilities. Our strong cost position, high product quality, international orientation, broad customer base and fixed supply contracts give us a competitive edge over other manufacturers. WACKER will maintain its focus on improving its specific production costs to secure its competitive position.

B.7 Leading Operational Indicators

Business Divisions	Leading Operational Indicator	Indicator of
WACKER SILICONES WACKER POLYMERS WACKER BIOSOLUTIONS	Raw-material and energy price trends	Our cost trends
WACKER SILICONES	Orders received per month	Our capacity utilization
WACKER POLYSILICON	Short-, medium- and long-term contracts	Our capacity utilization, further market trends
	Market research, talks with customers	Increase in solar capacity by country, our capacity utilization
All business divisions	Talks with customers	Our sales trend, our product quality
	Market research	Market trends, product innovations

Legal Factors Impacting Our Business

China imposed anti-dumping and anti-subsidy tariffs on polysilicon manufacturers in the USA. As things stand now, polysilicon produced at our site in Charleston, Tennessee (USA) is also affected by these tariffs. Negotiations are being conducted between China and the USA with the aim of resolving the trade dispute regarding solar products, which would also benefit WACKER. WACKER also has the option of taking up direct contact with China to discuss an exemption from tariffs. In May 2014, WACKER and the Chinese Ministry of Commerce (MOFCOM) signed a minimum price agreement for exports of polysilicon produced in Europe. MOFCOM, in turn, refrained from imposing anti-dumping and anti-subsidy tariffs on this material. In March 2017, the EU Commission extended the anti-dumping and anti-subsidy tariffs imposed on Chinese producers of solar cells and modules for a further 18 months to September 2018. In response, MOFCOM likewise extended the measures outlined in the minimum price agreement by 18 months. At the end of this period, the European Commission plans to phase out its anti-dumping and anti-subsidy tariffs.

Goals and Strategies

Strategy of the WACKER Group

WACKER's vision and five overarching strategic goals have not changed. Our strategy is focused on profitable growth and the goal of attaining a leading competitive position in most of our business fields, while observing the principle of sustainable development.

For further information, visit www.wacker.com

At our Capital Market Day in London in October 2017, we confirmed our strategy for the WACKER Group until 2020. Our strategic goals for the next few years remain as follows:

- Expanding our production capacities, with capital expenditures below depreciation.
- Generating above-average growth, compared with the chemical industry.
- Focusing even more strongly on sustainability.
- Achieving attractive margins throughout the economic cycle.
- Increasing our cash inflow from operating activities.

Our capital expenditures will remain below depreciation until at least 2020. In our individual regions, we are focusing spending on plants for producing intermediates and downstream products that have a lower capital intensity than full-scale plants for upstream products.

We want to grow faster than the chemical-sector average by deploying new capacities, by expanding in emerging markets and regions, by innovating, and by substituting competitors' products with WACKER products. Product innovations will spur momentum, as will raising the percentage of specialty products in our portfolio. Our focal regions and countries for further growth remain unchanged: China, Southeast Asia, India, the Middle East and Brazil. We also see opportunities for our chemical business to expand in our established markets in Europe and the USA.

We continuously work on reducing our raw-material consumption and improving the process efficiency of our plants. The Wacker Operating System (WOS) program helps us boost productivity along the entire supply chain, the goal being to further reduce specific operating costs. In addition, we are developing a wide range of sustainable products for renewable energy, thermal insulation and electromobility that will help reduce CO_2 emissions in the use phase.

Our aim is to achieve attractive margins with our products. We are striving for a target EBITDA margin of >16 percent for our chemical divisions and >30 percent for our polysilicon business.

Our significantly lower capital expenditures, our continuing efficiency and cost improvements, and our planned sales growth will all lift cash flow. We want our shareholders to benefit even more from our profitability. The goal is to distribute around half of our Group net income to them. Previously, our distribution ratio was at least 25 percent of net income.

Digitalization is a further topic that affects all our business processes. That is why we launched a digitalization program in 2017. It covers all core business processes –

ranging from logistics, production control and maintenance through to our distribution systems and new business models. Digital transformation is a vital aspect of WACKER's strategy and will be given top priority in the coming years.

Strategy at Each Business Division

As the world's second-largest producer of silicones, WACKER SILICONES wants to ensure profitable growth by continuing to increase its proportion of high-margin specialties. In the case of standard products, the focus is on achieving cost leadership as a full-range supplier with global reach. WACKER POLYMERS is pursuing growth by concentrating on the trend toward value-added construction materials and actively promoting related industry standards (transformation). The advantages offered by VAE dispersions and dispersible powders will assist in replacing conventional technologies (substitution) and tapping new application areas. WACKER BIOSOLUTIONS is focusing on the expansion of its biotech activities and on acquiring new customers. To this end, the division is leveraging its extensive expertise and production facilities, which enable it to make biotech products on an industrial scale. At WACKER POLYSILICON, top priorities are efficiency and high cash inflows from operating activities. The division is focusing on cutting production costs further, increasing the output of existing manufacturing plants, and reducing its consumption of energy and raw materials.

Management Processes

Value-Based Management Is Integral to Our Corporate Policies

Value-based management is an integral part of our corporate policies. Its purpose is to achieve a lasting increase in our company's value in the long term. In our management processes, we distinguish between performance and budget parameters. Performance parameters serve the financial management of the company. They include the EBITDA margin and ROCE. The EBITDA margin indicates how successful the company is compared with the competition, while ROCE shows how efficiently the company employs its capital. Also important for management control are the budget parameters EBITDA and net cash flow. Additionally, BVC (business value contribution) is a dedicated budget parameter used in the calculation of variable compensation for Executive Board members and senior managers.

In this context, value management and strategic planning complement each other. Accordingly, we align the strategic positioning of a business entity with its contribution to increasing the company's value. As part of our annual planning process, we make fundamental decisions on capital expenditure and innovation projects, on tapping new markets and on a variety of other projects.

The management decision-making process makes active use of key financial performance indicators. For example, lower-than-expected net cash flow could prompt us to adjust our capital expenditure during the year. Being highly flexible, WACKER can respond to both positive and negative changes.

The EBITDA trend is considered to be the most important financial indicator for communication with capital markets.

Key Financial Performance Indicators for the WACKER Group

In 2017, we continued to use the same key financial performance indicators for value management as in previous years. These are:

- EBITDA margin (EBITDA in relation to sales). We compare historical performance with planned performance and with that of the competition, and use the results to calculate a target EBITDA margin. We calculate the weighted divisional average as our target margin for the Group.

- ROCE or return on capital employed. ROCE is defined as earnings before interest and taxes (EBIT) divided by capital employed. Capital employed comprises working capital as well as noncurrent assets required for business operations. Investment income from Siltronic AG and the corresponding carrying amount in equity are not included when calculating ROCE. ROCE clearly indicates how profitably the capital required for business operations is being employed. ROCE is influenced not only by profitability, but also by capital intensity with regard to noncurrent assets required for business operations and to working capital. ROCE is reviewed annually as part of our planning process and is a key criterion for managing our capital expenditure budget.

- EBITDA (earnings before interest, taxes, depreciation and amortization). This demonstrates the operational performance capability of the company before the cost of capital. We set absolute EBITDA targets for the business divisions and take the cost of capital into account by using BVC to determine the internal budget target. We calculate BVC by deducting the cost of capital, non-operational factors, and depreciation and amortization from EBITDA. The development of BVC depends mainly on changes in EBITDA.

- Net cash flow (defined as the sum of cash flow from operating activities and long-term investing activities before securities and including additions from finance leases, less the change in advance payments received). Net cash flow shows whether we can finance ongoing operations and necessary investments from our own operating activities. WACKER's aim is to generate a sustained positive net cash flow. Apart from profitability, the main factors affecting net cash flow are the effective management of net current assets and the level of capital expenditures.

Supplementary Financial Performance Indicators

Our key financial performance indicators are supplemented by additional performance indicators that provide us with information on the Group's sales and liquidity situation and debt levels.

These supplementary financial performance indicators include:

Sales: profitable growth is an important factor in increasing the company's value over the long term and one of the main drivers of a positive cash flow trend.

Capital expenditures: in the course of our medium-term planning, we set capital-expenditure priorities and an investment budget. Other capital expenditures are planned by each business division. To this end, the individual business divisions regularly analyze their capacity utilization and anticipated capacity requirements. The respective business divisions and Corporate Engineering at WACKER are responsible for the operational management of individual investment projects (project handling, deadlines, budgets, quality and safety).

Net financial debt: WACKER's net financial debt is a supplementary performance indicator used to monitor the Group's financial situation. We define it as the sum of cash and cash equivalents, noncurrent and current securities, and noncurrent and current financial liabilities.

Non-Financial Performance Indicators Are Not Intended for Corporate Management

None of the non-financial performance indicators we employ is used universally for corporate decision-making.

Development of Key Financial Performance Indicators in 2017

EBITDA margin: in 2017, the target margin was 20 percent, with the Group posting an actual EBITDA margin of 20.6 percent.

B.8 Planned and Actual Figures

€ million	Reported for 2017	Forecast 2017[1]	2016[1]
EBITDA margin (%)	20.6	Slightly below last year's level	20.6
EBITDA	1,014.1	At last year's level, on a comparable basis (without special income)	955.5[2]
ROCE (%)	7.5	At last year's level	6.4
Net cash flow	358.1	At last year's level	361.1

[1] Adjusted
[2] Adjusted EBITDA in 2016 amounted to €935.2 million

EBITDA: we were expecting EBITDA – without special income – to be at last year's level. In fact, EBITDA increased. Compared with adjusted EBITDA in the previous year, EBITDA rose by €78.9 million to €1,014.1 billion. If prior-year special income is included, EBITDA increased by €58.6 million, from €955.5 million to €1.014 billion. In 2017, the cost of capital before taxes was 10.1 percent. We reached our BVC target for the Group in 2017. At €–152 million, the figure achieved was better than in the prior year.

B.9 ROCE and BVC

€ million	2017	2016
EBIT	423.7	337.5
Capital employed[1]	5,138.3	5,300.4
ROCE[2] (%)	7.5	6.4
Pre-tax cost of capital (%)	10.1	10.1
BVC[3]	–151.8	–197.0

[1] Capital employed is the sum of average noncurrent assets (less noncurrent securities and deferred tax assets), plus inventories and trade receivables (less trade payables). It is the variable used in calculating the cost of capital.
[2] Return on capital employed is the profitability ratio relating to the capital employed. Investment income from Siltronic AG and the corresponding carrying amount in equity are not included when ROCE is calculated.
[3] BVC is calculated by adjusting EBIT for non-operational factors.

ROCE: WACKER's ROCE in 2017 was 7.5 percent. In our March 2017 forecast, we expected ROCE to be at the prior-year level.

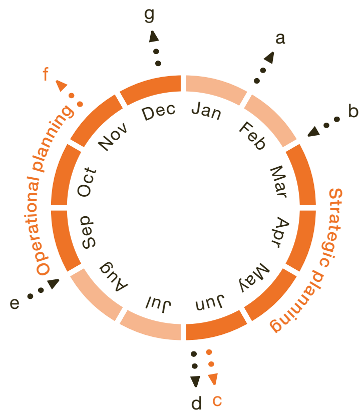
Net cash flow: for 2017, we forecast a markedly positive net cash flow at the prior-year level. At €358.1 million, net cash flow was in line with our forecast.

Two-Stage Strategic Planning

Strategic planning, which determines how we can meet value-related and corporate goals, is conducted in two stages. First, our divisions identify their market and competitive positions, and their value-related strength. We then use these results to formulate recommendations regarding strategic positioning and planned steps. All of this is supplemented by innovation and investment projects, and approved by the Strategy Conference.

Operational planning in the second half of the year addresses strategic-planning decisions with a five-year timeline. The Executive and Supervisory Boards jointly approve the annual plan. This forms the basis for determining basic forecasts for the current year in early February. We monitor whether we are meeting our forecasts by means of monthly comparisons of planned and actual figures.

B.10 Strategic and Operational Planning



a Forecasts made for current year
b Operational planning used as a basis for strategic planning (incl. the latest actual and rolling forecast figures)
c Strategy Conference
d Strategy approved
e Strategy implemented in operational planning
f Planning Conference
g Operational planning approved (by Supervisory Board)

Financing Strategy

The goal of WACKER's financing strategy is to ensure sustainable growth and stability for the Group. This strategy comprises both financing through our own resources and the use of debt instruments.

We satisfy our capital requirements by means of operating cash flow, and short-term and long-term financing.

We ensure the Group's ongoing solvency with rolling cash-flow management and sufficient contractually agreed lines of credit. Financing requirements are calculated for the entire Group, with loans usually being concluded centrally. Project-specific or regional funding is available in special cases.

➪ For details of the financing measures implemented in 2017, please refer to the Financial Position section on page 69.

Operational Control Instruments

We control operational processes via our integrated management system (IMS). This system stipulates uniform standards throughout the Group for issues relating to quality, environmental protection, and health and safety. We have our Group management system analyzed by an international certification organization in accordance with uniform standards based on ISO 9001 (quality) and ISO 14001 (environment).

Statutory Information on Takeovers

B.11 Information Required by Section 315a (1) of the German Commercial Code (HGB)

The following table contains information required by Section 315a (1) of the German Commercial Code (HGB):

§ 315a (4) 1	**Composition of subscribed capital:**	Wacker Chemie AG's subscribed capital totals 52,152,600 non-par value voting shares. No other share classes have been issued. The total number of shares currently includes 49,677,983 held by external shareholders and 2,474,617 held by Wacker Chemie AG itself. WACKER's treasury shares were acquired by repurchasing Wacker-Chemie GmbH shares in August 2005 when it was still a private limited company. The Executive Board may use or sell 1,692,317 of these treasury shares with the consent of the Supervisory Board; use or sale of the remaining 782,300 shares requires Supervisory Board approval as well as a resolution by the Annual Shareholders' Meeting.
§ 315a (4) 2	**Restrictions on voting rights or on the transfer of shares:**	There are no restrictions on voting rights or the transfer of shares.
§ 315a (4) 3	**Direct or indirect capital stakes:**	Each of the following holds a stake of over 10 percent of the subscribed capital: Dr. Alexander Wacker Familiengesellschaft mbH, based in Munich; Blue Elephant Holding GmbH, based in Pöcking; and Dr. Peter-Alexander Wacker, resident in Bad Wiessee and to whom the voting shares of Blue Elephant Holding GmbH are attributable.
§ 315a (4) 4	**Owners of shares with special rights:**	Shareholders have not been given any special rights that bestow control powers.
§ 315a (4) 5	**Method of voting-right control in the case of employee participation:**	Insofar as employees hold shares in Wacker Chemie AG's capital, they exercise their resulting control rights directly.
§ 315a (4) 6	**Statutory provisions and articles of association regarding the appointment and dismissal of executive board members and amendments to said articles:**	The provisions to appoint and dismiss Wacker Chemie AG's Executive Board members are based on Section 84 et seq. of the German Stock Corporation Act (AktG). Wacker Chemie AG's Articles of Association do not contain any further provisions in this respect. Pursuant to Article 4 of the Articles of Association, the number of Executive Board members is fixed by the Supervisory Board, which also appoints an Executive Board member as President & CEO. Amendments to the Articles of Association are covered by Sections 133 and 179 of the German Stock Corporation Act. In accordance with Section 179 (1) sent. 2 of the German Stock Corporation Act, the Supervisory Board has been empowered to amend the Articles of Association if only the wording thereof is affected.
§ 315a (4) 7	**Authority of the executive board to issue or buy back shares:**	In accordance with a resolution passed at the May 8, 2015 Annual Shareholders' Meeting, Wacker Chemie AG's Executive Board was authorized – in compliance with the legal provisions set out in Section 71 (1) no. 8 of the German Stock Corporation Act – to acquire treasury shares totaling a maximum of 10 percent of capital stock. No capital has been authorized for the issue of new shares.
§ 315a (4) 8	**Major agreements associated with control changes due to a takeover bid:**	Various agreements with joint-venture partners include change-of-control clauses, which deal with what might happen if one of the joint-venture partners were taken over. These arrangements comply with the usual standards for such joint-venture agreements. In addition, several loan agreements contain change-of-control clauses. Here, too, the clauses are typical of this type of agreement.
§ 315a (4) 9	**Severance agreements with the executive board or employees in the event of a takeover bid:**	There are no severance agreements or similar with employees or with Executive Board members in the event of a takeover bid (please refer to the Report on Compensation).

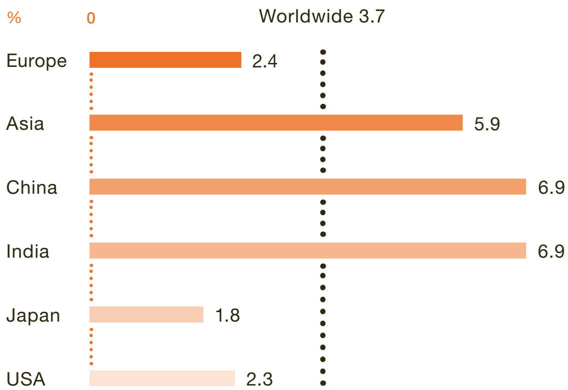
Business Report

Economic Trends

The world economy experienced a robust upturn in all regions in 2017. According to the International Monetary Fund (IMF), global GDP grew 3.7 percent in 2017 (2016: 3.2 percent).

Amongst the advanced economies, many countries experienced better-than-expected domestic demand, which supported growth. Japan and the eurozone also benefited from increased investment spending and higher exports.

B.12 GDP Trends in 2017



Sources – worldwide: IMF; Asia: ADB; China: National Bureau of Statistics; India: NCAER National Council of Applied Economic Research; Japan: IMF; USA: IMF; Europe: OECD

In developing and emerging economies, GDP likewise rose substantially relative to 2016. Higher exports lifted momentum in commodity-exporting countries, such as Brazil and Russia. In China, domestic consumption powered growth. Many other Asian countries also posted strong GDP gains. Momentum there, according to the Asian Development Bank (ADB), came from both domestic consumption and exports. The Indian economy, on the other hand, slowed somewhat during the year. One reason for this, according to the ADB, was the national goods and services tax (GST) introduced mid-year.

Sector-Specific Conditions

We supply products to a wide range of industries. Our main customers are in the chemical, construction, electrical, electronics and photovoltaic sectors.

Good Sales Trend at WACKER's Chemical Divisions

The chemical industry performed well in 2017. Chemical demand was spurred by the continued expansion of manufacturing activity in nearly all parts of the world. According to the German Chemical Industry Association (VCI), global chemical sales (including pharmaceuticals) totaled €4.6 trillion in 2016, with Asia accounting for close to 60 percent. The favorable situation on international markets positively influenced the performance of chemical companies in Germany. The robust trend lifted demand for German chemical products in both domestic and international markets. Capacity utilization at German chemical plants was 86.7 percent. According to the VCI, chemical production in Germany expanded by 2.5 percent in 2017. As chemical prices rose by 3.0 percent at the same time, the sector's sales increased by 5.5 percent year over year to some €195 billion (2016: €185 billion).

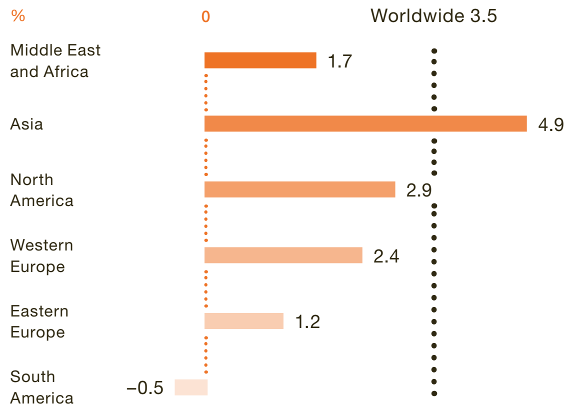
At WACKER, the chemical divisions grew their total sales versus the year before. This growth was chiefly fueled by higher volumes in all segments, amid somewhat better prices overall. For WACKER SILICONES, factors that were especially positive included silicones demand in the electronics, automotive, textile and plastics industries. WACKER POLYMERS generated slightly higher sales in dispersible polymer powders and VAE dispersions. At WACKER BIOSOLUTIONS, product sales for pharmaceutical and agricultural applications were especially strong.

Construction Industry Grows in 2017

According to market research institute B+L Marktdaten GmbH, the global construction industry grew by 3.5 percent in 2017, to US$8.9 trillion (2016: US$8.6 trillion). Construction contracts in Western Europe rose by 2.4 percent. In Eastern Europe, construction expenditures were up by 1.2 percent. The North American construction industry expanded by 2.9 percent in 2017. In Asia, construction-sector growth was especially strong, climbing by 4.9 percent.

WACKER POLYMERS continued to increase its sales for construction applications. In dispersible polymer powders, gains were fueled by the market for dry-mix mortar in every region worldwide. Overall, we sold around 28,000 metric tons more of dispersible polymer powder to the construction industry. In dispersions, WACKER POLYMERS achieved substantial gains in Asia, especially China. Beside adhesives and sealants, another key sector for our VAE dispersions was the market for water-based, environmentally compatible coatings. At WACKER SILICONES, construction-application sales also grew. The division's three product segments – building protection, sealants and adhesives, and silane-modified polymers – all posted further gains. WACKER SILICONES' sales rose in every region in 2017. Growth was particularly strong in India, South Korea, Southeast Asia and the CIS countries.

B.13 Growth Rate of Construction by Region in 2017



Source: B+L Marktdaten GmbH, November 2017

Electrical and Electronics Industries Grow in Emerging Markets

According to the German Electrical and Electronic Manufacturers' Association (ZVEI), the global market for the electrical and electronics industries grew 4 percent to about €4.3 trillion in 2017 (2016: €4.1 trillion). The main impetus came from China and emerging markets, which added around 7 percent and 6 percent, respectively. In Germany, the fifth-largest market worldwide, the ZVEI estimates that sales climbed to about €128 billion (2016: €125 billion).

WACKER has two business divisions that supply customers in the electrical and electronics industries. WACKER POLYSILICON supplies polysilicon to customers in the semiconductor industry. At WACKER SILICONES, we increased sales of silicone to the electronics industry by 6 percent. Silanes for electronic applications gained nearly 30 percent. We generated sales growth in media-resistant potting compounds, in highly specialized silicone rubber for the semiconductor industry, and in silicone gels for automotive electronics. Cable and insulator business also grew, with sales rising by 6 percent.

Photovoltaics Pivotal for World's Energy Supply

In the global solar industry, all signs continued to point to growth in 2017. According to various market studies, some 104 gigawatts (GW) of new capacity were installed worldwide (2016: 78 GW). That was a year-over-year increase of around 34 percent. As a result, installed photovoltaic (PV) capacity worldwide totaled about 400 GW at the end of 2017. Approximately three-quarters of the new capacity in 2017 was installed in China, India, Japan and the USA. Incentives and substantially lower system costs were major factors in the global expansion of PV installations. At the same time, the cost of non-incentivized solar energy continued falling. In several solar auctions in sun-rich regions, the electricity-trading price was down to US$0.02 per kilowatt hour.

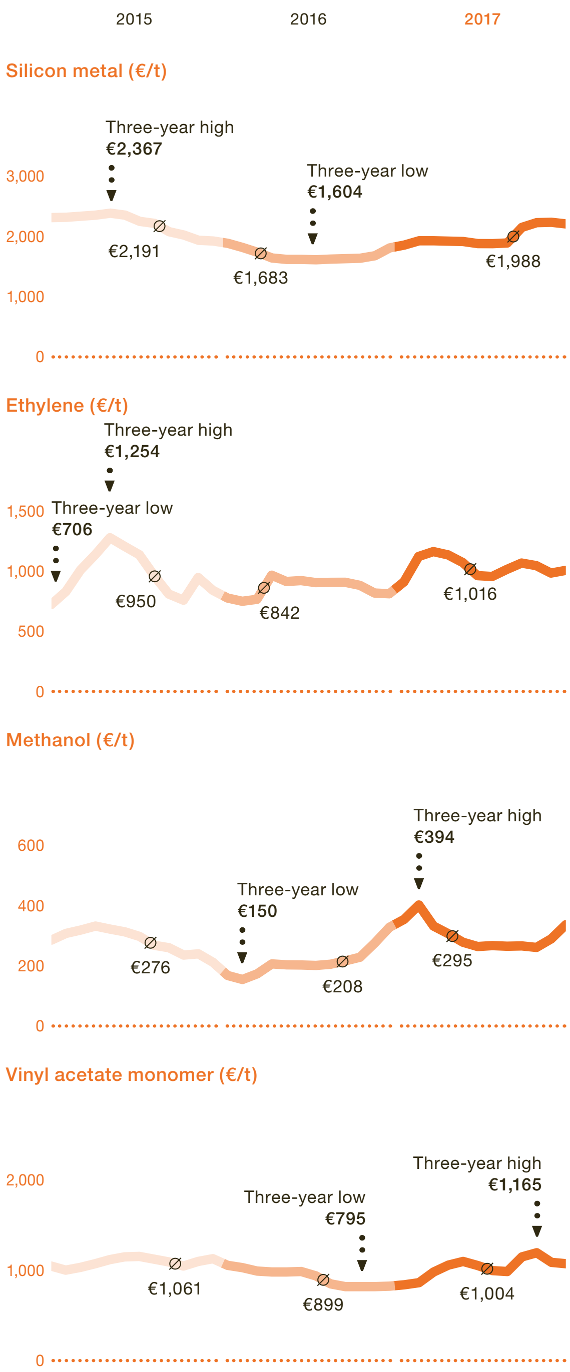
B.14 Installation of New PV Capacity in 2016 and 2017

	Installation of New PV Capacity (MW)		Growth in 2017
	2017	2016	%
Germany	**1,800**	1,500	20
France	**900**	600	50
Rest of Europe	**4,400**	4,300	2
USA	**11,500**	14,800	−22
Japan	**7,500**	8,400	−11
China	**54,000**	32,500	66
India	**9,500**	4,300	>100
Other regions	**14,400**	11,500	25
Total	104,000	77,900	34

Sources: Germany's Federal Network Agency, Commissariat Général au Développement Durable, IHS, Solar Energy Industries Association (SEIA), RTS Corporation, China National Energy Agency, Apricum, India's Ministry of New and Renewable Energy, Bridge to India, market studies, and WACKER's own market surveys.

Market conditions in photovoltaics remained challenging despite strong global growth in new PV installations. On the one hand, strong demand for solar cells and modules, particularly in China and India, lifted volumes. And in the USA, impetus came from concerns about an ongoing investigation into punitive tariffs and minimum prices for imported solar cells. On the other hand, price pressure persisted due to continued overcapacity throughout the supply chain. This prevented numerous solar companies from achieving any major improvement in their financial situation, from a full-year perspective.

B.15 Spot-Price Trends for WACKER's Key Raw Materials



Ø Annual average in each case

Raw-Material Prices, on Balance, Markedly Higher Year over Year

In general, raw-material prices were substantially higher in 2017 compared with the previous year. The price increase for methanol was particularly strong at about 40 percent. Prices for ethylene and vinyl acetate monomer (VAM) rose by around 10 percent compared with 2016. The price of silicon metal climbed during the reporting year. At year-end, this raw material was about 10 percent more expensive than in January 2017.

Overall Statement by the Executive Board on Underlying Conditions

The world economy performed well in 2017, despite ongoing conflicts and political uncertainties. Supported by the accommodative monetary policies of leading central banks, capital expenditures increased substantially in key advanced economies. Production rose strongly in both the USA and the eurozone during the year. The Chinese economy is also expanding, due to government incentives. Momentum in these major economies stimulated business in emerging markets. On balance, the global upturn broadened and accelerated during 2017.

Amid these growth trends, WACKER's business developed well in 2017. We were able to lift our sales, as planned, by a mid-single-digit percentage. This was mostly due to higher volumes at all divisions. Earnings likewise continued to climb. Our positive earnings trend was fueled by high plant utilization, by cost improvements and by income from our equity investment in Siltronic. As a result, we more than compensated for raw-material prices rising versus the year before. The global solar market once again posted strong growth. Our polysilicon business benefited from this, since volumes were substantially higher. Lower average prices for polysilicon, on the other hand, dampened sales and earnings performance.

In 2017, we lifted our sales in every region, even though growth in the Americas was not especially strong due to exchange-rate effects. The Asian region achieved the strongest growth, up 7.7 percent. Business there developed very well in China, India and Southeast Asia. Europe, including Germany, accounted for the largest share in Group sales: 40.0 percent.

WACKER got off to a good start to this year, in the weeks prior to the preparation date of these consolidated financial statements (February 26, 2018).

Key Events Affecting Business Performance

On September 7, 2017, a technical defect led to a hydrogen explosion that damaged a plant section at our site in Charleston, USA. As this plant section is essential for the entire manufacturing process, production was shut down. WACKER does not expect this incident to result in any notable financial damage, since the property damage and loss of production are insured. However, the production shutdown reduced the volume of polysilicon WACKER had available for sale by around 6,000 metric tons.

Divestitures

Early in 2017, WACKER sold an initial 1.8 million shares of its stake in Siltronic AG on the stock exchange, generating proceeds of €87.6 million. On March 15, 2017, WACKER then relinquished its majority stake in Siltronic AG. In a book-building offering, WACKER sold around 6.3 million of its shares in Siltronic to institutional investors at a price of €56.06 per share. The gross proceeds from the placement amounted to about €353.2 million. With 30.8 percent ownership, WACKER remains an important Siltronic shareholder. Since March 15, 2017, the Group's stake in Siltronic has been accounted for using the equity method.

Capital Expenditures

Capital expenditures were at a comparable level to the year before. They amounted to €326.8 million in the reporting year (2016: €338.1 million).

The chemical divisions were at the center of WACKER's investing activities, with a number of projects in different countries. In Jincheon, South Korea, we built new facilities to manufacture silicone sealants and specialty silicones. Investment spending on that project amounted to around €15 million. At Burghausen, Germany, a new dispersion reactor with an annual capacity of 60,000 metric tons expanded the site's existing plants for polymer binders. About €25 million was spent on that. In addition, WACKER worked on a series of smaller investment projects.

In 2017, we launched a number of other investment projects. At our site in Charleston, Tennessee (USA), we started building a plant for pyrogenic silica, which will have a total investment volume of US$150 million. In Holla, Norway, we are expanding our production facilities for silicon metal. Some €25 million went toward this project in 2017. In Ulsan, South Korea, construction started on new production facilities for dispersions and dispersible polymer powders. Around €60 million is budgeted for this expansion. In León, Spain, we are modernizing a large-scale fermentation plant that we acquired in late December 2016. WACKER is investing a total of about €15 million in modernization there.

Comparing Actual with Forecast Performance

During the course of the year, WACKER revised the targets set at the start of the year, specifying and upgrading them. The revisions affected statements made regarding EBITDA, the EBITDA margin, ROCE, net cash flow, investment spending and net financial debt. In early 2017, WACKER forecast that it would grow its sales by a mid-single-digit percentage. It projected that the EBITDA margin would be below the prior-year level, that its EBITDA – on a comparable basis without special income – would be at the year-earlier level, and that ROCE and net cash flow would also be at that level.

Forecast Revised after Q1 Due to Sale of Majority Stake in Siltronic

On publishing its Q1 report in April 2017, WACKER revised its projection due to the sale of its majority stake in Siltronic. The revised forecast for EBITDA – on a comparable basis excluding special income – was for a mid-single-digit percentage decrease versus the previous year (€935.5 million). Earlier, in our Annual Report (released for the Annual Press Conference), we had expected that WACKER, including Siltronic, would post an EBITDA without special income that would at the previous year's level. We had also expected that the EBITDA margin would be slightly below the year-earlier level (20.6 percent). In April 2017, we then projected that this margin would instead be somewhat lower than the year before. ROCE was no longer expected to be at the year-earlier level, but slightly below that level. Net cash flow, which we had previously expected to be at the prior-year level, was now projected to be substantially lower. All of the other financial performance indicators were in line with the forecasts we had made at our Annual Press Conference.

Forecast Raised in Q2 and Q3

In its Q2 Interim Report, WACKER specified its projections for EBITDA, expecting full-year EBITDA of between €900 million and €935 million. The upper figure corresponded to the prior year's EBITDA adjusted for special income (2016: €935.2 million). This revision was due to the strength of chemical business and to higher-than-anticipated income from the stake in Siltronic.

In the Q3 Interim Report, we again upgraded our forecast, largely because of the good business trend. WACKER anticipated that EBITDA would reach €1 billion, exceeding the year-earlier figure. The EBITDA margin was likely to be at the prior-year level and not, as previously forecast, somewhat lower. WACKER also revised its projections for other financial performance indicators. ROCE was anticipated to be slightly higher than – rather than slightly below – the previous year's level. Net cash flow was projected to be only somewhat lower than – and not substantially below – the prior-year figure. Capital expenditures, previously forecast to rise slightly, were instead expected to be at the year-earlier level. Net financial debt was forecast to total around €500 million at year-end.

WACKER Achieves All Its Outlook Targets

WACKER increased its sales by 6.3 percent to €4.92 billion (2016: €4.63 billion), primarily due to volume growth. As expected, the sales trend was positive at WACKER SILICONES and WACKER POLYMERS. At WACKER BIOSOLUTIONS, sales were on par with the previous year. WACKER POLYSILICON lifted its sales somewhat due to volume growth. WACKER's EBITDA margin of 20.6 percent was on par with the previous year. At €1,014.1 million, EBITDA on a comparable basis was substantially higher than the previous year's figure (€955.5 million). Net cash flow amounted to €358.1 million, the same level as the previous year. At 7.5 percent, ROCE was higher than the prior-year figure. Raw-material and energy costs trended in line with our expectations. On average over the year, the value of the euro against the US dollar was slightly higher than we had originally anticipated.

In 2017, capital expenditures were slightly below the prior-year figure. They amounted to €326.8 million.

At €454.4 million, net financial debt was even lower at year-end than projected in the Q3 Interim Report.

As anticipated at the start of the year, the workforce increased. As of the reporting date, WACKER had 13,811 employees, 363 more than the year before.

Deviations from Projected Expenses

Personnel costs climbed year over year, both in absolute figures and as a percentage of sales. This reflected not only the rise in employee numbers during the year, but also higher variable-compensation expenses, which were not entirely counterbalanced by ongoing productivity measures. In the medium term, we expect personnel costs to decline in relation to sales.

Raw-material costs were markedly higher than the year before, both in absolute terms and as a percentage of sales. The rise was prompted by higher prices for key raw materials, such as methanol, VAM and ethylene. Our medium-term projection is that the ratio of raw-material costs to sales will decrease slightly, given our measures to reduce the raw-material quantities used in our products.

In 2017, we further improved our energy efficiency. In turn, our energy costs dropped in relation to sales.

B.16 Comparing Actual with Forecast Performance

	Results in 2016, adjusted	Forecast March 2017	Forecast April 2017	Forecast August 2017	Forecast October 2017	Results in 2017
Key Financial Performance Indicators						
EBITDA margin (%)	20.6	Slightly below last year's level	Somewhat lower than last year	Somewhat lower than last year	At last year's level	**20.6**
EBITDA (€ million)	955.5	At last year's level on a comparable basis (without special income)	Mid-single-digit percentage decrease on a comparable basis (excluding special income)	Between 900 and 935	1,000	**1,014.1**
ROCE (%)	6.4	At last year's level	Slightly below last year's level	Slightly below last year's level	Slightly higher than last year	**7.5**
Net cash flow (€ million)	361.1	At last year's level	Substantially lower than last year	Substantially lower than last year	Somewhat lower than last year	**358.1**
Supplementary Financial Performance Indicators						
Sales (€ million)	4,634.2	Mid-single-digit percentage increase	Mid-single-digit percentage increase	Mid-single-digit percentage increase	Mid-single-digit percentage increase	**4,924.2**
Capital expenditures (€ million)	338.1	Around 450	Around 360	Around 360	At last year's level	**326.8**
Net financial debt (€ million)	992.5	Substantially lower than last year	Substantially lower than last year	Substantially lower than last year	Around 500	**454.4**
Depreciation (€ million)	618.0	Around 720	Around 600	Around 600	Around 600	**590.4**

As expected, depreciation declined markedly year over year, both in absolute figures and as a percentage of sales. This was because investment spending in 2016 and 2017 was lower than in earlier years. We expect depreciation to drop further in 2018 and, in the medium term, to be at a level of some €500 million per year.

B.17 Expenses by Cost Type

% of sales	2017	2016
Personnel costs	24.5	24.0
Raw-material costs	28.6	27.5
Energy costs	6.9	7.2
Depreciation	12.0	13.3

Earnings

Changes in Earnings, Net Assets and Financial Position Due to Deconsolidation of Siltronic

In 2017, WACKER relinquished its majority stake in Siltronic AG. Early in the year, WACKER sold an initial 1.8 million shares of its stake in Siltronic AG on the stock exchange. On March 15, 2017, the Group sold a further 6.3 million Siltronic shares in a bookbuilding offering to institutional investors. As a result, WACKER's stake in Siltronic was reduced to 30.8 percent. WACKER had held 57.8 percent of Siltronic on December 31, 2016.

As stipulated by IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations), WACKER is retrospectively reporting the net income of Siltronic AG and its subsidiaries for 2016 as "Income from discontinued operations." The gain associated with the loss of control of Siltronic is calculated as the sum of the cash inflow from the bookbuilding offering and remeasurement of the remaining shares (at the transaction price) – less the net assets of Siltronic attributable to WACKER and the transaction costs. Both this gain and Siltronic's net income for the period are included in the "Income from discontinued operations" line item.

The loss of control over Siltronic means that its assets and liabilities are no longer recognized within the Group. The deconsolidation of Siltronic caused the Group's total balance sheet to contract only marginally because the cash inflow from the two transactions and remeasurement of the remaining shares compensated for the deconsolidation of Siltronic's assets.

Since March 15, 2017, Siltronic has been accounted for using the equity method and the Siltronic Group's pro rata net income for the period is included in the result from investments in joint ventures and associates. The figures listed in the statement of income as continuing operations for 2017 are comparable with the previous year.

➪ For further information on the deconsolidation of Siltronic, please refer to the Scope of Consolidation section starting on page 118 of the Notes to the Consolidated Financial Statements.

➪ See Table B.20 on page 61

Group Sales Climb 6.3 Percent Year over Year to €4.92 Billion

In 2017, the WACKER Group again lifted its sales, which rose by 6.3 percent to €4.92 billion (2016: €4.63 billion). This growth was mainly generated by higher volumes for silicones, polymer products and polysilicon. WACKER more than compensated for negative exchange-rate effects from the euro's strength against the US dollar and for prices that, on balance, were somewhat lower. WACKER SILICONES posted particularly strong sales, up 10 percent. Sales at WACKER POLYMERS rose by more than 4 percent. In a market environment still characterized by volatility and lower average prices, WACKER POLYSILICON grew its sales by over 2 percent.

➪ For further information on the business divisions, please refer to the Segments section starting on page 62.

WACKER generated the majority of its sales outside Germany. International sales were €4.10 billion (2016: €3.86 billion), representing 83.3 percent of total sales. The depreciation of the US dollar against the euro dampened sales.

For further information, please refer to the Regions section starting on page 64.

Group EBITDA at €1.01 Billion – EBITDA Margin at 20.6 Percent

Group EBITDA rose 6.1 percent year over year, to €1,014.1 million (2016: €955.5 million). At 20.6 percent, the EBITDA margin was on par with the previous year (2016: 20.6 percent). In 2017, WACKER reported no further income from advance payments retained and damages received. In the prior year, the company had posted special income of €20.3 million from contract terminations. Adjusted for this effect, EBITDA was 8 percent higher than the previous year (€935.5 million).

This growth was chiefly due to higher sales, very good operating performance and the €40.0 million in investment income from Siltronic. As a result, WACKER more than compensated for the year-over-year increase in raw-material prices.

For further information on the business divisions, please refer to the Segments section starting on page 62.

B.18 Reconciliation of EBITDA to EBIT

€ million	2017	2016[1]	Change in %
EBITDA	1,014.1	955.5	6.1
Depreciation/appreciation of fixed assets	–590.4	–618.0	–4.5
EBIT	423.7	337.5	25.5

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

EBIT Rises Markedly

The Group's earnings before interest and taxes (EBIT) totaled €423.7 million in the reporting period (2016: €337.5 million). That was a year-over-year increase of 26 percent and yielded an EBIT margin of 8.6 percent (2016: 7.3 percent). Lower depreciation versus a year earlier enhanced EBIT. In 2017, depreciation declined by 5 percent, in line with expectations.

B.19 Reconciliation of EBIT to Net Income for the Period

€ million	2017	2016[1]	Change in %
EBIT	423.7	337.5	25.5
Financial result	–88.7	–91.1	–2.6
Income from continuing operations before income taxes	335.0	246.4	36.0
Income taxes	–84.9	–68.3	24.3
Net income from continuing operations	250.1	178.1	40.4
Net income from discontinued operations	634.7	11.2	>100
Net income for the year	884.8	189.3	>100
Of which Attributable to Wacker Chemie AG shareholders	866.7	179.2	>100
Attributable to non-controlling interests	18.1	10.1	79.2
Earnings per common share (€) (basic/diluted)	17.45	3.61	>100
Earnings per common share (€) from continuing operations	4.85	3.44	40.7
Earnings per common share (€) from discontinued operations	12.60	0.17	>100
Average number of shares outstanding (weighted)	49,677,983	49,677,983	–

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Cost of Goods Sold Rises 4 Percent Year over Year

At €954.4 million, gross profit from sales was 16 percent higher than in the prior year (2016: €822.8 million). The cost of goods sold came in at €3.97 billion (2016: €3.81 billion). The gross margin was 19.4 percent (2016: 17.8 percent). Higher sales were a positive factor. On the other hand, higher raw-material prices and the ongoing costs following the production shutdown at Charleston (USA) in September 2017 weighed on the gross margin. No significant income from insurance compensation expected for the Charleston incident was recognized in profit or loss in 2017.

The Group's cost-of-sales ratio declined from 82 percent to 81 percent.

Functional Costs Climb

Other functional costs (selling, R&D and general administrative expenses) were 10 percent higher year over year, rising to €594.0 million (2016: €537.8 million). Alongside higher selling expenses, the increase in personnel costs in all functional areas prompted this rise.

Other Operating Income and Expenses

In 2017, the balance of other operating income and expenses was €19.4 million (2016: €51.4 million). In the previous year, income of €20.3 million from advance payments retained had had a positive effect on this balance. Foreign currency losses of €–9.7 million (2016: €3.4 million) weighed on other operating income.

Result from Investments in Joint Ventures and Associates

The balance of income from investments in joint ventures and associates and other investment income was markedly higher due to income from Siltronic. The total was €43.9 million (2016: €1.1 million).

Financial and Net Interest Result

As expected, WACKER's financial result improved year over year and amounted to €–88.7 million (2016: €–91.1 million). Interest income came in at €7.5 million (2016: €4.7 million) and interest expenses at €38.3 million (2016: €39.9 million). The net interest result amounted to €–30.8 million (2016: €–35.2 million). Interest expense on bank loans decreased slightly due to the refinancing of such loans in the course of 2017.

The other financial result was €–57.9 million (2016: €–55.9 million). It primarily comprised interest-bearing components of pension and other noncurrent provisions. It also included income and expenses from the exchange-rate effects of financial investments. Exchange-rate effects from intra-Group financing (including the effects of concluded foreign currency derivatives) were recognized for the first time under other financial result in the reporting period.

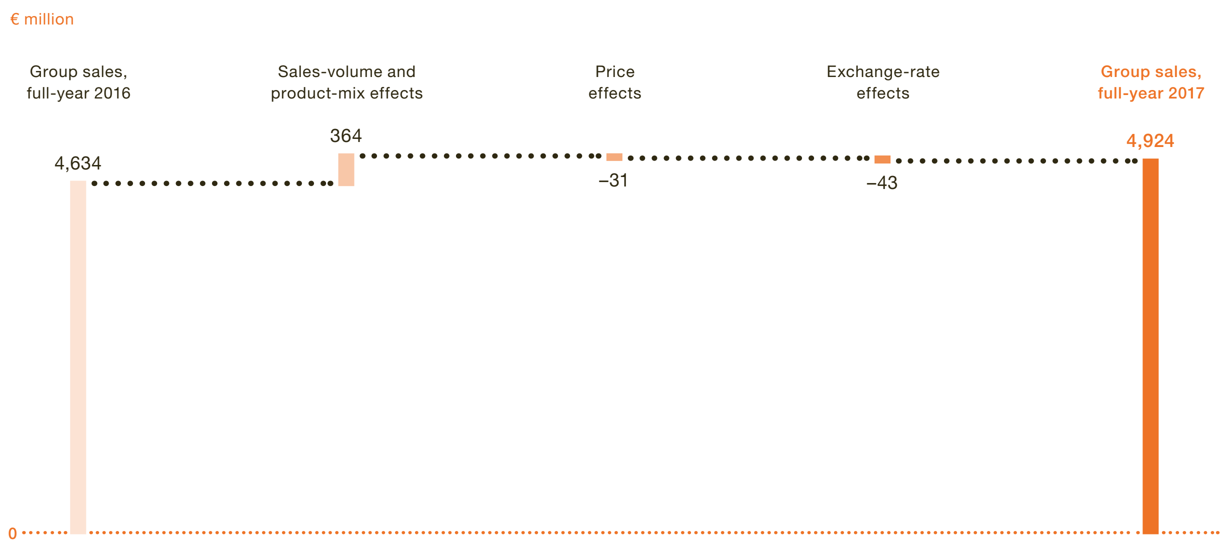
Income Taxes

For 2017, WACKER reported tax expenses of €84.9 million (2016: €68.3 million). The Group's effective tax rate was 25.3 percent (2016: 27.7 percent). This decrease was due the high investment income from Siltronic, which was recognized after tax and forms part of pre-tax income.

Consolidated Net Income

Partly as a result of the effects mentioned, consolidated net income rose to €884.8 million (2016: €189.3 million). It included income from discontinued operations in the amount of €634.7 million from Q1 2017. Siltronic posted net income of €17.7 million for January through March 2017, after €11.2 million in 2016. In addition, the deconsolidation of Siltronic as a segment of WACKER resulted in a gain of €617.0 million. Income from continuing operations rose to €250.1 million in the reporting period (2016: €178.1 million), up 40 percent.

B.20 Year-over-Year Sales Comparison



The table shows the individual components of income from discontinued operations:

B.21 Income from Discontinued Operations

€ million	
Proceeds from sale (before transaction costs)	353.2
Remeasurement of the remaining 30.8-percent equity-accounted stake in Siltronic	518.6
Total divested assets and liabilities of Siltronic	–453.3
Disposal of shares of non-controlling interests in the WACKER Group	214.7
Pro rata difference from foreign currency translation adjustment	–11.6
Costs that cannot be capitalized (taxes, transaction costs)	–4.6
Gain associated with loss of control	617.0
Current net income from Siltronic, Q1 2017	17.7
Income from discontinued operations	634.7

Return on Capital Employed (ROCE)

The return on capital employed (ROCE) sets earnings before interest and taxes (EBIT) in relation to the capital employed for business activities. Investment income from Siltronic and the corresponding carrying amount in equity are not included in the calculation for ROCE.

In the reporting year, ROCE was 7.5 percent (2016: 6.4 percent). Low capital expenditures and high levels of depreciation were the main reasons for the decline in capital employed, which decreased from €5,300.4 million to €5,138.3 million in the year under review.

Segments

WACKER SILICONES

In 2017, WACKER SILICONES posted substantial sales growth. Climbing 9.9 percent, sales reached €2.20 billion (2016: €2.00 billion). The rise was prompted by volume gains and somewhat higher prices. WACKER SILICONES lifted its sales markedly across all of its operational sectors. The uptrend was especially high for sales of specialty products. As for volumes, performance was particularly good for silicones used in the automotive industry, in general industrial applications, in the textile industry and medical applications, and in construction sealants and adhesives. Our silicone rubber business was also strong. Regionally, WACKER SILICONES generated higher sales across all of its three regions: Europe, the Americas and Asia. Europe and Asia recorded the strongest sales growth.

EBITDA growth outpaced sales gains year over year, rising by 23.2 percent to €444.9 million (2016: €361.2 million). This trend was driven by strong volume growth, by somewhat higher prices in several product groups, by high plant utilization and by good cost efficiency. The EBITDA margin was 20.2 percent, markedly higher than a year earlier (2016: 18.1 percent).

Capital expenditures climbed by 61.2 percent versus the year before, to €142.8 million (2016: €88.6 million). Investment spending focused on construction of a new pyrogenic-silica plant at the Charleston (USA) plant and a new plant for silicone sealants and specialty silicones at Jincheon (South Korea). As of December 31, 2017, the division had 4,737 employees (Dec. 31, 2016: 4,566).

B.22 Key Data: WACKER SILICONES

€ million	2017[1]	2016[1]	2015	2014	2013
Total sales	2,200.2	2,001.1	1,943.3	1,733.6	1,672.2
EBITDA	444.9	361.2	276.2	209.8	230.2
EBITDA margin (%)	20.2	18.1	14.2	12.1	13.8
EBIT	362.2	280.8	194.5	128.9	151.1
Capital expenditures	142.8	88.6	82.0	88.5	85.4
R&D expenses	58.6	53.7	35.8	39.5	34.6
Employees (December 31, number)	4,737	4,566	4,353	4,240	4,109

[1] Costs from selling expenses reclassified to R&D expenses as of 2016

WACKER POLYMERS

Sales at WACKER POLYMERS grew in 2017 by 4.2 percent, to €1.25 billion (2016: €1.19 billion). Growth was fueled by higher volumes for dispersions and dispersible polymer powders. Lower prices and negative exchange-rate effects, on the other hand, held back sales.

WACKER POLYMERS posted robust sales growth in Europe and Asia. The biggest percentage gains came from its business in China, up by around 11 percent. Volume trends were particularly good for construction-sector products.

EBITDA of €205.6 million (2016: €261.0 million) was significantly below the year-earlier level. A key factor here was the strong increase in raw-material prices. The EBITDA margin declined to 16.5 percent (2016: 21.8 percent).

Capital expenditures climbed year over year, to €48.1 million (2016: €37.5 million). Investment spending included the construction of a new dispersion reactor at Burghausen (Germany) and infrastructure projects at Cologne (Germany) and Calvert City (USA). In 2017, we also began investing in new production facilities at Ulsan (South Korea). As of December 31, 2017, the division had 1,539 employees, slightly more than the year before (Dec. 31, 2016: 1,484).

B.23 Key Data: WACKER POLYMERS

€ million	2017[1]	2016[1]	2015	2014	2013
Total sales	**1,245.1**	1,194.8	1,185.5	1,064.4	978.7
EBITDA	**205.6**	261.0	222.2	149.5	147.8
EBITDA margin (%)	**16.5**	21.8	18.7	14.0	15.1
EBIT	**168.1**	223.7	184.4	118.7	112.9
Capital expenditures	**48.1**	37.5	47.4	56.3	36.8
R&D expenses	**29.3**	30.3	14.8	13.2	12.3
Employees (December 31, number)	**1,539**	1,484	1,461	1,408	1,377

[1] Costs from selling expenses reclassified to R&D expenses as of 2016

WACKER BIOSOLUTIONS

At WACKER BIOSOLUTIONS, sales of €205.9 million (2016: €206.4 million) were on par with the prior-year level. The quantities sold rose, but sales were dampened by slightly lower prices and negative exchange-rate effects. WACKER BIOSOLUTIONS generated its highest sales growth at its Pharma/Agro business line. Sales declined slightly at its Food unit. Due to project business, the sales trend varied across individual regions, with sales rising in the Americas and Germany.

EBITDA was €37.5 million (2016: €37.0 million), slightly above the prior-year level. The EBITDA margin was 18.2 percent (2016: 17.9 percent).

Capital expenditures increased year over year, to €15.7 million (2016: €9.1 million). Investment spending focused on two major projects. One priority was to modernize and expand the large-scale fermentation plant that we had acquired in Spain in 2016. Our aim is to concentrate our cysteine manufacturing operations at that plant and to make bioengineered products for other customers there. In our pharmaceutical proteins business, we invested in various modernization measures at our site in Jena (Germany). Employee numbers totaled 533 as of December 31, 2017 (2016: 510).

B.24 Key Data: WACKER BIOSOLUTIONS

€ million	2017[1]	2016[1]	2015	2014	2013
Total sales	**205.9**	206.4	197.1	176.2	158.4
EBITDA	**37.5**	37.0	32.2	23.6	23.6
EBITDA margin (%)	**18.2**	17.9	16.3	13.4	14.9
EBIT	**26.1**	25.7	21.0	13.6	17.2
Capital expenditures	**15.7**	9.1	6.2	8.4	10.2
R&D expenses	**6.0**	6.2	6.1	6.7	7.0
Employees (December 31, number)	**533**	510	491	484	371

[1] Costs from selling expenses reclassified to R&D expenses as of 2016

WACKER POLYSILICON

Sales grew at WACKER POLYSILICON by 2.6 percent in 2017, climbing to €1.12 billion (2016: €1.10 billion). The increase was due to higher volumes, despite the fact that average solar-silicon prices declined. Prospects of stronger volume and sales growth were impeded by the loss of production at our site in Charleston (USA). On September 7, 2017, a technical defect led to a hydrogen explosion there, which damaged a plant section. Production had to be shut down. As a result, WACKER POLYSILICON had a shortfall of around 6,000 metric tons in polysilicon volumes available for sale. In the reporting year, Asia was again the key sales region for our products.

EBITDA edged up 1.6 percent to €290.4 million (2016: €285.9 million). This rise mainly stemmed from higher volumes and a decline in production costs. Lower average prices, on the other hand, dampened momentum. In 2017, WACKER POLYSILICON did not have any special income from advance payments retained or damages received. Also, its earnings did not as yet contain any significant insurance compensation arising from the loss of production at Charleston. The EBITDA margin was 25.8 percent (2016: 26.1 percent).

WACKER POLYSILICON's capital expenditures once again declined significantly. Investment spending fell 55.7 percent to €57.6 million (2016: €130.0 million). The number of employees rose to 2,538 (Dec. 31, 2016: 2,490).

B.25 Key Data: WACKER POLYSILICON

€ million	2017[1]	2016[1]	2015	2014	2013
Total sales	**1,124.0**	1,095.5	1,063.6	1,049.1	924.2
EBITDA	**290.4**	285.9	402.4	537.0	233.9
EBITDA margin (%)	**25.8**	26.1	37.8	51.2	25.3
EBIT	**–87.6**	–117.1	162.6	305.3	0.1
Capital expenditures	**57.6**	130.0	581.8	334.5	290.0
R&D expenses	**22.6**	18.3	15.3	18.7	20.6
Employees (December 31, number)	**2,538**	2,490	2,373	2,093	2,102

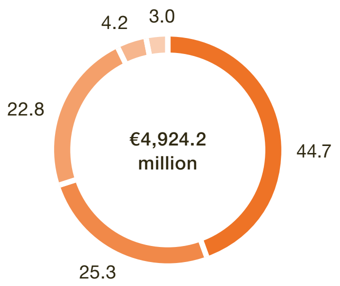
[1] Costs from selling expenses reclassified to R&D expenses as of 2016

Other

Sales reported under "Other" totaled €168.8 million in 2017 (2016: €162.6 million). That was a year-over-year increase of 3.8 percent.

B.26 Divisional Shares in External Sales

%



44.7% WACKER SILICONES
25.3% WACKER POLYMERS
22.8% WACKER POLYSILICON
4.2% WACKER BIOSOLUTIONS
3.0% OTHER

"Other" EBITDA amounted to €32.6 million in the year under review (2016: €10.2 million). The rise was mainly due to Siltronic's investment income, recognized under this segment since March 15, 2017.

"Other" EBIT was €–48.2 million (2016: €–76.0 million).

As of December 31, 2017, "Other" had 4,464 employees (December 31, 2016: 4,398). This WACKER segment includes management and employees at infrastructure units in Burghausen and Nünchritz, and at the Group's corporate departments.

Regions

WACKER's operations are highly international. In 2017, 83.4 percent of the Group's €4.92 billion in sales (2016: €4.63 billion) was generated by international business. Germany accounted for 16.6 percent.

Asia Is the Region with the Highest Growth

In Asia, sales climbed strongly again. Momentum mainly came from the rising standard of living there. The region accounted for 38.3 percent of total Group sales (2016: 37.8 percent). Sales in Asia reached €1.89 billion (2016: €1.75 billion), an increase of 7.7 percent. Sales in the Greater China region (including Taiwan) climbed by 9.4 percent to €1.20 billion (2016: €1.10 billion).

Europe also Delivers Strong Sales Gains

In Europe, a market where WACKER has a strong position, the sales trend was positive in the reporting year. Sales climbed 6.5 percent to €1.97 billion (2016: €1.85 billion). Europe accounted for 40.0 percent of Group sales (2016: 39.9 percent).

B.27 External Sales by Customer Location

€ million	2017	2016[1]	2015	2014	2013
Europe	**1,970.4**	1,850.9	1,887.6	1,794.2	1,720.8
The Americas	**838.7**	825.6	945.1	810.7	761.0
Asia	**1,886.2**	1,751.6	2,253.1	2,039.7	1,826.1
Other regions	**228.9**	206.1	210.4	181.8	171.0
Group	4,924.2	4,634.2	5,296.2	4,826.4	4,478.9

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Business in the Americas Edges Higher

Sales in the Americas increased by 1.6 percent to €838.7 million (2016: €825.6 million). The region accounted for 17.0 percent of Group sales (2016: 17.8 percent).

“Other Regions” Generate Growth

Sales in the other regions of the world increased by 11.0 percent in 2017 to €228.9 million (2016: €206.1 million). More than 40 percent of these sales were in Middle Eastern countries. “Other regions” accounted for 4.6 percent of Group sales (2016: 4.4 percent).

B.28 External Sales by Group Company Location

€ million	2017	2016[1]	2015	2014	2013
Europe	**4,029.5**	3,825.2	4,466.6	4,144.3	3,927.0
The Americas	**1,167.7**	1,116.2	892.8	769.7	742.1
Asia	**859.5**	731.2	1,164.5	962.3	761.6
Other regions	**12.1**	10.4	9.2	7.6	7.0
Consolidation	**–1,144.6**	–1,048.8	–1,236.9	–1,057.5	–958.8
Group	4,924.2	4,634.2	5,296.2	4,826.4	4,478.9

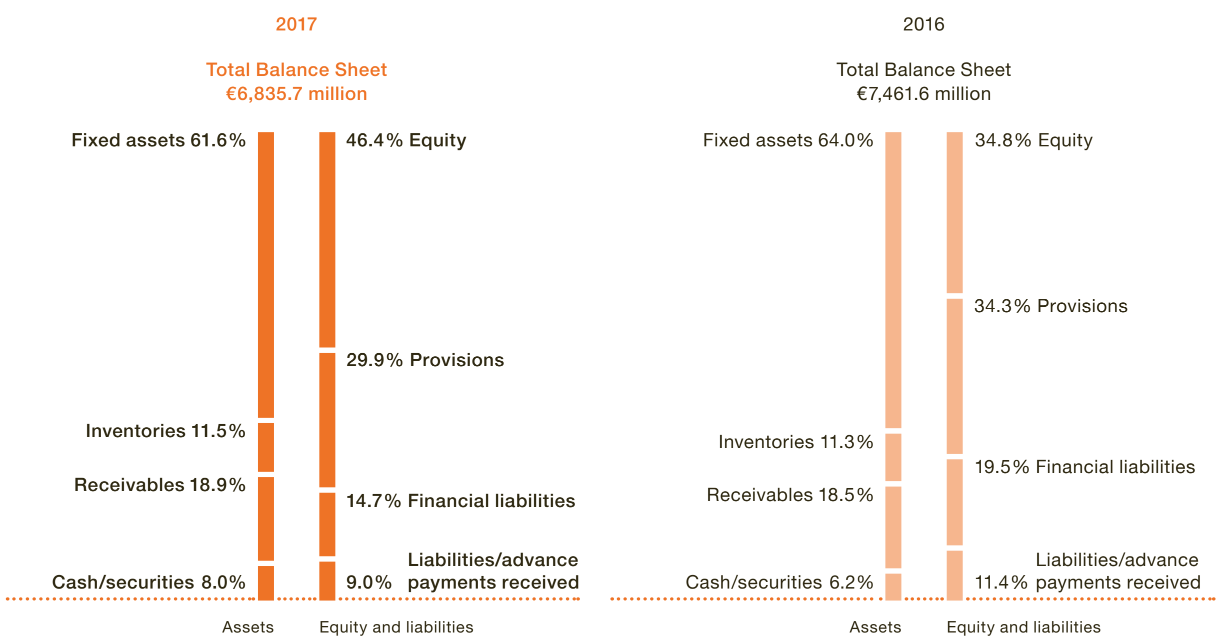
[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Net Assets

WACKER’s total assets were 8 percent lower compared with December 31, 2016. Declining by €625.9 million, they amounted to €6.84 billion as of December 31, 2017 (Dec. 31, 2016: €7.46 billion). The main reasons for this decrease were the deconsolidation of Siltronic and high levels of depreciation, the latter being markedly in excess of capital expenditures. Other factors influencing total assets were a build-up of inventories, a reduction in pension provisions and a substantial decline in financial liabilities. Equity increased strongly due to the Group’s high net income for the year.

One of the main reasons for the lower balance sheet total was the reduction in assets and liabilities caused by the deconsolidation of Siltronic. Early in 2017, WACKER sold an initial 6 percent of Siltronic’s shares on the stock exchange, generating proceeds of €87.6 million. After this sale, WACKER held 51.8 percent of Siltronic AG. As the Group still had a majority stake, the transaction’s effects were reflected solely in equity. On March 15, 2017, WACKER sold

B.29 Asset and Capital Structure



another 21 percent of the shares in Siltronic and, since it no longer had a controlling interest, deconsolidated the Siltronic Group. The sale generated proceeds of €353.2 million before deduction of transaction costs. WACKER received all proceeds from these transactions in cash. Deconsolidation of Siltronic resulted in the elimination of the following assets and liabilities from WACKER's balance sheet as of March 31, 2017:

B.30 Carrying Amounts of the Siltronic Sub-Group's Assets and Liabilities

€ million	March 31, 2017
Intangible assets	5.2
Property, plant and equipment	513.2
Securities	89.3
Inventories	144.3
Trade receivables	128.4
Other assets	33.4
Cash and cash equivalents	161.4
Total assets	1,075.2
Provisions for pensions	–371.3
Financial liabilities	–41.9
Trade payables	–82.3
Other liabilities and provisions	–126.4
Total liabilities	–621.9
Sum of assets and liabilities	453.3

WACKER accounted for its remaining 30.8-percent stake in Siltronic using the equity method. The shares were measured at fair value and recognized in the amount of €518.6 million in the balance sheet. As of December 31, 2017, €554.7 million was recognized for the equity-accounted shares in Siltronic. This amount comprised not only the pro rata share of €52.0 million of the Siltronic Group's positive net income, but also depreciation of the revalued assets resulting from the purchase price allocation, and consolidation effects.

B.31 Trends: Assets

€ million	2017	2016	Change in %
Intangible assets, property, plant and equipment, and investment property	3,543.2	4,646.8	–23.7
Investments in joint ventures and associates accounted for using the equity method	564.6	11.2	>100
Other noncurrent assets	605.3	621.1	–2.5
Noncurrent assets	4,713.1	5,279.1	–10.7
Inventories	783.6	846.3	–7.4
Trade receivables	655.7	775.7	–15.5
Other current assets	683.3	560.5	21.9
Current assets	2,122.6	2,182.5	–2.7
Total assets	6,835.7	7,461.6	–8.4

Fixed Assets Decrease Due to Exchange-Rate Effects and Depreciation

Relative to the end of the previous year, fixed assets (including equity-accounted investments) declined by €550.2 million to €4.11 billion (Dec. 31, 2016: €4.66 billion). Depreciation, mainly of property, plant and equipment, amounted to €590.4 million. Capital expenditures once again declined in the reporting period, to €326.8 million (2016: €338.1 million). Investment spending focused mainly on WACKER SILICONES and WACKER POLYMERS as well as on infrastructure measures, with more than half of capital expenditures accounted for by projects in Germany. The derecognition of Siltronic's fixed assets in Q1 2017 was compensated for by the recognition of the remaining interest in Siltronic as an equity-accounted investment. Changes in exchange rates decreased the carrying amount of fixed assets by €314.3 million.

Other Noncurrent Assets and Securities

Other noncurrent assets totaled €605.3 million as of December 31, 2017 (Dec. 31, 2016: €621.1 million) and were virtually unchanged year over year. WACKER invested surplus liquidity of €42.1 million (Dec. 31, 2016: €56.0 million) in noncurrent securities. Deferred tax assets were slightly higher, at €452.6 million on December 31, 2017.

Working Capital Declines by 7 Percent without Siltronic

Current assets decreased by 3 percent year over year, amounting to €2.12 billion (Dec. 31, 2016: €2.18 billion). One reason for this decrease was the deconsolidation of Siltronic assets.

B.32 Working Capital

€ million	2017	2016	Change in %
Trade receivables	655.7	775.7	–15.5
Inventories	783.6	846.3	–7.4
Trade payables	–268.5	–369.7	–27.4
Working capital	1,170.8	1,252.3	–6.5

As of December 31, 2017, working capital was down 7 percent. The share of working capital attributable to Siltronic (and derecognized 2017) amounted to €190.4 million at the time of deconsolidation. Working capital from continuing operations rose mainly because of an increase in inventories. Trade receivables were virtually unchanged. Exchange-rate effects lowered working capital by €43.3 million.

Liquidity Up 18 Percent

Securities and cash and cash equivalents are a major component of other current assets. Current securities amounted to €218.2 million at the end of 2017 (Dec. 31, 2016: €126.2 million), with WACKER investing liquid funds in fixed-term deposits and short-term bonds. Cash was almost unchanged, amounting to €286.9 million on the reporting date (Dec. 31, 2016: €283.5 million). Thus, total liquid assets (current and noncurrent securities, cash and cash equivalents) increased by 18 percent to €547.2 million (Dec. 31, 2016: €465.7 million).

Overall, the two transactions to relinquish the majority stake in Siltronic AG generated proceeds for WACKER of €440.8 million. The deconsolidation of Siltronic reduced liquid assets by €161.4 million. Payment of the dividend and variable compensation in Q2 2017 also reduced liquid assets. In Q4 2017, WACKER repaid financial liabilities totaling some €240 million, which further reduced liquidity.

Other current assets included other tax receivables of €63.4 million (Dec. 31, 2015: €45.4 million).

B.33 Trends: Equity and Liabilities

€ million	2017	2016	Change in %
Equity	3,169.3	2,593.2	22.2
Noncurrent provisions	1,896.6	2,428.9	–21.9
Financial liabilities	800.4	791.1	1.2
Other noncurrent liabilities	117.3	172.7	–32.1
Of which advance payments received	112.5	164.1	–31.4
Noncurrent liabilities	2,814.3	3,392.7	–17.0
Financial liabilities	201.2	667.1	–69.8
Trade payables	268.5	369.7	–27.4
Other current provisions and liabilities	382.4	438.9	–12.9
Current liabilities	852.1	1,475.7	–42.3
Liabilities	3,666.4	4,868.4	–24.7
Total equity and liabilities	6,835.7	7,461.6	–8.4
Capital employed	5,138.3	5,300.4	3.1

Equity Ratio at 46.4 Percent

Group equity rose substantially year over year, amounting to €3.17 billion as of December 31, 2017 (Dec. 31, 2016: €2.59 billion). The resulting equity ratio was thus 46.4 percent (Dec. 31, 2016: 34.8 percent). This rise mainly reflects the higher net income for the period, which was strongly impacted by the gain generated by the deconsolidation of Siltronic. That income increased retained earnings by €884.8 million. Equity also grew by €87.6 million through the sale of the 6-percent stake in Siltronic AG. The dividend payment of Wacker Chemie AG reduced retained earnings by €99.4 million. The change in provisions for pensions, which was recognized in other comprehensive income, lifted other equity items by €97.3 million. Currency translation effects decreased equity by €186.2 million. The share of non-controlling interests in equity was reduced by €214.7 million as a result of the deconsolidation of the Siltronic Group.

Liabilities Lower Due to Decline in Financial Liabilities and in Provisions for Pensions

Compared with the previous year, WACKER's liabilities fell by €1.20 billion or 24.7 percent, to €3.67 billion. Provisions for pensions were €489.5 million lower year over year and totaled €1.62 billion. The deconsolidation of Siltronic was a key factor in this decrease, accounting for €371.3 million of the reduction in these provisions. The fact that the applicable discount rates rose on balance was the main reason for a €127.2 million decline in provisions for pensions. The discount rates were 2.09 percent in Germany (Dec. 31, 2016:

1.94 percent) and 3.50 percent in the USA (Dec. 31, 2016: 3.92 percent). Overall, other noncurrent liabilities were lower at €117.3 million (Dec. 31, 2016: €172.7 million) due to the reclassification of noncurrent advance payments as current.

There was a substantial decline in trade payables, which fell to €268.5 million (Dec. 31, 2016: €369.7 million). Siltronic AG accounted for €82.3 million of this amount. Other current provisions and liabilities fell 13 percent to €382.4 million (Dec. 31, 2016: €438.9 million), with the deconsolidation of Siltronic accounting for €70.0 million. Current advance payments received amounted to €61.8 million at the reporting date (Dec. 31, 2016: €106.6 million). Current provisions for income taxes rose year over year due to the need to provide for additional risks. Personnel liabilities, including those relating to vacation, flextime and performance-related compensation, were slightly higher at the reporting date.

Financial Liabilities Down 31 Percent

At the end of the reporting period, current and noncurrent financial liabilities were €456.6 million lower at €1.0 billion (Dec. 31, 2016: €1.46 billion). In March 2017, WACKER refinanced due financial liabilities totaling €200 million with a new long-term loan in the same amount, taking advantage of the prevailing low interest rates. Later in 2017, WACKER additionally made a scheduled repayment of €300 million in financial liabilities, with €41.9 million of that amount accounted for by the deconsolidation of Siltronic. Exchange-rate effects likewise led to an decrease in financial liabilities. The majority of WACKER's financial liabilities are recognized in euros or US dollars. To a minor extent the company has assumed financial liabilities in Chinese renminbi. Fixed interest is payable on most of the financial liabilities.

➪ For further information on our financial liabilities, please refer to Note 13 in the Notes to the Consolidated Financial Statements.

➪ For further information on the principles and goals of financial management, please refer to Note 10 in the Notes to the Consolidated Financial Statements.

Unrecognized Assets and Off-Balance-Sheet Financing Instruments

An important asset that does not appear in our statement of financial position is the value of the WACKER brand and other Group trademarks. We consider the high profile and reputation of our trademarks to be a key factor influencing customer acceptance of our products and solutions. There are other intangible assets that are vital for success and have a positive impact on our business – for example, long-standing customer relationships and customer trust in our product- and solution-related expertise. Just as important are our employees' skills and experience, and our many years of expertise, not only in R&D and project management, but also in designing products and in production- and business-process structures. In particular, our integrated production system gives us an edge over our rivals. Another key success factor is WACKER's sales network, which has evolved over many years and enables the Group to market and sell its range of products and services locally to customers. Various rented and leased goods (operating leases) reported on in Note 17 are also items that do not appear in the statement of financial position. The same applies to other self-constructed assets. WACKER does not use any off-balance-sheet financing instruments.

Financial Position

Financial-Management Principles and Goals

Our key financial-management goal is to secure WACKER's financial strength over the long term. The central task is to sufficiently cover the financial needs of our operations and investment projects. Financial management at WACKER comprises capital-structure management, cash and liquidity management, and the management of market-price risk (currencies, interest rates). The Group organizes financial management centrally. A groupwide financial regulation sets out the tasks and responsibilities. Capital-structure management involves shaping the capital structure of the Group and its subsidiaries. The latter are capitalized and financed in accordance with the principles of cost and risk optimization. This involves taking account of restrictions on the movement of capital, as well as other capital and foreign-currency transfer constraints.

In liquidity management, WACKER continuously monitors cash flows from operations and from financial business. It covers the resulting liquidity needs via suitable instruments, such as intra-Group financing through borrowings, or through external loans from local banks. We receive the necessary outside funding from contractually agreed lines of credit denominated in various currencies and with differing maturities. We invest surplus liquidity in the money and capital markets at an optimum risk/return rate. In cash management, WACKER uses centralized procedures to calculate cash requirements and surpluses.

WACKER pursues a careful financing policy that targets a balanced financing portfolio, a diversified maturity portfolio and a comfortable liquidity buffer. In addition to the financing instruments already mentioned, WACKER expects to be able to tap the bond markets and other instruments if necessary. Our aim is to maintain our corporate financial structures so that the Group's credit rating remains – at a minimum – in the investment-grade range.

WACKER's key liquidity source is the operations of its Group companies and the resultant incoming payments. As part of our cash-management systems, liquidity surpluses at individual Group companies are utilized to cover the financing requirements of other Group companies. This centralized system of internal transfers reduces our interest expense and the need for debt financing. The purpose of managing market-price risks is to limit the effects of fluctuations in exchange rates and interest rates on the Group's bottom line. That involves first determining the Group's overall exposure to currency risks. On the basis of the information obtained, we can then make decisions as regards hedging – namely, the volume to be hedged, the respective term of the hedge and the choice of hedging instrument.

Financing Measures in 2017

In 2017, WACKER repaid a promissory note (German Schuldschein) installment of €150 million. It also repaid a loan installment of €200 million to the European Investment Bank (EIB) and a loan of ¥10 billion to the Development Bank of Japan. At the same time, a financing agreement concluded with the EIB in 2016 amounting to €200 million was drawn in 2017. In December 2017, WACKER issued a new promissory note (German Schuldschein) for a total amount of €300 million, and with terms of five years (€150 million) and seven years (€150 million). The payment for this note occurred in January 2018. In 2017, the syndicated loan of €400 million taken out in 2016 was extended by another year until 2022. This syndicated loan, together with another such loan of €200 million from 2014, serves to secure our financing. Neither of these syndicated loans is currently being utilized.

The Group's financing agreements contain standard market credit terms. The major loans are subject to financial covenants (net debt-to-EBITDA ratio and maximum debt level of all Group companies).

Financial Analysis

The Group's cash flow is a key instrument of liquidity management. Net cash flow serves as the internal indicator for measuring the liquidity of operating activities. Owing to the deconsolidation of Siltronic in 2017, all cash flow figures were adjusted for the sake of comparability.

Net Cash Flow from Continuing Operations

In 2017, WACKER complied with its long-term policy of financing its investments essentially from its own cash flow. Net cash flow totaled €358.1 million in 2017 (2016: €361.1 million), demonstrating that long-term investments are fully covered by cash flow from operating activities.

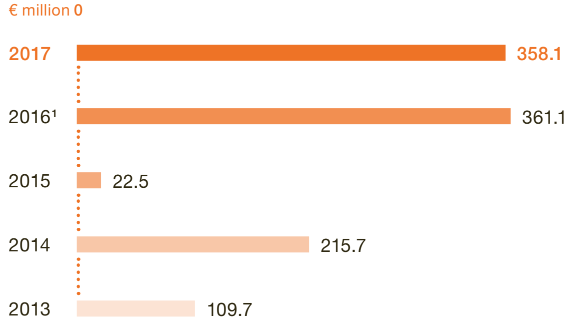
B.34 Net Cash Flow

€ million	2017	2016[1]
Cash flow from operating activities (gross cash flow)	613.0	621.0
Change in advance payments received	70.1	162.6
Cash flow from long-term investing activities before securities	–325.0	–420.3
Additions from finance leases	–	–2.2
Net cash flow – continuing operations	358.1	361.1

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Net cash flow is the sum of cash flow from operating activities (excluding the change in advance payments received) and cash flow from long-term investing activities (before securities), including finance leases.

B.35 Net Cash Flow – Continuing Operations

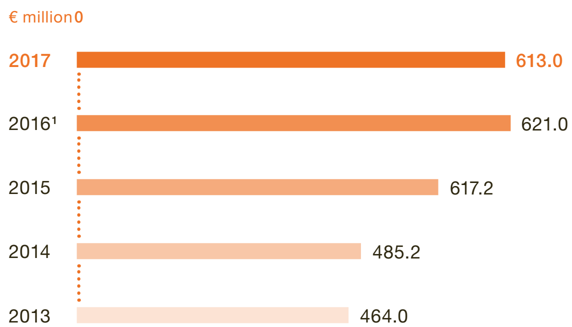


[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Gross Cash Flow from Continuing Operations

Cash flow from operating activities (gross cash flow) totaled €613.0 million in 2017 (2016: €621.0 million). Net income from continuing operations was higher at €250.1 million (2016: €178.1 million), as were changes to working capital at €124.1 million (2016: €59.1 million) and taxes paid at €92.8 million (2016: €74.8 million). The profit from investments in joint ventures and associates of €42.0 million included in the net income for the period (2016: €0.2 million) reduced gross cash flow, as did higher VAT receivables. The smaller reduction of €70.1 million in advance payments retained (2016: €162.6 million) had a positive effect on gross cash flow. The depreciation of €590.4 million included in the net income for the period was less than in the previous year (2016: €618.0 million).

B.36 Cash Flow from Operating Activities (Gross Cash Flow) – Continuing Operations



[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Cash Flow from Long-Term Investing Activities – Continuing Operations

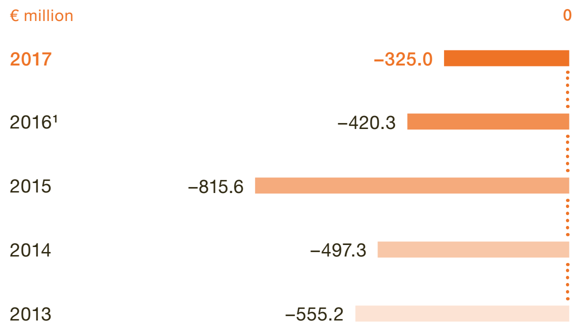
The Group's investment projects influence cash flow from long-term investing activities. In 2017, cash payments of €–328.2 million for investments were substantially below the prior-year figure (2016: €417.7 million). In 2017, WACKER completed a number of small-scale investment projects relating to existing production facilities and invested in the further expansion of various sites. More than half of capital expenditure was for production sites in Germany. Cash flow from long-term investing activities amounted to €–325.0 million in the 2017 reporting period (2016: €–420.3 million).

Cash Flow from Long-Term Investing Activities – Disposals and Discontinued Operations

Proceeds from the sale of shares in Siltronic AG and relinquishment of the majority shareholding generated income of €353.2 million before transaction costs. The liquidity outflow from the deconsolidation of Siltronic amounted to €161.4 million and resulted in a net cash inflow from the sale in the amount of €191.8 million.

The pro rata cash payments for the Siltronic segment's capital expenditures in Q1 2017 amounted to €26.0 million.

B.37 Cash Flow from Long-Term Investing Activities Before Securities – Continuing Operations



[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Cash Flow from Financing Activities

Cash flow from financing activities totaled €–333.1 million in the reporting period (2016: €–135.8 million). This item primarily reflected the repayment of external financial liabilities. In addition, WACKER also paid its shareholders a total dividend of €99.4 million in Q2 2017. The sale of 6 percent of the ownership interest in Siltronic AG led to a cash inflow of €87.6 million.

Cash and Cash Equivalents

Cash and cash equivalents were almost constant at €286.9 million (2016: €283.5 million). However, liquidity from cash and from current and noncurrent securities rose from €465.7 million to €547.2 million.

Marked Decrease in Net Financial Debt

WACKER defines net financial debt – which is one of its financial indicators – as the balance of gross financial debt (current and noncurrent financial liabilities) and existing noncurrent and current liquidity, consisting of securities, cash and cash equivalents. Net financial debt amounted to €454.4 million as of December 31, 2017 (Dec. 31, 2016: €992.5 million). That was 54 percent lower year over year.

High cash inflows from operating activities and from the sale of Siltronic shares led to an increase in liquidity amid lower financial liabilities. Exchange-rate effects decreased net financial debt by around €95 million.

Aside from the financial liabilities disclosed in the report on net assets, WACKER has at its disposal adequate unused loans for around €900 million, with maturities of over one year. Our existing lines of credit provide us with enough financial scope to secure the Group's continued growth. The Group does not use any off-balance-sheet financing instruments.

Rating

WACKER has sufficient lines of credit with banks and does not issue rated financing instruments such as bonds and commercial paper. Consequently, WACKER has not published a credit rating so far.

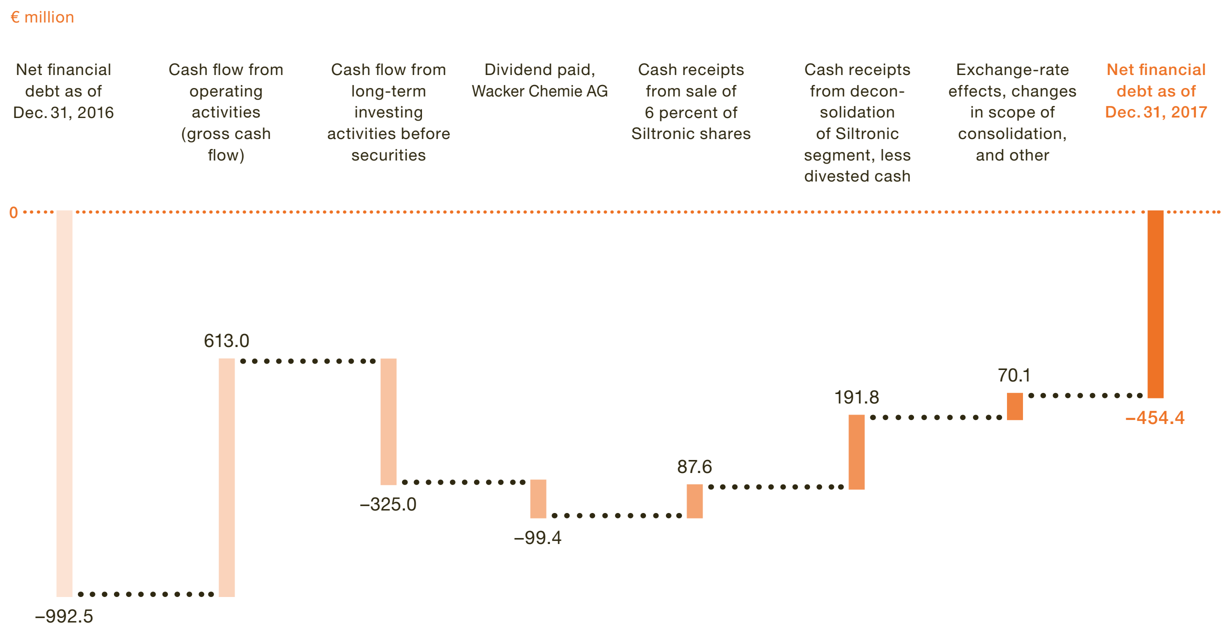
Proposal on Appropriation of Profits

In 2017, Wacker Chemie AG posted a retained profit of €1,502.4 million under German Commercial Code accounting rules. The Executive and Supervisory Boards will propose a dividend of €2.50 per share for 2017 at the Annual Shareholders' Meeting. In addition, €2.00 per share are to be distributed in connection with the sale of Siltronic shares and the very good trend in net financial debt. Based on the number of shares entitled to dividends as of December 31, 2017, the total cash dividend corresponds to a payout of €223.5 million. Calculated in relation to WACKER's average share price in 2017, the dividend yield is 4.0 percent. At the Annual Shareholders' Meeting, the Executive and Supervisory Boards will propose treating the amount remaining after deduction of the dividend as profit carried forward.

Executive Board Statement on Business Development and on the Group's Economic Position

In 2017, WACKER's operations were characterized by markedly stronger volumes at WACKER SILICONES and WACKER POLYMERS and higher volumes at WACKER POLYSILICON, with product prices decreasing somewhat and raw-material prices, on balance, climbing significantly. Due to

B.38 Net Financial Debt



the good business trend, WACKER upgraded its forecast for its key financial performance indicators during the course of the year. Overall, the Group met its projected annual targets for all of these performance indicators.

With its sale of Siltronic AG shares to institutional investors on March 15, 2017, WACKER achieved its strategic goal of giving up its majority ownership of the entity. This transaction lowered WACKER's net financial debt substantially and will make the Group's future operations less volatile and less capital intensive.

Across all our chemical divisions – except for our smallest, WACKER BIOSOLUTIONS – sales again rose, mainly thanks to volume gains amid high plant utilization. Prices were generally somewhat higher, which also lifted sales. Earnings were dampened by increased raw-material prices and negative exchange-rate effects. At WACKER POLYSILICON, we sold higher quantities, but at lower prices. Throughout the year, production at our Burghausen and Nünchritz sites ran at full capacity. At our new US production site in Charleston, a technical defect caused a hydrogen explosion in September 2017, and production had to be shut down there. This reduced the amount of polysilicon we had available for sale by around 6,000 metric tons.

Personnel expenses rose, in absolute figures and as a percentage of sales. Raw-material costs were markedly higher than the previous year, both in absolute terms and in relation to sales. Energy costs, on the other hand, were lower than the year before. As projected, depreciation edged down – in absolute figures and as a percentage of sales.

At €3.17 billion, Group equity was up €580 million year over year, primarily due to WACKER's net income. The equity ratio climbed from 34.8 percent to 46.4 percent. As expected, the Group's net financial debt declined significantly. This decrease was prompted by high cash inflows from operating activities coupled with a further drop in investment spending, and by the proceeds from WACKER's sale of its majority stake in Siltronic AG. Net financial debt was €454.4 million as of December 31, 2017. Capital expenditures continued to decrease year over year. At €326.8 million, they were markedly below depreciation. Net cash flow of €358.1 million was on par with the year before.

Further Information on R&D, Employees, Procurement, Production, and Sales and Marketing

This section provides further information on the topics of research and development, employees, procurement, production, and sales and marketing. While not used for corporate decision-making, these indicators play a key role in WACKER's continuing success.

Research & Development

WACKER's research and development activities pursue three goals:

- We contribute to our customers' market success by searching for solutions that meet their needs.
- We optimize our processes in order to be the technology leader and sustainably profitable.
- We concentrate on creating innovative products and applications for new markets and on serving future trends, such as energy storage, renewable energy generation, electromobility, modern construction, and biotechnology.

B.39 R&D Expenses

€ million	2017[1]	2016[1]	2015	2014	2013
Research and development expenses	153.1	150.0	175.3	183.1	173.8

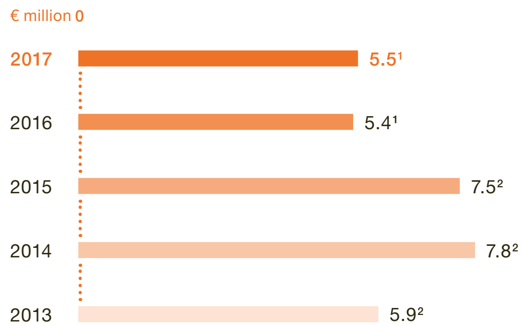
[1] Selling expenses reclassified to research and development costs as of 2016

At 3.1 percent, the R&D rate – research and development spending as a percentage of Group sales – was on par with the prior year (2016: 3.2 percent).

We filed 88 patent applications in 2017 (2016: 96). Our portfolio contains about 3,800 active patents worldwide, as well as 1,700 patent applications currently pending. We license very little R&D know-how from third parties. When we collaborate with universities on research, the results are usually made available to us free of charge or by transfer of rights of use.

We invested, among other things, in the construction and automation of new pilot reactors, in which the production of successful product developments is scaled up from laboratory quantities to industrial volumes. For example, we doubled polymer-synthesis capacity to meet our research needs and, at WACKER POLYMERS in China, we expanded laboratory space. Funds were also invested in the automation of our pilot polymerization plants in the USA and upgrades to laboratory facilities both at sites in Germany and at our international subsidiaries.

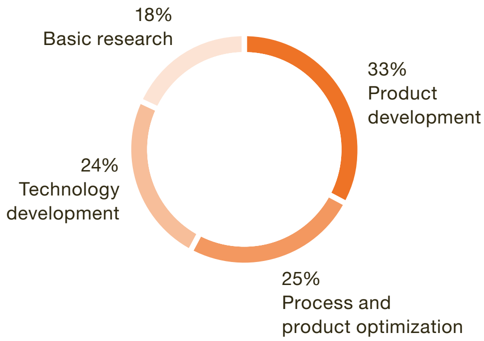
B.40 Investments in R&D Facilities



[1] Excluding Siltronic AG
[2] Including Siltronic AG

The development of new products and production processes accounted for the majority of our R&D costs. WACKER scientists are currently working on some 260 projects. WACKER operates in highly promising fields, such as energy recovery and storage, electronics, automotive engineering, construction, food and biotechnology as well as products for household, medical, health-care and cosmetics applications.

B.41 Breakdown of R&D Expenditures in 2017

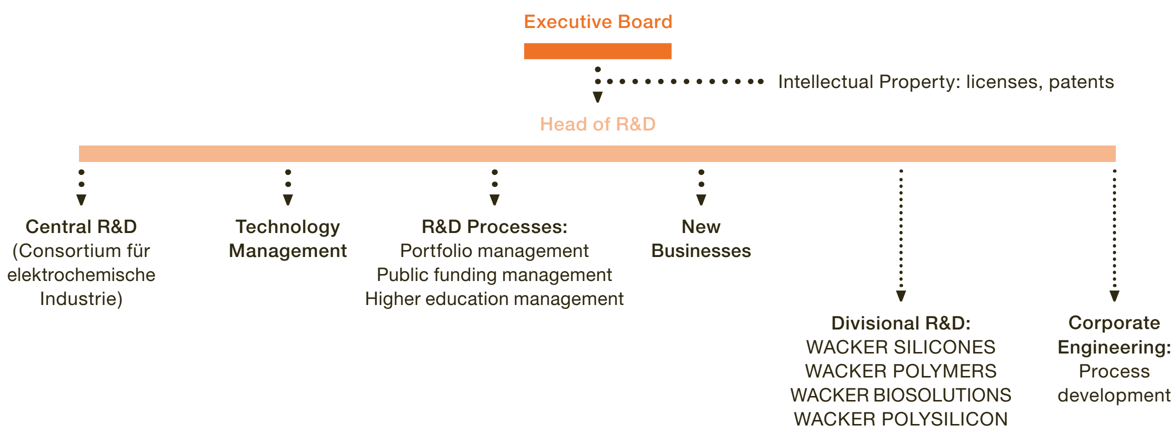


In 2013, we launched the New Solutions initiative, the goal of which is to rapidly develop technically and commercially superior solutions for new applications. Expertise from all over the company is consolidated groupwide and applied to projects as needed. In 2017, we started a new electromobility project under this initiative. Some of our research projects are subsidized by government grants.

Research and Development at Two Levels

WACKER conducts R&D at two levels: centrally at our Corporate Research & Development department and locally at our business divisions. Corporate R&D coordinates activities on a company-wide basis and involves other departments,

B.42 R&D Organization



such as Corporate Engineering (during process development). We also use a management process to keep our R&D projects transparent throughout the Group. We manage our product and process innovations groupwide in Project System Innovation (PSI), our project management system, where we systematically evaluate customer benefit, sales potential, profitability and technology position.

Strategic Collaboration with Customers and Research Institutes

Our business divisions conduct application-driven R&D, focusing on new processes for producing polycrystalline silicon and on product and process innovations in biotechnology and in silicone and polymer chemistry. We collaborate with customers, scientific institutions and universities to achieve successful research results more quickly and efficiently. In 2017, WACKER worked together with more than 20 international research institutes from three continents on some 26 research projects. Our collaborative efforts cover topics that include electricity storage, process simulation and process development.

WACKER attaches considerable importance to fostering young scientific talent and maintaining close contacts with universities. In 2017, we sponsored some 140 degree theses and internships with students at over 50 universities worldwide. In 2006, Wacker Chemie AG joined with the Technical University of Munich (TUM) to establish the Institute of Silicon Chemistry, located on TUM's Garching research campus near Munich, and has funded the institute since then.

Research Work at WACKER

As the hub of WACKER's R&D activities, Corporate R&D has the task of researching scientific correlations to develop new products and processes efficiently. Another task is to tap and develop new business fields that complement the Group's core competencies. Our scientists and engineers conduct basic research, develop new products and processes, and improve existing processes. The lab and technical staff at our R&D, applications-technology and production-support facilities work in our laboratories and in our production and pilot plants, and also support application trials at our customers' sites. WACKER had 728 research and development staff in 2017 (2016: 695), accounting for 5.3 percent of the Group workforce (2016: 5.2 percent). Of these, 581 were employed in R&D in Germany and 147 abroad.

Alexander Wacker Innovation Award

The Alexander Wacker Innovation Award, a €10,000 prize bestowed annually since 2006, recognizes excellence in categories alternating between product innovation, process innovation and basic research. In 2017, Wacker Chemie AG recognized a team for their research into the behavior of silicones at high temperatures. Four specialists from the Group's in-house research center, the "Consortium für elektrochemische Industrie," developed high-temperature-resistant silicone fluids to create HELISOL®: a product that enables efficiency levels in solar thermal power plants that are impossible to achieve with conventional heat-transfer media.

Selected Corporate R&D Research Topics

A major area of emphasis in basic research is the chemistry of low-valence silicon for medium-to-long-term use in industrial applications such as catalysis. In this area, we are working very closely with the Institute of Silicon Chemistry at the Technical University of Munich.

The goal of our research into lithium-ion batteries is to develop high-capacitance anode materials in order to significantly increase the capacity and energy density of lithium-ion cells. The test cells exhibit up to 30 percent higher capacity than graphite-based reference cells. We have initiated projects to prepare the market launch.

ESETEC® 2.0 is a highly efficient microbial production system for antibody fragments. As part of our biotechnology research, we are developing a new generation of ESETEC® strains that further enhance protein production, folding and release, making them more flexible and suitable for new biopharmaceuticals.

Selected Divisional Research Projects

One focus of research at WACKER SILICONES is on thermally conductive materials for optimum heat and weight management in batteries of electric vehicles. To increase electronic productivity even further, we are researching solvent-free, room-temperature-curing silicones for optical bonding, sealing and embedding of electronic components. Silicone films with increased dielectric conductivity are used in low-voltage dielectric power converters. We are working on silicone-adherent electrode materials to improve adhesion as well as surface properties.

In Consumer Care, we are developing hydrophilic silicone gels for rapid moisturization of the skin in cosmetic applications. We are working on novel antifoam-agent components that offer maximum effectiveness. The synthesis of silicone resins and silicone hybrid materials is the basis of our research into solvent-borne organic systems for coatings and construction applications.

WACKER POLYMERS focuses its research on functional polymer binders and system solutions for sectors such as construction. We are working on developing even more sustainable products that are free of volatile organic compounds (VOCs). Renewable raw materials represent one focus. In the reporting period, we launched functionalized polymer dispersions, dispersible polymer powders and polymer resins for manufacturing enhanced dispersion paints, adhesives and cementitious building materials.

WACKER BIOSOLUTIONS' research activities serve to strengthen its biotech expertise. We are developing production processes for high-quality bioactive substances and continuously improving our production systems for pharmaceutical proteins. We are developing new applications based on our cyclodextrin platform, both in the pharmaceutical and agrochemical fields and for industrial applications. At tradeshows and in other forums during the reporting period, we presented a 3D-printing process for customizable chewing-gum shapes.

Technological progress in the development of solar modules is proceeding by leaps and bounds across all stages of the supply chain. At the same time, cell efficiency is rising continually. The highest cell efficiencies can be achieved only with hyperpure polycrystalline silicon of the kind produced by WACKER POLYSILICON. Reference studies such as the International Technology Roadmap for Photovoltaics (ITRPV) show efficiencies of over 21 percent for monocrystalline solar cells produced with PERC technology (passivated emitter rear cell). High-efficiency monocrystalline cells, e.g. heterojunction or interdigitated back contact solar cells, achieve efficiencies of 22–24 percent. Efficiency is a measure of how much of the radiant energy absorbed by a solar cell is transformed into electricity.

B.43 Key Product Launches in 2017

Product	Description	Application	Sector
ELASTOSIL® R plus 4350/55	Heat-resistant solid silicone rubber	Heat-resistant hoses, gaskets for oven and stove doors	Household appliances
GENIOSIL® XT 20	Alpha-silane-terminated binder	Modifications of the mechanical properties of elastic adhesives and sealants	Construction
SILFOAM® Delayed Defoamer	Silicone defoamer with delayed action	Hand-laundry detergent	Consumer goods
SILRES® BS 6920	Alpha-silane-terminated binder	Impregnation and stain protection of cement-bound substrates	Construction
SILRES® BS 710	Elastic and breathable protective silicone film	Anti-graffiti protection	Building protection
VINNAPAS® 760 ED	Dispersion	Formulation of flexible waterproofing membranes	Construction
VINNAPAS® EP 701K	Dispersion	Bonding of paper bags, cardboard boxes, packaging and book covers	Paper and packaging industries
VINNOL® E 18/38	Polymer resin	Binder for digital printing inks	Paper and printing-ink industries
PRIMIS® SAF 9000/9001	Dispersion	Dirt-repellent treatment of walls, concrete and stone floors	Construction and paint industries
PRIMIS® KT 3000	Polymer additive	Fast-drying exterior paints and plasters	Construction
CAPIVA® C 03 and CAPIVA® 3D	Solid resin	Production of novel chewing gum using CANDY2GUM® technology, also through 3D printing	Sugar-confectionery and chewing-gum industries

Employees

Slight Increase in Staff

WACKER's workforce increased by 2.7 percent in 2017. The main reason for this slight growth was the start-up of polysilicon production in Tennessee, USA.

72.3 percent of WACKER's employees work in Germany and 27.7 percent at the company's international sites.

B.44 Number of Employees at December 31

	2017[1]	2016[1]	2015[2]	2014[2]	2013[2]
Germany	9,984	9,775	12,251	12,366	12,322
International	3,827	3,673	4,721	4,337	3,687
Group	13,811	13,448	16,972	16,703	16,009

[1] Excluding Siltronic AG
[2] Including Siltronic AG

As a manufacturing company, WACKER has a large contingent of industrial workers (49.9 percent), roughly one-ninth (11.3 percent) of whom are women.

B.45 Number of Temporary Workers at December 31

	2017[1]	2016[1]	2015[2]	2014[2]	2013[2]
Germany	138	138	358	393	286
International	31	40	54	134	58
Group	169	178	412	527	344

[1] Excluding Siltronic AG
[2] Including Siltronic AG

Personnel expenses rose 8.8 percent year over year to €1,198.0 million.

B.46 Personnel Expenses

€ million	2017[1]	2016[1]	2015[2]	2014[2]	2013[2]
Personnel expenses	1,198.0	1,101.2	1,350.1	1,246.9	1,133.0

[1] Excluding Siltronic AG
[2] Including Siltronic AG

They included outlays for social benefits and the company pension plan in the amount of €241.6 million (2016: €216.2 million). The increase in personnel expenses was due to the higher number of employees, to the increase in the standard pay scale and to variable salary components.

In addition to their fixed base salary, WACKER employees usually also receive variable compensation – a voluntary payment to employees on both the standard and above-standard pay scales. This payment comprises a profit-sharing amount and a personal-performance component. Variable compensation payments totaled €65.1 million groupwide in 2017. As provided for in the collective-bargaining agreement of June 2016 between the IG BCE labor union and chemical-industry employers, the standard pay scale increased by 2.3 percent effective October 1, 2017.

A WACKER company pension is an important compensation component and is available at most of our German and international sites, except for regions where the statutory pension appears sufficient or legal provisions are inadequate. Wacker Chemie AG's pension fund – Pensionskasse der Wacker Chemie VVaG – provides a company pension to WACKER employees in Germany. The fund has around 17,200 members and provides pension payments to some 8,200 retirees. The average pension paid in the reporting period was around €650 per month. WACKER pays in up to four times its employees' annual pension contributions, with the exact amount being determined by the type of agreement. Employees can supplement their company pensions by making their own additional contributions. As provided for in the collective wage agreements, WACKER matches the employees' supplementary contributions. Employees in Germany also receive an additional supplementary pension for that portion of their salary that exceeds the pension insurance contribution assessment ceiling.

Procurement and Logistics

WACKER's procurement volume increased in 2017, owing to strong volume growth and to price increases for raw materials and energy. The volume is broken down into raw materials and energy, and into services, materials and equipment. The procurement volume amounted to €3.2 billion (2016: €3.0 billion), a figure that includes investment-project-related procurements of €300 million. At 62 percent, the procurement rate – raw materials, services and other materials as a percentage of sales – was at the prior-year level of 62 percent. The number of suppliers remained constant at 11,500 (2016: 11,500).

At €1.87 billion, the Group's energy and raw-material procurement volumes were 16.9 percent higher (2016: €1.60 billion), with quantities procured rising by a high-single-digit percentage year over year. After years of falling market prices, many petrochemicals and metals are now substantially more expensive. Price developments in the raw-material markets were influenced by the environmental audits conducted at raw-material companies by Chinese authorities, and by a limitation of coal production. This led to a price increase for petroleum-based raw materials. Energy prices, and especially the price of natural gas, were higher than in the previous year.

B.47 Procurement Volumes (incl. Procurement for Capital Expenditures)

€ million	2017[1]	2016[1]	2015[2]	2014[2]	2013[2]
Procurement volumes	3,270	3,000	3,655	3,187	3,076

[1] Excluding Siltronic AG
[2] Including Siltronic AG

Shipping Volumes Substantially Higher

Shipping volumes rose significantly over the previous year due to good business performance. Burghausen, the Group's largest logistics hub, increased its shipping volume to around 880,000 metric tons (2016: 825,000 metric tons). Shipments totaled 45,000 truckloads and 15,500 overseas containers.

We are employing digital systems to support the increasing worldwide networking of supply flows. These logistical tracking systems enable us to track our shipments in real time worldwide and respond promptly to any problems. The system is already in operation at WACKER's German sites and will be rolled out internationally during 2018.

Production

In 2017, production output was markedly higher than in the previous year. Production costs were 17.1 percent lower due to the deconsolidation of Siltronic, but were 3.0 percent higher on a comparable basis. Production increased particularly strongly at WACKER SILICONES, where manufacturing facilities ran at full capacity. Overall capacity utilization at the chemical divisions exceeded 80 percent. WACKER POLYSILICON once again sold higher volumes than a year earlier, despite the loss of four months of production at the Charleston site.

B.48 Plant Utilization in 2017

%	Plant Utilization Rate
WACKER SILICONES	98
WACKER POLYMERS	86–87
WACKER POLYSILICON	100

Capital expenditures amounted to €326.8 million in the reporting year (2016: €338.1 million). Maintenance costs amounted to around €380 million.

B.49 Key Start-Ups

Location	Projects	Year
Burghausen	Dispersion reactor	2017
Burghausen	Logistics expansion for vinyl acetate monomer (VAM)	2017
Brazil	Multifunctional facility for silicones	2017

Priorities in Productivity

The ongoing Wacker Operating System (WOS) program helps us boost productivity along the entire supply chain. The most important goal is to continue reducing specific operating costs. In 2017, we worked on approximately 700 projects, some 500 of which concerned operations. The projects focused on improving raw-material yields and specific energy consumption. The WOS ACADEMY held 12 training courses at which over 100 employees were trained in new productivity methods, such as Six Sigma and LEAN.

Sales and Marketing

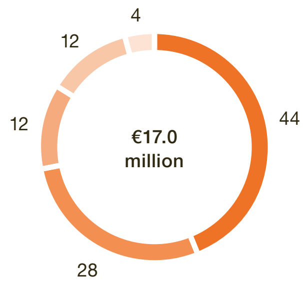
Demand for WACKER's products was strong in 2017, and we actually sold out of some of our products, especially in the silicones segment.

WACKER's business falls into three distinct customer groups: global key accounts, customers and distributors. The company currently has around 40 global key accounts, with which we generated roughly 25 percent of our 2017 revenue in the chemical divisions. 55 percent of our revenue originated from some further 8,000 active customer relationships. Around 20 percent came from distributors, with the 50 most important distributors accounting for about 65 percent of all distribution revenue.

Marketing communications is a key element in strengthening WACKER's branding and product advertising, and effectively promoting sales of our products. In 2017, we spent €17.0 million (2016: €14.8 million) on marketing communications.

B.50 Breakdown of Marketing Costs

%



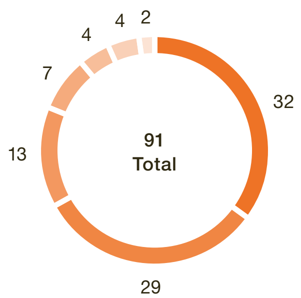
44% PR work
28% Tradeshows
12% Other
12% Product communications
4% Advertising

Attendance at 91 Tradeshows Worldwide

In 2017, WACKER's international tradeshow presence increased once again, with the company exhibiting at a total of 91 tradeshows (2016: 71). We regularly analyze the qualitative and quantitative success of our tradeshow communications, and 35 shows were reviewed in 2017 alone.

B.51 Tradeshows

Number



32 Europe
29 Asia
13 North and Central America
7 Africa
4 Middle East
4 South America
2 Russia

Management Report of Wacker Chemie AG

(Additional Information as per the German Commercial Code)

The management report of Wacker Chemie AG and the Group management report for fiscal 2017 are combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in connection with Section 298 (2) HGB. The annual financial statements of Wacker Chemie AG, prepared in accordance with HGB, and the combined management report are published simultaneously in the the electronic version of Germany's Federal Gazette (Elektronischer Bundesanzeiger).

As required by German law, the combined management report includes a separate section covering all mandatory reporting elements pertaining to Wacker Chemie AG. Further to our report on the WACKER Group, we explain developments at Wacker Chemie AG.

Wacker Chemie AG is the parent company of the WACKER Group and is headquartered in Munich, Germany. The parent company operates through four business divisions – WACKER SILICONES, WACKER POLYMERS, WACKER BIOSOLUTIONS and WACKER POLYSILICON – which generate a substantial portion of the Group's sales. Wacker Chemie AG's directly and indirectly held subsidiaries and investments located in Germany and abroad have a strong influence on its business. The assets and liabilities of Wacker-Chemie Dritte Venture GmbH, Munich, were merged into Wacker Chemie AG effective January 1, 2017. Wacker-Chemie Dritte Venture GmbH held a 49.5-percent stake in Siltronic AG on January 1, 2017. From late January through early February 2017, Wacker Chemie AG sold 6 percent of its stake in Siltronic AG. In March 2017, it reduced its stake by a further 21 percent to 30.8 percent by means of a bookbuilding offering to institutional investors. Wacker Chemie AG has a total of 51 subsidiaries, joint ventures and associated companies, and also provides the Group with corporate functions. Wacker Chemie AG's Executive Board exercises key leadership functions for the Group as a whole, which include determining the Group's strategy, allocating resources (such as funds for investment), and bearing responsibility for managing executive personnel and corporate finances. Wacker Chemie AG's Executive Board also oversees communication with important target groups, especially capital markets and shareholders.

Key performance indicators used in the management decision-making process are applied in all of the Group's business divisions. Corporate goals for the divisions are defined and reported on for the Group as a whole. Even though Wacker Chemie AG is an independent entity, no separate key performance indicators are defined or reported for it. For more information, please refer to the respective details provided on the WACKER Group as a whole. The general business conditions of Wacker Chemie AG principally correspond to those of the Group.

The annual financial statements of Wacker Chemie AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). These statements differ substantially from the IFRS figures in relation to fixed assets, depreciation and amortization, provisions for pensions, and deferred taxes. As regards EBITDA, there are only slight differences between IFRS and HGB figures.

B.52 Statement of Income

€ million	2017	2016
Sales	3,859.7	3,651.2
Changes in inventories	42.4	–18.1
Other capitalized self-constructed assets	25.7	22.4
Operating performance	3,927.8	3,655.5
Other operating income	135.8	230.4
Cost of materials	–1,958.9	–1,788.4
Personnel expenses	–901.7	–872.4
Depreciation and amortization	–269.2	–296.5
Other operating expenses	–714.5	–748.6
Operating result	219.3	180.0
Result from investments in joint ventures and associates	291.4	27.1
Net interest result	–36.9	2.5
Other financial result	–2.0	–1.2
Financial result	252.5	28.4
Income before taxes	471.8	208.4
Income taxes	–113.8	–87.0
Net income	358.0	121.4
Profit carried forward from the previous year	1,243.8	1,221.8
Dividends paid	–99.4	–99.4
Retained profit	1,502.4	1,243.8
EBITDA*	488.5	476.5

* EBITDA is the operating result before depreciation, amortization and write-ups of fixed assets.

Wacker Chemie AG's overall earnings performance and operating result rose significantly. In addition, income before taxes was supported by strong income from investments in joint ventures and associates, which was further enhanced by sales of shareholdings. As a result, net income improved, rising from €121.4 million to €358.0 million.

Wacker Chemie AG's sales rose by 6 percent to €3.86 billion (2016: €3.65 billion). All of the business divisions contributed toward this growth. WACKER SILICONES lifted its sales to €1.62 billion (2016: €1.50 billion), a rise of 8 percent. WACKER POLYMERS' sales increased by 6 percent, reaching €775.1 million (2016: €731.4 million). WACKER BIOSOLUTIONS grew its sales to €139.4 million (2016: €138.7 million), a rise of 1 percent. WACKER POLYSILICON lifted its sales by 3 percent to €1.13 billion (2016: €1.10 billion). Operating performance rose by €272.3 million to €3.93 billion.

In 2017, the cost of materials climbed to €1.96 billion (2016: €1.79 billion), with expenses rising for nearly all strategic raw materials procured. Higher prices and volumes for ethylene, methanol and vinyl acetate monomer were the main reasons for this increase. The price of silicon metal was roughly on par with the prior year. Energy costs rose slightly. In September 2017, there was a hydrogen explosion at the Charleston site of our subsidiary Wacker Polysilicon North America L.L.C. Since then, production has been on hold there. As the loss of production is insured, no overall increase in expenses due to contract manufacturing is anticipated for Wacker Chemie AG. For the most part, future insurance-compensation payments have not yet been factored into polysilicon procurement costs. Overall, the material-to-sales ratio increased to 49.9 percent (2016: 48.9 percent).

Personnel expenses rose 3 percent to €901.7 million (2016: €872.4 million). The reasons for this rise were collective-bargaining agreements and higher variable compensation to be paid out in 2018. Wacker Chemie AG had 9,740 employees as of December 31, 2017 (Dec. 31, 2016: 9,539). At 23.0 percent, the employee-expense ratio remained at about the same level year over year (2016: 23.9 percent).

Depreciation and amortization decreased again, to €269.2 million (2016: €296.5 million), a decline of 9 percent.

Other operating income fell by €94.6 million to €135.8 million (2016: €230.4 million). The main reasons for this drop were the decline of €31.1 million in exchange-rate gains and the income of €20.3 million from advance payments retained and damages received for the termination of contracts with polysilicon customers in 2016.

Other operating expenses include – in addition to exchange-rate losses – selling expenses, maintenance, other contractor work, rents, servicing costs, R&D costs and costs assumed on behalf of subsidiaries. Selling expenses, in particular, were higher in 2017 due to sales growth. Exchange-rate losses were lower, decreasing by €31.1 million year over year.

The operating result was €219.3 million, up 22 percent versus the previous year (2016: €180.0 million).

The result from investments in joint ventures and associates rose to €291.4 million (2016: €27.1 million), chiefly due to the sale of shares in Siltronic AG. The gain associated with the sale of shares amounted to €258.1 million. Income from profit-and-loss transfer agreements and dividend payments reached €43.3 million, up €5.3 million year over year (2016: €38.0 million).

The net interest result declined, to €–36.9 million (2016: €2.5 million). The main negative factor in this decrease was interest expenses for pension obligations at €63.9 million. A year earlier, interest expenses had amounted to €13.7 million, upon first-time use of the ten-year average interest rate in line with the Bundesbank's interest regulation. Interest income from receivables owed by subsidiaries also declined due to the lower average interest-rate level. Interest income from fixed-term deposits in US dollars, on the other hand, had a contrary effect.

Income tax expenses amounted to €113.8 million (2016: €87.0 million) and comprised current taxes paid by Wacker Chemie AG as well as taxes paid for those domestic subsidiaries with which it has profit-and-loss transfer agreements.

Net income came to €358.0 million. Retained profit for 2017 – calculated as the profit carried forward from the previous year less €99.4 million in dividends paid – totaled €1.50 billion (2016: €1.24 billion).

B.53 Statement of Financial Position

€ million	2017	2016
Assets		
Intangible assets	15.7	9.8
Property, plant and equipment	1,028.0	1,135.6
Financial assets	2,533.7	2,715.6
Fixed assets	3,577.4	3,861.0
Inventories	481.9	424.8
Trade receivables	393.2	414.0
Other receivables and other assets	238.8	361.7
Receivables and other assets	632.0	775.7
Securities and fixed-term deposits	155.0	–
Cash on hand and demand deposits	216.4	88.7
	371.4	88.7
Current assets	1,485.3	1,289.2
Prepaid expenses	6.5	4.6
Total assets	5,069.2	5,154.8
Equity and Liabilities		
Subscribed capital	260.8	260.8
Less nominal value of treasury shares	–12.4	–12.4
Issued capital	248.4	248.4
Capital reserves	157.4	157.4
Other retained earnings	1,000.0	1,000.0
Retained profit	1,502.4	1,243.8
Equity	2,908.2	2,649.6
Provisions for pensions and similar obligations	762.5	705.8
Other provisions	439.0	413.5
Provisions	1,201.5	1,119.3
Financial liabilities	496.6	647.0
Trade payables	136.2	184.2
Other liabilities	289.4	516.5
Liabilities	922.2	1,347.7
Deferred income	37.3	38.2
Total equity and liabilities	5,069.2	5,154.8

Wacker Chemie AG's total assets were slightly lower year over year, amounting to €5.07 billion (Dec. 31, 2016: €5.15 billion). That was 2 percent less than in the previous year. The individual balance-sheet items did not develop uniformly.

In 2017, fixed assets decreased from €3.86 billion to €3.58 billion. Property, plant and equipment was lower year over year, as depreciation in the amount of €263.4 million

(Dec. 31, 2016: €291.9 million) exceeded investment spending of €159.1 million (Dec. 31, 2016: €141.7 million). Financial assets fell from €2.72 billion to €2.53 billion. Most of this decline was due to the merger with Wacker-Chemie Dritte Venture GmbH, Munich, effective January 1, 2017, and to the sale of shares in Siltronic AG in January and March 2017. Noncurrent fund assets amounted to €104.8 million as of the reporting date (Dec. 31, 2016: €106.4 million). Overall, fixed assets accounted for 71 percent of total assets, compared with 75 percent in the prior year.

The level of inventories rose year over year to €481.9 million (Dec. 31, 2016: €424.8 million), an increase of 13 percent. This was mainly attributable to high plant-utilization rates amid higher raw-material prices. On the other hand, trade receivables fell slightly, from €414.0 million to €393.2 million.

Other receivables and other assets declined 34 percent to €238.8 million as of the reporting date (Dec. 31, 2016: €361.7 million). They included significantly lower receivables of €141.0 million (Dec. 31, 2016: €296.6 million) from affiliated companies, in particular from the subsidiary Wacker Polysilicon North America L.L.C.

As of December 31, 2017, Wacker Chemie AG held €155.0 million in fixed-term deposits with maturities of over three months. Wacker Chemie AG's bank deposits amounted to €216.4 million as of December 31, 2017 (Dec. 31, 2016: €88.7 million).

Equity was €2.91 billion as of the reporting date (Dec. 31, 2016: €2.65 billion), corresponding to an equity ratio of 57.4 percent (Dec. 31, 2016: 51.4 percent). At Wacker Chemie AG's annual shareholders' meeting, a resolution was passed to distribute €99.4 million in retained profit from 2016 as dividends. The remaining retained profit of €1,144.4 million was carried forward. Retained profit as of December 31, 2017 totaled €1,502.4 million and primarily comprised the current net income of €358.0 million for 2017 and the non-distributed profit carried forward from the preceding year.

Provisions for pensions and similar obligations rose by €56.7 million year over year to €762.5 million (Dec. 31, 2016: €705.8 million). Other provisions, primarily comprising provisions for taxes, personnel and environmental protection, also increased in 2017 and amounted to €439.0 million (Dec. 31, 2016: €413.5 million). Tax- and personnel-related provisions were the main reason for this rise of €25.5 million. Overall, provisions accounted for 24 percent (Dec. 31, 2016: 22 percent) of total equity and liabilities.

As of the reporting date, financial liabilities were €496.6 million (Dec. 31, 2016: €647.0 million), down 23 percent. This was chiefly due to the scheduled repayment of bank loans. On the reporting date, bank loans raised amounted to €298.0 million (Dec. 31, 2016: €545.2 million). Liabilities to affiliated companies climbed by €98.9 million to €197.2 million in connection with contract manufacturing of polysilicon (Dec. 31, 2016: €98.3 million). Overall, the share of financial liabilities in total equity and liabilities declined to 10 percent (Dec. 31, 2016: 13 percent).

Trade payables fell by €48.0 million year over year to €136.2 million (Dec. 31, 2016: €184.2 million). As of the reporting date, other liabilities amounted to €289.4 million (Dec. 31, 2016: €516.5 million). Advance payments received for polysilicon deliveries decreased, to €170.5 million as of the reporting date (Dec. 31, 2016: €242.0 million).

Cash flow from operating activities decreased year over year, from €520.7 million to €106.1 million, primarily due to the payment of liabilities. In addition, advance payments received for polysilicon deliveries were down €71.5 million as a result of deliveries made.

Wacker Chemie AG generated a cash inflow of €42.6 million from its investing activities, compared with a cash outflow of €–223.8 million a year earlier. The sale of shares in Siltronic AG had a positive impact, generating a cash inflow of €438.2 million in 2017. On the other hand, cash payments for investment spending rose to €177.9 million (2016: €137.0 million). In addition, capital at Wacker Chemicals Norway AS, Holla, and Wacker Chemicals Korea Inc., Seoul, was raised in 2017 via an intermediate holding company. Cash not immediately needed was invested in fixed-term deposits with maturities of over three months, leading to a cash outflow of €155.0 million.

Net cash flow – defined as the sum of cash flow from operating activities excluding the change in advance payments received and cash flow from long-term investing activities (before fixed-term deposits) – fell in the year under review, coming in at €375.2 million (2016: €537.9 million).

Cash flow from financing activities totaled €–17.9 million (2016: €–326.3 million). As part of our intra-Group financing activities, subsidiaries returned funds to Wacker Chemie AG. In 2017, available funds were used, on balance, to repay liabilities to banks in the amount of €241.9 million (2016: €215.9 million). The dividend for fiscal 2017 led to a cash outflow of €–99.4 million.

Liquidity – defined as the sum of securities in current assets and in the fund WMM-Universal-Fonds as well as cash on hand and demand deposits – increased significantly, from €195.1 million to €476.2 million as of December 31, 2017. As a result, the balance of liquidity and liabilities to financial institutions improved substantially (with net financial receivables amounting to €178.2 million, after net financial debt of €–350.1 million in 2016).

Risks and Opportunities

Wacker Chemie AG's business performance is subject to the same risks and opportunities as the WACKER Group. Wacker Chemie AG's exposure to the risks associated with its subsidiaries and investments depends on the size of its stakes in the respective entities. The measurement of joint ventures and associates is affected in particular by the risks specified in the Risk Management Report. Through our subsidiaries and holdings, we could face impairments arising from legal or contractual contingencies (especially financing). These contingencies are explained in the Notes to the financial statements of Wacker Chemie AG. As the parent company of the WACKER Group, Wacker Chemie AG is integrated in the groupwide risk management system.

For further details, see the "Financial Instruments" section of this Annual Report. The description of the internal control system for Wacker Chemie AG, as mandated by Section 289 (5) of the German Commercial Code (HGB), can be found in the section on the Internal Control System (ICS) and the Internal Control System for Accounting.

Outlook

WACKER's main planning assumptions relate to raw-material costs, energy costs, personnel expenses and exchange rates. For 2018, we anticipate a euro exchange rate of US$1.25. The expectations for Wacker Chemie AG's business performance in the coming year are essentially the same as those for the WACKER Group, which are explained in full in the Group's Outlook section.

We assume that sales will rise slightly year over year, and we expect Wacker Chemie AG to post a positive result for the period that will be below the level of 2017.

Publication

The annual financial statements of Wacker Chemie AG have been submitted to the publisher of the the electronic version of Germany's Federal Gazette (Elektronischer Bundesanzeiger) and can be viewed on the website of the German register of companies. KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements and issued an unqualified audit certificate for them. The statement of financial position and the statement of income are the main documents published there. Wacker Chemie AG's annual financial statements are published together with those of the WACKER Group. The annual financial statements can be requested from Wacker Chemie AG, Hanns-Seidel-Platz 4, 81737 Munich, Germany. They can also be accessed on the internet at:

www.wacker.com

Risk Management Report

Description and Statement Relating to Risk and Compliance Management

Integrated Approach to Risk and Compliance Management

Risk and compliance management is an integral part of corporate management at WACKER. As a global company, WACKER is exposed to numerous risks directly attributable to our operational activities. Starting from an acceptable level of overall risk, the Executive Board decides which risks we should take to utilize opportunities available to the company. The goal of risk management at WACKER is to identify risks as early as possible, evaluate them adequately, and take appropriate steps to reduce them. We define risks as internal and external events that may have a negative effect on the attainment of our targets and forecasts. Compared with the previous year, we made no fundamental changes to the existing risk management system in 2017. The scope of consolidation for risk reporting purposes comprises all WACKER majority shareholdings.

As a chemical company, we have a particular responsibility to ensure plant safety and to protect health and the environment. All our production sites have coordinators who manage plant and workplace safety, alongside health and environmental protection. Our risk management system complies with legal requirements and is a component in all our decisions and business processes. The Executive and Supervisory Boards are regularly informed about the current risk status in the Group and at each business division. WACKER follows the "Three Lines of Defense" model to effectively manage corporate risks and ensure compliance with legal provisions and the ethical principles of corporate management.

The first line of defense is centered on operational management, which involves coordinating, monitoring and managing the risks that arise. It also includes the establishment of functioning internal control systems within the individual operational units.

The second line of defense is formed by risk and compliance management. Risk management systematically tracks the main risks associated with the operational units and provides the Executive Board with corresponding reports. Compliance management ensures that the ethical principles of corporate management are observed. It identifies the relevant legal requirements and amendments, forwards them to all affected corporate units and holds courses on compliance for employees.

The third line of defense is provided by the internal Auditing department, which acts as an independent monitoring body for the Executive Board. This department conducts audits at regular intervals to review the risk management activities in place at the various corporate units and to check whether the internal control systems run by the operational units are effective. Auditing also liaises with the Compliance Management team, for example if anti-corruption investigations are undertaken or related measures implemented.

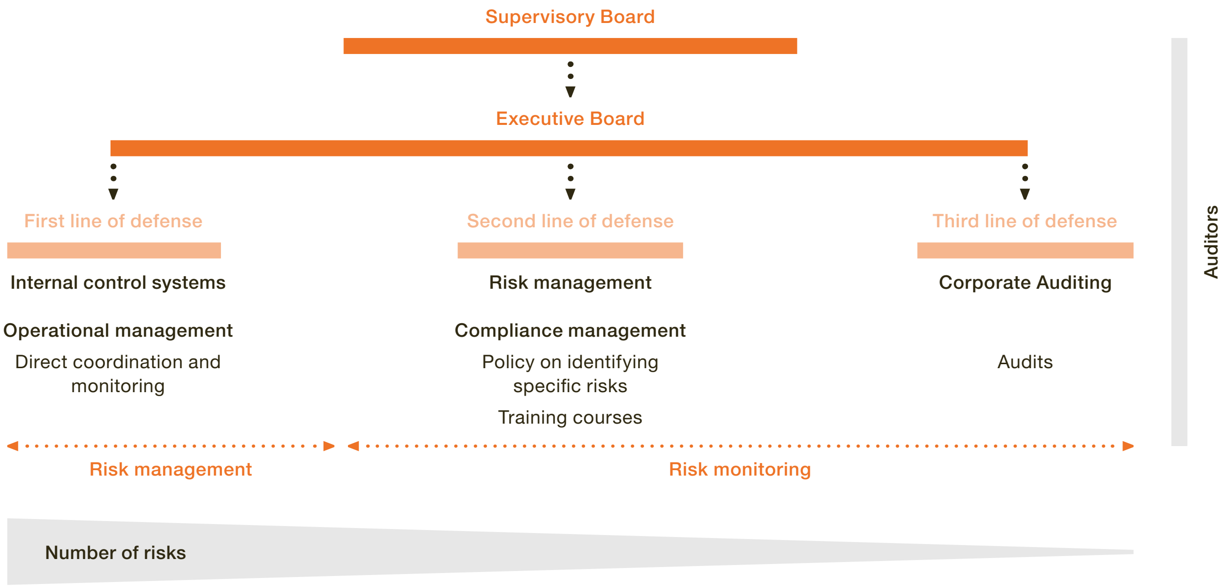
Risk Management

WACKER focuses on identifying, evaluating, managing and monitoring risks as part of a transparent risk management and control system for all company processes. The system is based on a defined risk strategy and an efficient reporting procedure. It involves the Executive Board regularly reviewing and enhancing our risk strategy, particularly with regard to our groupwide processes for strategic planning and reporting. The Supervisory Board's Audit Committee receives regular briefings on existing risks from the Executive Board.

All corporate areas are integrated into the risk management system, which consists of three intermeshed aspects:

- Division-specific risk management and early-warning systems
- Groupwide risk coverage
- Groupwide risk mapping

B.54 "Three Lines of Defense" Model



The CFO has overall responsibility for the effectiveness and appropriateness of the risk management systems.

Risk Management Structures and Tools

This groupwide system draws on existing organizational and reporting structures, supplemented by additional elements:

- The risk management manual: this contains the system's principles and processes. It explains reportable levels of risks and how risks are to be covered and mapped.
- The risk management regulation: this stipulates groupwide reporting requirements, including when a specific committee must be informed.
- The risk management coordinator: this coordinator is responsible for the risk management system and is supported by local risk coordinators.
- The risk list: this records each specific risk facing our divisions and other corporate sectors. Reporting is mandatory for individual risks where the effect on earnings would exceed €5 million.

Risk Identification

WACKER identifies risks at two levels: for the individual divisions, and at the Group level. We employ various instruments to detect and recognize risks. These include order-intake trends, market and competition analyses, customer talks, and ongoing observation and analysis of the economic environment.

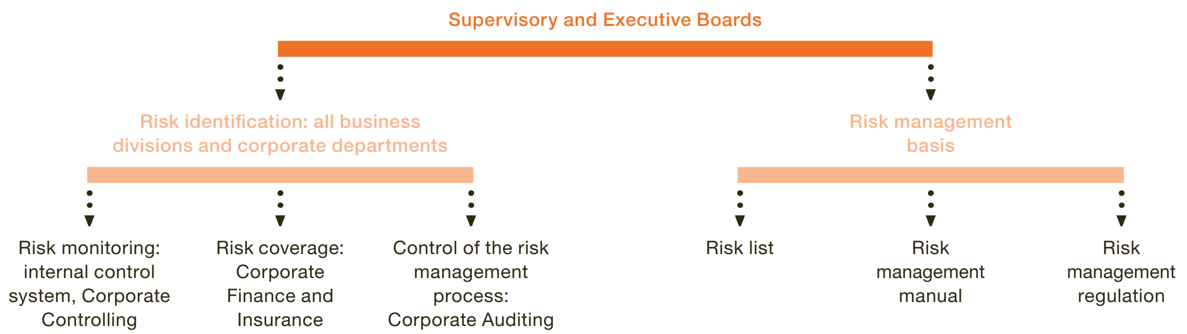
Assessment, Quantification and Management of Risks

We analyze each identified risk's probability of occurrence and potential effect on earnings. Corporate Controlling compiles a monthly report to inform the Executive Board of current and expected business developments and their associated risks. We evaluate and balance risks and opportunities at regular meetings with our divisions.

Corporate Controlling ensures that our risk management standards are implemented and that our risk management process is enhanced. It not only records all substantial risks groupwide, but also evaluates them systematically on the basis of uniform criteria. Major risks and those endangering the continued existence of the company are communicated immediately via ad-hoc reporting. Because the divisions are responsible for their own results, this process is closely interwoven with operational controlling. Individual divisional risks are identified and evaluated on a monthly basis. Operational risk management is thus firmly rooted in the divisions. At the same time, Corporate Finance and Insurance, Corporate Accounting & Tax, Technical Procurement & Logistics, Corporate Engineering, and Legal are involved in risk controlling at the Group level.

Financial risks are managed by Corporate Finance and Insurance. It is responsible for all measures relating to exchange-rate and interest-rate hedging transactions, and to securing adequate Group liquidity. The operational frame-

B.55 Risk Management System



work is set out in detailed specifications and regulations covering, for example, the separation of trading and settlement functions. Corporate Accounting & Tax monitors receivables management with respect to customers.

Internal Control System (ICS) and Internal Control System for Accounting

Our internal control system (ICS) is an integral component of our risk management system.

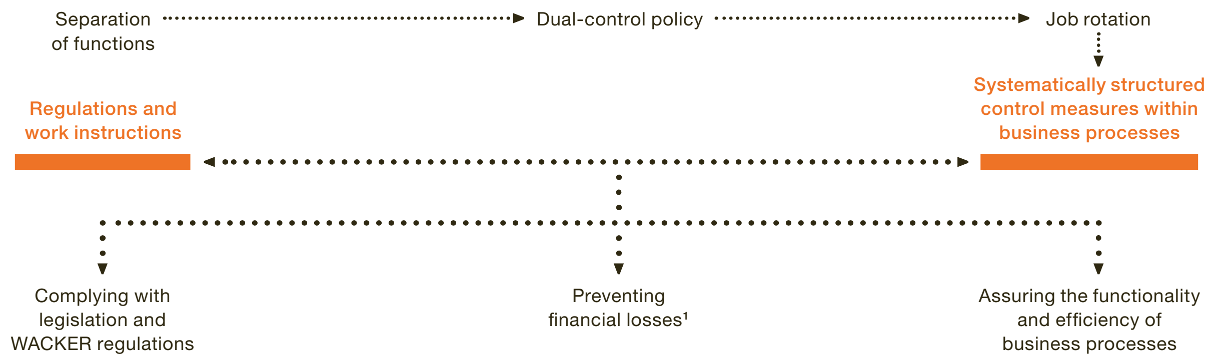
Our internal accounting control system is aimed at ensuring consistent compliance with statutory requirements, generally accepted accounting principles and International Financial Reporting Standards (IFRS) – the goal being to avoid misstatements in Group accounting and external reporting.

In addition to the ICS principles already mentioned, we perform assessments and analyses to help identify and minimize any risks that may directly influence financial reporting. We continually monitor changes in accounting standards and provide the employees handling them with regular and comprehensive training. We enlist external experts to reduce the risk of accounting misstatements in complex and challenging issues, such as pensions.

Our internal accounting control system is designed to ensure that our accountants process every business transaction promptly, uniformly and correctly and that reliable data on the Group's earnings, net assets and financial position are available at all times. Our approach here complies with statutory provisions, accounting standards and internal accounting rules. A key accounting regulation is the accounting manual, which is applicable groupwide and available on the WACKER intranet. It specifies binding rules for groupwide accounting and assessment. The Group regulation on accounting contains uniform stipulations for the organizational responsibility of accounting-related topics. Additionally, organizational workflows are defined in our accounting and organizational regulations, and in book-entry instructions. A groupwide calendar of deadlines guarantees the complete and timely processing of financial statements. Corporate Accounting monitors compliance with reporting obligations and deadlines. By separating financial functions between accounting, statement analysis and strategy, we ensure that potential errors are identified prior to finalization of the statements and that accounting standards are complied with.

Our subsidiaries ensure that all regulations are implemented in their local regions. Corporate Accounting assists them in this task and monitors the process. In addition, country-specific accounting standards exist that must be complied with. The reported data is verified both by automatic system validation, and by reports and analyses. Data is checked for plausibility and then consolidated. We safeguard the effectiveness of controls not only by gathering feedback from the employees involved, but also by continually monitoring key financial indicators in our monthly management reports and in system-based test runs. Moreover, regular external audits are carried out, as well as external reviews at year-end and for each quarter.

B.56 Basis of Our Internal Control System (ICS)



[1] Possible financial losses due to the intentional or inadvertent misconduct of our employees or third parties

On a quarterly basis, managers at our divisions, corporate departments and subsidiaries confirm for their areas that all key issues for quarterly and annual financial statements have been reported.

The Supervisory Board is also integrated in the internal control system through its Audit Committee. In particular, the Audit Committee monitors the accounting process, the effectiveness of the internal-control and risk-management systems, and the auditing procedures. Moreover, it reviews the documents for Wacker Chemie AG's separate financial statements and the WACKER Group's annual and quarterly financial statements and the combined management report for these statements, and discusses them with the Executive Board and the auditors.

We protect all financial systems from misuse with user-authorization systems, data-release policies and access restrictions. Information Technology, a corporate department, carries out regular system backups and maintenance measures to minimize both the risk of data loss and of a breakdown of accounting-related IT systems. However, even with adequate and functioning systems in place, we cannot guarantee that the internal control system will be 100-percent effective.

Compliance Management

WACKER's ethical principles of corporate management exceed legal requirements. The Compliance Management department is responsible for ensuring that these principles and all related legal provisions are observed throughout the company. Training courses on compliance raise employees' awareness of the relevant risks and convey binding rules of behavior for daily work routines. These aspects are covered by WACKER's compliance regulation. Employees are instructed to inform their supervisors, the compliance officers, the employee council or their designated HR contacts of any violations they notice. They also have the option of reporting suspected violations anonymously via a protected channel.

The Group's compliance officers are responsible for implementing these rules and regulations, and are on hand to advise employees on all matters relating to compliance. The WACKER Group has 20 compliance officers around the world: in Germany, the USA, China, Japan, India, South Korea, Brazil, Mexico, Singapore, Russia, Norway and the United Arab Emirates. Compliance issues arising in countries not listed here are handled in Germany by the Chief Compliance Officer with assistance from the Legal department.

Prevention is a key aspect of the work of compliance officers. They train, inform and advise employees and management on, for example, strategies and measures to prevent corruption and other legal violations. One focus in 2017 was on classroom training in the Southeast Asian countries of Indonesia, the Philippines, Singapore, Thailand and Vietnam. In addition to our own staff, we also trained the employees of our local distributors. Further classroom sessions were held at our site in Dubai. In 2017, no major infringements of compliance were identified that were subject to the previously mentioned reporting threshold of an effect on earnings of more than €5 million.

Internal Auditing

The third line of defense is provided by WACKER's Corporate Auditing department, which acts as an independent monitoring body for the Executive Board. This department shares responsibility for effective internal control systems throughout the various operational processes and systems. When setting up an internal control system, the operational units must apply certain principles, such as a policy of dual control. These principles are defined in an internationally valid regulation that explains them in more detail for critical functions.

On behalf of the Executive Board, Corporate Auditing mainly performs regular, process-specific reviews of all relevant functions and corporate units, placing its focus on internal control systems. Audit topics are selected using a risk-driven approach. This takes account of risk management reporting, as well as the reports and information provided by the corporate departments, business divisions and larger joint ventures/associates. The auditing schedule is supplemented and approved by the Executive Board, and discussed with the Audit Committee. If necessary, the schedule is flexibly adjusted during the year to take account of changes in underlying conditions.

In 2017, audit topics focused on the conformity and efficiency of logistics processes and functions, and on whether selected hazardous-material storage facilities were operating in compliance with regulations. Corporate Auditing also conducted audits at subsidiaries and sites, examining the suitability and cost-effectiveness of key business processes, and the functionality of internal control systems.

Nothing came to our attention in the year under review that would endanger the proper functioning of the internal control systems or have an effect on earnings subject to the previously mentioned reporting threshold of more than €5 million.

Any process-optimization measures derived from the audits are implemented and systematically monitored by the Auditing department. It provides the Executive Board and Audit Committee with regular reports on the results and implementation status of the various measures.

External Controls

When auditing our annual financial statements, the external auditors examine our early-warning system for detecting risks. The auditors then report to the Executive and Supervisory Boards.

Central Risk Areas

Defining the Probability and Impact of Risk Occurrence

We have defined categories to describe the probability that risks we identify will occur. This provides a framework for understanding our assessment of individual areas of risk. In percentage terms, our categories define the range of probability as follows:

- Unlikely: under 25 percent
- Possible: 25–75 percent
- Likely: over 75 percent

We also use categories to describe how the occurrence of the risks listed might impact the Group's earnings, net assets and financial position. We assess the possible effect on earnings using the net method, i.e. after taking appropriate countermeasures, such as establishing provisions or hedging. The following categories define the ranges:

- Low: up to €25 million
- Medium: up to €100 million
- High: over €100 million

The following table shows our estimation of the probability of risks and of how the occurrence of those risks might impact the Group's earnings, net assets and financial position. The statements refer to the forecast period, thus to fiscal 2018.

B.57 Probability and Possible Impact of Our Risks in 2018

Risk/Category	Probability	Possible Impact
Overall economic risks	Unlikely	Medium
Sales-market risks		
Chemicals	Unlikely	Medium
Polysilicon	Possible	High
Procurement-market risks	Possible	Medium
Investment risks	Unlikely	Medium
Production and environmental risks	Unlikely	Medium
Financial risks		
Credit risks	Unlikely	Low
Currency-exchange and interest-rate risks	Possible	Medium
Liquidity risks	Unlikely	Low
Pensions	Possible	Medium
Legal risks	Unlikely	Low
Regulatory risks		
Energy transition in Germany	Possible	Low
Polysilicon trade restrictions	Possible	High
New regulations for production processes and products	Likely	Low
IT risks	Unlikely	Medium
Personnel-related risks	Unlikely	Low
External risks	Unlikely	Low

Overall Economic Risks

Scenario: Economic slowdown.

Impact on WACKER: Production-capacity utilization drops, specific manufacturing costs rise, and the Group's sales and earnings decline.

Measures: We counter this risk by continuously monitoring economic trends in our key sales markets. Should the economy start slowing, we take early precautions to adjust production capacities, resources and inventories flexibly to customer demand. In such a case, we concentrate capacity utilization on production locations with the best cost position, for example, and temporarily shut down some production facilities.

Evaluation and Risk Assessment: Analysts expect global economic growth to continue in 2018. Risks to momentum stem from ongoing geopolitical crises and political uncertainty in Europe and the USA. An unexpected slowdown in China could dampen the world economy, as could tighter monetary policy in Europe and the USA.

Our chemical business supplies a large number of customers from a broad range of industrial sectors worldwide. This enables us, as experience has shown, to at least partially compensate for temporary weaknesses in individual industries and regions.

In our polysilicon business, the future trend depends on the regulatory framework for the use of solar power and for international trade in photovoltaic systems and in solar silicon. Further, underlying conditions are also influenced by economic trends.

We presently see no specific signs that economic activity will diverge substantially from the forecasts of experts. Given the risks mentioned, though, we cannot completely rule out the possibility that in 2018 the global economy could fall short of current projections. Should the world economy prove weaker than currently forecast, this would have a medium impact on WACKER's earnings.

Sales-Market Risks

Scenario 1: Chemical-segment overcapacity.

Impact on WACKER: Price and volume pressures on our products.

Measures: We minimize this risk by aligning production with demand and by securing plant-utilization rates through quantity controls, structured price management, process optimization and the intense cultivation of growth markets. A key ongoing goal is to increase the share of cyclically resilient product groups in our portfolio and to rank among the global leaders in all our business fields. By cooperating closely with customers, we aim to quickly open the way to novel applications, thus fostering long-term customer loyalty.

Evaluation and Risk Assessment: We anticipate that the risk of overcapacity will remain unchanged for our products in 2018. At WACKER POLYMERS, we see overcapacity in Asia for dispersions and dispersible polymer powders. However, we expect plant utilization to be high despite this overcapacity. At present, demand for silicones actually exceeds available capacities worldwide. This market situation is unlikely to change significantly in 2018. As a result, we do not expect WACKER SILICONES to experience overcapacity or lower plant utilization during the forecast period. We see opportunities to achieve higher prices for both silicones and polymer products in 2018.

On balance, it is unlikely that individual areas of our chemical business will face overcapacity and resultant price pressure. We have already factored in this possibility in our planning and forecasts. Any effects that go beyond this would have a medium impact on Group earnings.

Scenario 2: Polysilicon overcapacity and price risks; difficult market conditions due to a rollback of government incentive programs; the tight financial situation of many customers, and the expiry of long-term supply contracts.

Impact on WACKER: Volume risks arise if excessive and hurried cuts to government solar incentives negatively impact the photovoltaic market. The expiry of long-term contracts increases the risk to capacity utilization. Overcapacity might put pressure on margins by causing intense price competition. Both factors could lower sales and earnings.

Measures: We counter these risks by continuously improving our cost positions and by optimizing our product and customer portfolio in line with market developments. We counter customers' liquidity problems by demanding collateral.

Evaluation and Risk Assessment: In all probability, the consolidation process in the solar industry will continue in 2018. As long as this trend persists and global production capacities exceed market demand, polysilicon prices are likely to remain volatile and under pressure. Such a trend has been factored into our planning and forecasts. Should solar-silicon demand clearly exceed supply, this would presumably lift earnings at WACKER POLYSILICON. Conversely, a slump in demand for WACKER's solar silicon would probably have a high impact on earnings in this business. In our view, the risk of prices falling is possible.

Procurement-Market Risks

Scenario: Higher raw-material and energy prices, bottlenecks in the supply of certain raw materials, and risks of tariffs.

Impact on WACKER: Earnings dampened by higher raw-material and energy prices. Any supply bottlenecks could lead to longer customer delivery times and volume losses.

Measures: On an annual basis – and if necessary, ad hoc – we prepare systematic procurement plans for strategic raw materials and energy, which include an evaluation of the procurement risk. Whenever possible, we take appropriate measures to counter any procurement risks that are classed as relevant. Such measures include not only long-term supply contracts with partners and a structured procurement policy involving multiple suppliers under contracts with various maturities, but also the expansion of our supplier base and an increased level of safety stocks. In select cases, we have achieved partial backward integration and produce strategic raw materials ourselves. Our silicon-metal production site in Holla (Norway), for example, has reduced our dependency on external suppliers.

Evaluation and Risk Assessment: WACKER's good position in energy and raw-material procurement markets enables it to effectively manage the risks inherent in both economic upturns and downturns. If the world economy weakened markedly, our purchasing terms for buying key raw materials would allow us to adjust contractual volumes flexibly and – wherever possible – to benefit from price decreases through appropriate pricing models. Should global growth become unexpectedly strong, our volume guarantees would take effect. As a result, we do not see any major risks to raw-material security. Amid strong growth, prices can rise markedly. But experience has shown that we then have chances to compensate, at least partially, for additional costs by increasing the selling prices of our own products. Crude-oil and coal prices have risen substantially since mid-2016. In turn, prices have climbed for raw materials obtained from oil and coal, as well as for energy. Additionally, purchasing prices for certain raw materials might be impacted by punitive tariffs. Such import tariffs exist, for example, for silicon metal exported from China to Europe and the USA.

WACKER requires a number of highly specialized raw materials that only a few suppliers can provide. If these suppliers were unable to deliver, our production might be restricted. We minimize this risk by taking appropriate measures (e.g. backup suppliers, safety stocks, and contingency lists of substitute products).

Under current German law, energy-intensive companies are partially exempt from paying various surcharges and additional costs. WACKER also benefits from these rules. Any restriction on the exemption rules would significantly reduce the competitiveness of specific business activities. In general, energy price trends (wholesale prices, infrastructure costs and ancillary costs) will remain heavily dependent on how German and European policymakers organize the energy transition.

Overall, we consider it possible that raw-material and energy prices will continue to increase over the longer term. Should this happen, it would probably have a medium-scale impact on the Group's earnings trend.

Investment Risks

Scenario: Bad investments, higher-than-expected investment costs, postponed plant start-ups, deterioration of original market projections, and assumption of risks from investments in joint ventures and associates.

Impact on WACKER: Bad investments cause costs for idle capacity and impair assets and equity investments. The possible effect on earnings could be substantial. Higher investment costs mean higher cash outflows and, in the future, higher depreciation expenses in our operating result. Postponed start-ups expose us to the risk of being unable to fulfill supply contracts and, thus, of posting lower sales and earnings. Should Siltronic AG's market capitalization fall substantially, this could necessitate a corresponding impairment of the carrying amount of our equity-accounted investment in Siltronic, negatively impacting WACKER's earnings.

Measures: WACKER has numerous measures in place for countering investment risks. We check the completeness and plausibility of plans for new projects that involve an investment sum of more than €3 million. The Group's corporate departments participate in such checks. Economic feasibility is assessed using comparative studies that look at other plant projects, including those of competitors. Capital expenditures are approved in stages only. Comprehensive project-budget management helps prevent or minimize delays.

Evaluation and Risk Assessment: Our phase of capital-intensive investment spending on large-scale plants ended in 2016, with the opening of our new polysilicon production site at Charleston in the USA. Until at least 2020, we will mostly meet rising customer demand by making cost-effective additions to existing plants and by expanding our capacities for downstream products. Capital expenditures will be below depreciation in 2018. We currently consider it unlikely that investment spending will exceed our expectations. Even if this risk did materialize, the impact on our earnings, net assets and financial position would probably be low. Similarly, we currently consider the risk of a negative trend in Siltronic AG's market capitalization to be unlikely. Were this risk to materialize, it would probably have a medium impact on our earnings, net assets and financial position.

Production and Environmental Risks

Scenario: Risks relating to the production, storage, filling and transport of raw materials, products and waste.

Impact on WACKER: Potential personal injury, property damage and environmental impairment; production downtimes and operational interruptions; and the obligation to pay damages.

Measures: WACKER coordinates its operational processes through its integrated management system (IMS). The system regulates workflows and responsibilities, attaching equal importance to productivity, quality, the environment, and health and safety. Our IMS is based on statutory regulations, and on national and international standards, such as Responsible Care® and the Global Compact, which go far beyond legally prescribed standards. We focus on securing the highest possible level of operational safety at our production sites by monitoring maintenance extensively and by performing regular plant inspections. We conduct thorough safety and risk analyses, from the design stage through to commissioning, to ensure the safety of our plants. We regularly hold seminars on plant and workplace safety and explosion protection. Every WACKER site has an emergency response plan to regulate cooperation between internal and external emergency response teams, and with the authorities. We are insured against loss events at our plants and the potential consequences. Our insurance cover is in line with customary chemical-industry standards. When we work with logistics providers, we ensure that hazardous-goods transport vehicles are always checked prior to loading. Any faults are systematically recorded and tracked.

Evaluation and Risk Assessment: Risks stemming from the production, storage, filling and transport of raw materials, products and waste can never be completely ruled out, as experience has shown. This was seen, for example, in the incident at our Charleston site (USA) in September 2017. Although it is generally possible for such risks to occur, we currently consider a serious loss event to be unlikely. Should such an event occur, it could have a medium impact on WACKER's earnings. The damage at the Charleston site will not materially impact WACKER's earnings and net assets in 2018 because both the operational disruption and plant repair work are covered by insurance, and because we were and are able to fulfill our delivery obligations to polysilicon customers with volumes from other sites.

Financial Risks

WACKER is exposed to financial risks from ongoing operations and financing. These include credit, market-price, financing and liquidity risks. They are managed by the individual WACKER departments responsible for them. We employ primary and derivative financial instruments to cover and control the financial requirements of our operations and the associated risks. Such financial instruments are not permitted, however, unless they are based on actual or planned operational activities. The Notes to the Consolidated Financial Statements provide extensive information about risk hedging using derivative financial instruments.

➪ See further details starting on page 155 of the Notes section.

B.58 Controlling Financial Risks

Risk	Corporate Department Responsible
Credit risks	Corporate Finance and Insurance, Corporate Accounting and Tax
Currency-exchange and interest-rate risks	Corporate Finance and Insurance
Liquidity risks	Corporate Finance and Insurance

Credit risks

Scenario: Customers or business partners fail to meet their payment obligations.

Impact on WACKER: Losses on trade receivables, and failure of banks to fulfill their obligations to WACKER (loan disbursements, repayment of deposits and compensatory payments arising from derivatives transactions).

Measures: We use a variety of instruments to reduce the risk of any loss on receivables. Depending on the nature of the product or service provided and the amount involved, we may demand collateral, including retention of title. Other preventive measures range from references and credit checks to the evaluation of historical data from our business relationship to date (particularly payment behavior). We limit default risks by means of credit insurance, advance payments and bank guarantees. We prevent counterparty risk with respect to banks and contractual partners by carefully selecting these partners. We conduct cash investments and derivative dealings with banks that usually have a minimum rating of A– from Standard & Poor's or a comparable rating agency. Investment activities are additionally subject to maximum investment and term limits. In exceptional cases, investments or derivative dealings may be conducted with banks of lower creditworthiness within specified limits and terms.

Evaluation and Risk Assessment: We consider it unlikely that credit risks stemming from customer business will occur. We assume that our risk concentration with regard to bank failures is low, thanks to our approach to counterparty risk. If credit risks stemming from customer business or from a bank failure did unexpectedly occur, their impact on WACKER's earnings would probably be low.

Currency-Exchange and Interest-Rate Risks

Scenario: Fluctuations in exchange rates and interest rates.

Impact on WACKER: Effect on earnings, liquidity, and financial assets and liabilities.

Measures: Currency risks essentially arise from exchange-rate fluctuations for receivables, liabilities, cash and cash equivalents, and financial liabilities not held in euros. The currency risk is of particular importance with respect to the US dollar and Chinese renminbi. WACKER hedges any net exposure above a certain level by using derivative financial instruments. The use of such instruments is governed by WACKER's foreign exchange management directive. We work with forward-exchange contracts, foreign-exchange swaps and currency-option contracts. Foreign exchange hedging is carried out mainly for the US dollar. We also counter exchange-rate risks through our non-eurozone production sites.

Interest-rate risks arise due to changes in market rates. Since such changes affect future interest payments for variable-rate loans and investments, they have a direct influence on the Group's liquidity and financial assets. Once an exposure has been identified, interest-rate hedging is performed. The use of derivative financial instruments is governed by internal regulations that separate trading and settlement functions, and is subject to strict controls throughout the entire transaction process. We continually monitor the effectiveness of any measures taken.

Evaluation and Risk Assessment: We hedge part of our US dollar business. The possible burden or income from exchange-rate fluctuations is partially cushioned by hedging measures. From today's perspective, we consider it possible that exchange-rate and interest-rate changes in 2018 will substantially differ from our planning assumptions. We believe that this would have a medium impact on Group earnings.

Liquidity Risks

Scenario: Lack of funds for payments, and tougher access to credit markets.

Impact on WACKER: Higher financing costs, and modifications to further investment projects.

Measures: Liquidity risk is managed centrally at WACKER. Our Corporate Finance and Insurance department employs efficient systems for both cash management and rolling liquidity planning. In order to counter financing risks, WACKER holds adequate long-term, contractually agreed lines of credit, and has set aside sufficient liquidity. We invest liquid funds only in issuers or banks that have a credit rating within the sound investment-grade range. The investment of liquid funds is, moreover, subject to limits that we have defined. By means of cash pooling, liquid funds are passed on internally within the Group as required.

Evaluation and Risk Assessment: WACKER's liquidity increased in 2017 compared with the previous year due to proceeds from the sale of shares in Siltronic AG. Liquidity totaled €547.2 million on the balance sheet date. At the same time, there were unused lines of credit with terms of over one year totaling some €900 million. We consider the occurrence of financing and liquidity risks to be unlikely. At the moment, we see no risks relating to financial-covenant infringements. If financial or liquidity bottlenecks did occur, their impact on Group earnings would be low. If unused lines of credit were tapped, net financial debt would rise.

Pensions

Scenario: Greater life expectancy of those entitled to a pension; pay and pension adjustments; falling discount factors; significant changes in the composition of the invested fund assets and capital-market interest rates (environment of low interest rates).

Impact on WACKER: A rise in pension obligations, a decline in fund assets, and a possible injection of financial resources into the pension fund or into the plan assets will affect the financial position and earnings of the Group. In addition to the pension plan, defined-benefit pension plans exist in the form of direct commitments. Employees also have the option of converting part of their remuneration into direct benefit commitments. The greater life expectancy of pension-fund beneficiaries, adjustments to pay and pensions, and the discount factor (used to calculate the net present value of a final capital amount) also impact WACKER's equity and earnings to a substantial degree.

Measures: A large portion of WACKER's pension guarantees are covered by the Wacker Chemie VVaG pension fund, by pension-related funds and special-purpose assets, and by insurance plans. To ensure a sufficient rate of return and to limit investment risks, the fund diversifies its investment portfolio among various asset classes and regions. In managing its assets and liabilities, the pension fund controls and optimizes all asset items to attain the required return within specified risk limits. As one of the fund's sponsoring entities, WACKER makes payments to it (when necessary), thereby ensuring sufficient coverage for pension obligations. We periodically adjust the calculation parameters of the other defined-benefit pension commitments (e.g. life expectancy).

Evaluation and Risk Assessment: Pension-fund beneficiaries are living longer, and capital-market interest rates have steadily declined in recent years. The rate of return will probably be insufficient to fulfill pension obligations in the long term. Our contribution rate remained unchanged in the reporting year. WACKER did, however, make special payments of some €36 million to the Wacker Chemie VVaG pension fund in 2017. We consider it possible that we will have to make further payments to the pension fund and fund assets, and that pension expenses and payments will rise in the future. This would have a medium impact on WACKER's earnings, net assets and financial position.

➪ See further details starting on page 140 of the Notes section.

Legal Risks

Scenario: Diverse legal risks related to tax, trademarks, patents, competition, antitrust proceedings, the environment, labor and contracts could arise from our international business.

Impact on WACKER: Drawn-out legal disputes, which could impact our company's operations, image and reputation, and which could be costly.

Measures: We limit legal risks with centralized contract management and legal review by our Legal department. Where necessary, we also seek legal advice from highly qualified external specialists.

Our Intellectual Property department protects and monitors patents, trademarks and licenses. Before initiating R&D projects, we conduct searches to determine whether existing third-party patents and intellectual property rights could prevent us from marketing any newly developed products, technologies or processes.

We limit risks arising from possible legal infringements by means of compliance programs. WACKER's Code of Conduct defines and stipulates binding rules of behavior for all employees. Through training programs, WACKER enhances awareness of these issues and attempts to prevent reputation-related risks.

Evaluation and Risk Assessment: Due to the varied nature of our business activities in all major regions across the globe, it is always conceivable that legal risks could arise. We currently do not foresee any legal disputes, patent infringements or other legal risks that could significantly influence our business, and consider the probability of such risks occurring to be fundamentally unlikely. Should such an individual case occur, we would expect its impact on WACKER's earnings to be low.

Regulatory Risks

Energy Transition in Germany

Scenario: The transition in Germany to 80 percent renewable energy in the electricity sector by 2050 (known as the "Energiewende" or energy transition) creates a regulatory environment that will probably be marked by repeated legislative amendments (the German Renewable Energy Act, including relief for energy-intensive companies and self-generated electricity, grid-charge regulations, EU laws on state aid, EU Energy-Efficiency Directive, the emissions trading system, and integrated energy).

Impact on WACKER: Additional energy costs due to rising federal levies if the German government departs from its current policy of exempting energy-intensive industry from paying such levies and ancillary costs in full or in part.

Measures: We continually monitor regulatory activity in Germany and in the EU. Whenever we anticipate changes in the current legal situation, we try to introduce our viewpoint into legislative procedures through discussions with policymakers and by participating in trade associations. In addition, we search for, and take advantage of, market opportunities arising from regulatory changes (e.g. industrial demand-response management).

Evaluation and Risk Assessment: An amendment of the German Renewable Energy Act came into force at the start of 2017. Moreover, the German government and the EU Commission have reached agreement on the rules regarding self-generated electricity, combined heat and power plants, and sheddable loads. On the whole, these decisions did not cause any substantial increase in WACKER's burden beyond the previous level. We consider it possible that other legal provisions relating to the energy supply, for example grid charges, might be amended in 2018. Such amendments would probably have a low impact on WACKER's earnings this year, but their impact could increase substantially over the coming years.

Polysilicon Trade Restrictions

Scenario: The Chinese Ministry of Commerce (MOFCOM) has concluded its anti-dumping proceedings against polysilicon imports from the USA. The EU has completed its anti-dumping proceedings against Chinese solar companies and extended its measures. Until November 2018, sales of WACKER's polysilicon in China will comply with the terms of an amicable agreement reached with MOFCOM. If necessary, there will be a subsequent expiry review that can take up to 12 months to complete. During this time, MOFCOM's measures and the minimum-price agreement will remain in place.

Impact on WACKER: Negative impact on the company's earnings, net assets and financial position; influence on sales volumes; impact on long-term customer relations.

Measures: Our aim in numerous discussions with policymakers in the USA and China is to mitigate or rescind punitive solar-sector tariffs (US tariffs on Chinese solar modules and cells, and Chinese tariffs on polysilicon from the USA) and, as a result, tariffs on WACKER's US-made polysilicon. According to Chinese anti-dumping laws, we can also apply to have the tariffs reviewed individually and, if necessary, have separate tariffs set. This is because WACKER did not, in fact, import any polysilicon from the USA to China during the investigation period of the anti-dumping proceedings. We will apply for such a New Shipper Review in due course. An additional point of focus is to have the European Commission stand by its decision to gradually reduce its measures against Chinese solar cells and modules, so that these steps expire, as planned, in September 2018. This should, in turn, have a positive effect on MOFCOM's pending decision in November 2018 regarding measures against European polysilicon.

Evaluation and Risk Assessment: The tariffs on polysilicon imports from the USA to China will remain in effect until January 2019. From our point of view, it is not foreseeable whether these tariffs will be withdrawn or continued after January 2019. If the European Union allows its restrictions on Chinese solar cells and modules to expire in September 2018 as planned, we expect the Chinese authorities to then lift their restrictions on polysilicon from Europe in November 2018. But if both sides decide to conduct further reviews, we assume that China and the European Union will keep their respective measures and minimum-price agreements in place until these reviews are completed. With regard to our German-made polysilicon, it is not possible to entirely rule out the risk that our minimum-price agreement with China might be adversely amended in 2018 if trade relations between the European Union and China were to worsen. Should this happen, we consider it possible that WACKER might be affected by trade barriers and punitive tariffs. The potential impact on our 2018 earnings would then probably be high.

New Regulations for Production Processes and Products

Scenario: Due to new legal rules, the production and use of chemical substances is regulated more strictly. New regulations make it necessary to modify our production processes or reformulate our products.

Impact on WACKER: Additional investments in production facilities and revenue losses in individual application fields.

Measures: WACKER continually monitors the regulatory environment surrounding its products and production processes so that it can react promptly to impending changes. We have already implemented initial measures to modify production processes. Any other necessary measures will be aligned with the regulatory changes in each specific situation.

Evaluation and Risk Assessment: It is always possible that new legal provisions necessitate modifications to our product portfolio or production processes. We consider it likely that new legal provisions will require additional investment in our production facilities or changes to our product portfolio. Should such changes occur, the short-term impact on WACKER's earnings would probably be low. The medium-term impact could be of medium scale.

IT Risks

Scenario: Attacks, system errors and unauthorized access to our IT systems and our production plants and networks, resulting in a threat to data security.

Impact on WACKER: Negative impact on the company's earnings, net assets and financial position, on production processes and workflows; loss of know-how.

Measures: We continually monitor our use of information technology and do everything we can to ensure that IT-supported business processes function reliably. Our IT-security and risk-management specialists are responsible for handling hazards in a cost-efficient way. Their work is based on ISO 27001. We use risk analyses to define the requirements for our central systems in terms of the availability, integrity and confidentiality of data. We anchor these requirements in SLAs (service level agreements) at our business divisions and corporate departments, and continually monitor compliance with those agreements. For our central enterprise resource planning (ERP) systems, we achieved an availability goal of 99.5 percent for 2017. The deciding factor here is to configure our systems for maximum availability, with an associated backup and recovery procedure. We have taken appropriate precautions to cover emergency situations (business continuity management).

We minimize project-related IT risks with the help of a uniform method of project and quality management. It ensures that changes are integrated into our system landscape in a controlled manner. Before new IT solutions are rolled out, we ensure that development and security regulations have been observed. Systematic enterprise-architecture management enables us to reduce complexity and the associated risks.

As part of the risk management process, we log and evaluate any operations-related risks that arise and initiate countermeasures. We also optimize IT service management processes on an ongoing basis. We use state-of-the-art hardware and software solutions to counter network downtime, data loss or manipulation, and unauthorized access to our network. Our user-authorization systems are based on the need-to-know principle of granting individual users access exclusively to systems and information required to fulfill their duties. We use efficient software security programs to protect ourselves against malware. We have set up an international security team, which addresses problems involving the confidentiality, integrity and availability of data and systems by introducing organizational and technical measures and by initiating awareness campaigns and training courses. Information events and training on IT security ensure that our employees have the necessary skills to heighten information security at the company. In addition, we regularly conduct comprehensive penetration tests and audits at our German and international sites to prevent the risk of attacks on our information systems.

Evaluation and Risk Assessment: Attempts to disrupt and attack our IT systems and networks are constantly increasing. It cannot be ruled out completely that such attacks could succeed in certain cases. A long-term failure of IT systems or a major loss of data could considerably impair WACKER's operations. Thanks to our precautionary measures, we consider the occurrence of such events to be unlikely. However, if one of our IT systems experienced downtime, a service disruption or a hacker attack that affected a significant number of users or lasted a substantial time, the impact on WACKER's earnings would be of medium scale.

Personnel-Related Risks

Scenario: Demographic change, lack of qualified technical and managerial employees, and problems in filling executive positions.

Impact on WACKER: A lack of technical and managerial employees could dampen our continued growth and cause us to lose our technological edge.

Measures: We counter these risks through personnel-policy measures. In particular, these include our Talent Management Process and the development plans derived from it. In addition, we offer a wide variety of training programs, good social benefits and performance-oriented compensation. We also offer our employees in Germany a wide range of working-time models and arrangements to better balance career demands with the different phases of their lives.

WACKER has a detailed, groupwide succession planning process in place for all key positions in the company, including all positions held by executive personnel. For every upper management position, we observe up to three candidates to assess their potential and performance. In its succession planning, WACKER distinguishes between short-term needs (up to two years) and medium-term needs (two to four years). In addition, WACKER has appointed deputies for executive personnel in the event of a lengthy absence or illness.

Evaluation and Risk Assessment: Demographic change will increase the risk of not being able to find sufficiently qualified personnel for technical and managerial positions in the medium to long term. We consider it unlikely that risks to our personnel needs will arise in 2018. Should these risks materialize, the impact on Group earnings would probably be low.

External Risks

Scenario: Pandemic, natural disaster, war or civil war.

Impact on WACKER: Impairment of our company's capacity to act, production downtimes, loss of trade receivables, impact on sales and earnings.

Measures: WACKER is a global operation with production facilities and technical centers in Europe, the Americas and Asia, and some 50 sales offices worldwide. Possible pandemics, natural disasters and acts of war in individual countries or regions in which we operate represent a potential risk to our business and production operations, product sales and noncurrent assets and, therefore, to our earnings, net assets and financial position. Our managerial entities and our sites have elaborated and published plans and measures to minimize the effects of a pandemic on the health of our employees and on our business processes. A pandemic-preparedness plan ensures a standardized, coordinated approach. The financial impact of damage to our production plants due to natural disasters is partly covered by insurance. Since WACKER has production sites on various continents, we can ensure manufacturing and delivery capability to some degree even if individual plants should fail.

Evaluation and Risk Assessment: Risks from pandemics, natural disasters, and acts of war or civil war can never be ruled out entirely. In our view, it is unlikely that WACKER would be affected by risks from pandemics, natural disasters, and acts of war or civil war. Our preparedness plan and our internationally distributed production sites and sales offices help to limit the impact of local or regional damage on our business processes. As a result, we estimate that, even if such events occurred, the impact on WACKER's earnings would be low.

Opportunities Report

Opportunity Management System

WACKER's opportunity management system remained unchanged from the previous year. It is a divisional and Group-level instrument. We identify operational opportunities and leverage them in our business divisions, which possess the detailed product and market expertise required. We continuously use market observation and analysis tools to obtain a well-structured evaluation of market, industry and competitor data, for instance. In addition, we conduct customer interviews to evaluate future opportunities. The monitoring process – how WACKER seizes opportunities – is based on key indicators (such as rolling forecasts and current-status reporting).

B.59 Opportunity Management System

Strategic opportunities of vital importance – such as strategy adjustments, potential acquisitions, collaborations and partnerships – are handled at the Executive Board level. Such opportunities are incorporated into WACKER's annual strategy-development and planning process, with current issues being discussed at regular Executive Board meetings. We generally elaborate different scenarios and risk-opportunity profiles before making decisions on such issues.

WACKER has identified a whole range of opportunities for advancing the Group's success over the next few years.

Overall Economic Opportunities

In addition to expectations of global economic growth in 2018, WACKER sees good opportunities to again expand faster than global chemical production, especially in emerging markets and sales regions. The strongest momentum, in our view, will continue to come from China, India and Southeast Asia. To seize such opportunities, we are steadily expanding our presence in these markets. Our technical competence centers and the WACKER ACADEMY are pivotal in achieving WACKER's high standard of service and customer proximity.

B.60 Overview of Business Opportunities

Overall economic opportunities
Growth in Asia and other emerging markets
Sector-specific opportunities
Extensive product portfolio for future global trends
Urbanization, resource and energy efficiency, mobility and rising affluence
Strategic opportunities
Cost-effective expansion of capacities for downstream products
Positive cash flows via capital expenditures below depreciation
Extension of existing, and establishment of new, technical competence centers in the regions
Performance-related opportunities
Higher plant productivity

Sector-Specific Opportunities

Sector-specific opportunities primarily result from our broad product portfolio, which places us in an excellent position to meet global megatrends. These include advancing urbanization, the trend toward conserving natural resources and energy, increasing global demand for mobility, and the growing need for products that enhance the quality of life. These trends remain as important as ever to our business.

Rising affluence in emerging countries, particularly in Asia, coupled with ever more stringent market and customer requirements, is fueling demand for products incorporating high-value silicones. WACKER wants to benefit from this development and bolster the proportion of highly profitable specialty silicones in its portfolio compared with standard products. Our main focus is on automotive applications, cosmetics, personal care, health, medicine, electronics and clothing. We intend to support growth in these areas by launching innovative products and technologies for wound dressings, cosmetics, textile care, plastics processing, the electronics sector and 3D printing.

We see good growth prospects for WACKER SILICONES in electrical and electronics markets, especially in automotive electronics. Growth drivers are digitalization, connectivity and electromobility. Electronic automotive assistance systems, for example, are becoming increasingly important and are indispensable for autonomous driving. According to Semicast Research, the market for driver-assistance systems in vehicles will expand by almost 13 percent annually until 2022. The sensors and electronic components in these systems are reliably protected by silicone gels and silicone encapsulants. Electric vehicles also require high-performance batteries. That is why we are developing new, thermally conductive silicones. They enable effective thermal management so that batteries operate without maintenance and have a long service life.

At WACKER POLYMERS, growth potential is fueled by rising affluence in emerging economies, by increasing urbanization, and by the trend toward conserving natural resources and reducing carbon dioxide emissions. The shift away from conventional building materials and construction methods to value-added systems will continue. A key aspect here is the use of dispersible polymer powders for modifying cement. Through the addition of these polymer powders, mortar mixtures are easier to process, can be applied more thinly and their properties can be substantially improved. But, so far, some 80 percent of dry-mix mortars used in the building sector are not modified. In many regions, construction experts have only just started to appreciate the benefits of polymer-modified dry-mix mortars. WACKER POLYMERS also sees further potential in environmentally friendly, water-based paints and coatings, and in its material-substitution business.

At WACKER BIOSOLUTIONS, the main growth opportunities are expected to come from bioengineered products. In cyclodextrins, we are developing new applications (e.g. for egg-free baked goods and low-fat desserts) that create additional demand for our products. We also expect to see growth in cysteine and other fermentation-generated food products, such as vegetarian-grade meat flavors. Our current investments in our large-scale fermentation plant in León, Spain, will enable us to meet this rising demand over the long term.

Energy remains a key megatrend, with the photovoltaic industry at the forefront. The competitiveness of the solar industry versus other energy sources continues to spur demand for solar installations. Across the globe, the use of renewable energy is increasing. We expect growth to be driven mainly by China, India and the USA, and by the growing global trend toward highly efficient monocrystalline solar cells. As a hyperpure-polysilicon producer and cost and quality leader, WACKER POLYSILICON will benefit from this megatrend.

Strategic Opportunities

WACKER's expansion of upstream-product capacities in recent years provides opportunities for further growth at its business divisions. Until at least 2020, our priorities will be to meet rising customer demand, mainly through cost-effective expansions at existing plants, and to strengthen our capacities for downstream products in the world's growth regions. The capital expenditure for these projects will be below the level of depreciation. At Ulsan in South Korea, for example, we are currently building new facilities for dispersions and polymer powders, primarily for use in the construction industry. In China, we are expanding capacities for silicones and polymer products. Our Shanghai technical center is also being enlarged. We are equipping it with several new research labs for silicones and biotech products. By doing so, we are strengthening our development expertise in our largest single market. At our Charleston site in the USA, we are building a production plant for pyrogenic silica. It is the next logical step in making Charleston a fully integrated silicon site in the world's second-largest chemical market.

Performance-Related Opportunities

WACKER has a number of opportunities for improving its cost structures, processes and productivity. At WACKER POLYSILICON, we are continuing to implement our cost roadmap. In the chemical divisions, we are tapping further cost-cutting potential with our productivity and efficiency program – the Wacker Operating System. Our various cost-cutting levers include the specific costs for auxiliaries, productivity advances on the manufacturing side, and a broader choice of suppliers in order to secure more attractive purchasing terms.

Executive Board Evaluation of Overall Risk

The Executive Board evaluates the overall risk situation on the basis of information from the risk management system. The system compiles all risks identified by our divisions, corporate departments and regional entities. It is regularly reviewed by the Executive Board and discussed in Audit Committee meetings.

On September 7, 2017, a technical defect at the site in Charleston led to a hydrogen explosion that damaged a plant section there. Although production had to be shut down for several months, the incident had no notable financial impact, since the property damage and loss of production are insured. During 2017, there were generally no significant changes to individual risks. In our view, the overall risk level was roughly the same as a year earlier.

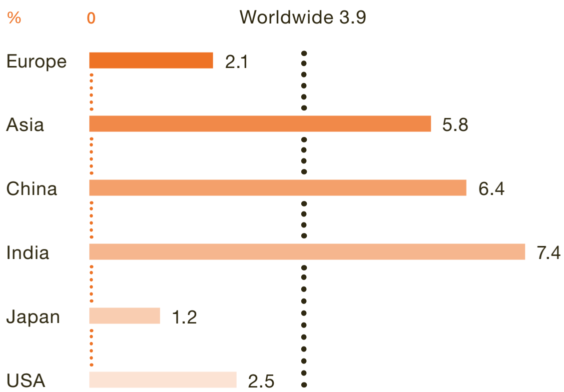
As of the publication date of this report, the Executive Board does not see any individual or aggregate risk that could endanger WACKER's future in any material way. Market risks do still exist in the photovoltaic industry. But, thanks to our extensive product portfolio and sound regional footing, we see good opportunities for expanding our leading market positions and achieving further growth. We remain confident that WACKER is strategically and financially so well placed that we can take advantage of any opportunities that arise.

Outlook

Underlying Economic Conditions

Economists expect the global upswing to continue in 2018 with increasing momentum. But there are still significant risks to growth over the medium term. An unexpected slowdown in China could dampen the world economy, as could tighter monetary policies by leading central banks. Another growth hurdle is the low inflation rates seen in numerous countries. In addition, the global economy faces significant risks from geopolitical crises in the Middle East, Eastern Europe and Asia, and from continued political uncertainty in Europe and the USA.

B.61 GDP Trends in 2018



Sources – worldwide: IMF; Asia: ADB; China: ADB; India: ADB; Japan: OECD; USA: OECD; Europe: OECD

According to the International Monetary Fund, global growth will be somewhat stronger in 2018 than last year. The IMF expects world GDP to expand by 3.9 percent (2017: 3.7 percent). In the Fund's estimation, emerging markets will make the biggest contribution in 2018, with 4.9 percent growth. Advanced economies will grow by 2.3 percent. In China, government initiatives to raise the service sector's importance are gaining traction. But the fact that China's growth rates are still high is a sign that economic restructuring is not progressing as fast as planned. Basically, experts agree that the pace of expansion in China, and in Asia's emerging economies, will continue to decrease in the years ahead – even if growth rates remain high on balance. The eurozone seems on track for further growth. GDP in the USA is also expected to climb in 2018.

Given the latest economic projections, our 2018 scenario is for the world economy to expand noticeably. For 2019, we anticipate similar growth.

Sector-Specific Conditions

We expect economic trends in the sectors relevant to our business to be largely positive in 2018.

Chemical Industry to Post Slight Gains in 2018

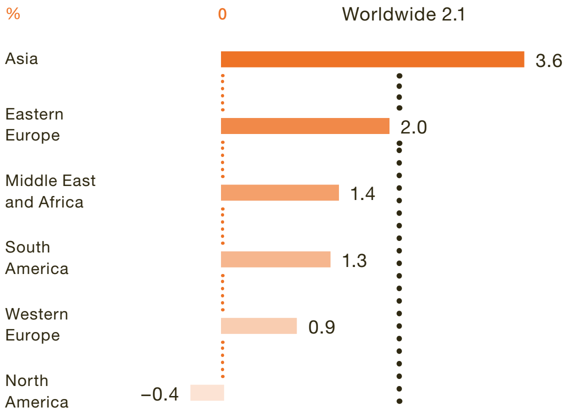
After a good 2017, the German Chemical Industry Association (VCI) expects the chemical sector to remain on a positive trajectory in 2018. According to the VCI, chemical production will climb by 2 percent. The VCI forecasts that total sales will rise 3 percent. On the export side, Germany's chemical companies will continue to benefit from the robust global economy. In domestic markets, they will be supported by strong industrial demand.

WACKER's chemical divisions see major growth opportunities in BRIC countries and other emerging markets. Rising affluence in emerging economies will continue to lift WACKER's sales in countries such as China and India, as well as across Southeast Asia. WACKER's portfolio has many value-added products that are needed by new customer groups.

Global Construction Industry to Remain on Growth Trajectory

According to research institute B+L Marktdaten GmbH, the construction industry will continue expanding over the next few years. On average, construction volume is expected to rise by about 2.1 percent annually until 2020, with Asia as the main growth driver. B+L estimates that construction in Europe and South America is also on track for further growth, albeit at a slower pace than in Asia. North America's construction market, on the other hand, is contracting slightly.

B.62 Construction-Industry Growth Rates by Region, 2018 to 2020



Source: B+L Marktdaten GmbH

In the coming years, renovation, energy-efficiency and sustainability projects will continue to offer WACKER good growth opportunities. At WACKER POLYMERS, we expect to grow our construction sales in every region during 2018. The main growth drivers, in our view, will be low-emission interior paints and dry-mix mortars. At WACKER SILICONES, we intend to carry on increasing the percentage of value-added specialty products in our construction-industry portfolio. Growth prospects are good for hybrid polymers (used to formulate high-performance adhesives and sealants) and for silicone sealants sold under our own brand.

Electrical and Electronics Industries Anticipate Moderate Growth in 2018

The electrical and electronics industries expect global market volumes to expand by 4 percent in 2018. According to the German Electrical and Electronic Manufacturers' Association (ZVEI), most expansion will be spurred by Asia and the Americas, with slight gains anticipated in Europe. The ZVEI expects the electrical and electronics industries in Germany to grow by 2 percent in 2018. WACKER sees good growth prospects in silicone gels and silicone encapsulants for electronic components and in customized silicones for automotive applications, such as driver-assistance systems, sensors and optical displays.

Market Remains Challenging, But Installed PV Capacity Likely to Grow in 2018

Economic conditions for photovoltaics (PV) will again be dynamic and challenging in 2018. On the one hand, intense competition and potential new trade barriers for PV products are creating market uncertainty. On the other, levelized costs for solar power continue to drop, strengthening the competitiveness of photovoltaics relative to other energy sources. In addition, solar energy has a key role to play in achieving global climate-protection targets, since it significantly reduces specific carbon-dioxide emissions compared with fossil fuels. New markets are opening up to photovoltaics, due to its cost effectiveness and to political efforts to keep global warming below 2 °C. The photovoltaic market is on track for further growth. China will remain the world's largest and most important market in 2018. Other countries likely to add large amounts of capacity include India, the USA and Japan, according to market researchers at IHS. Regions with strong growth potential include Central and South America, Southeast Asia, the Middle East and Africa. Based on our own market surveys and those of third parties, WACKER expects newly installed photovoltaic (PV) capacity to range from 110 to 125 gigawatts (GW).

B.63 WACKER's Key Customer Sectors

Sectors	Trends in 2017	Trends in 2018
Chemicals	Growth	Growth
Construction	Growth	Growth
Energy and electrical	Growth	Growth
Photovoltaics	Strong growth, continuing market overcapacity and ongoing consolidation	Growth amid intense competition

B.64 Photovoltaic-Market Trend in 2018

	Installation of New PV Capacity (MW)		
	2018		2017
	Lower Range	Upper Range	
Germany	2,000	2,400	1,800
France	1,100	1,300	900
Rest of Europe	4,900	5,400	4,400
USA	8,000	10,000	11,500
Japan	7,000	8,000	7,500
China	59,000	65,000	54,000
India	9,000	11,000	9,500
Other regions	19,000	21,900	14,400
Total	110,000	125,000	104,000

Sources: PV market in 2018: IHS, Solar Energy Industries Association (SEIA), RTS Corporation, Bridge to India, market studies, WACKER's own market research; PV market in 2017: Germany's Federal Network Agency, Commissariat Général au Développement Durable, IHS, SEIA, RTS Corporation, China National Energy Agency, Apricum, Ministry of New and Renewable Energy, market studies, WACKER's own market research

The WACKER Group's Prospects

According to our projected scenario, we expect the world economy to grow in 2018. Most momentum will come from emerging markets in Asia, with stable growth in Europe and the USA.

Investment Spending and Production

In 2018, our capital expenditures will focus on production plants for intermediates and downstream products. WACKER's priority is to grow its business organically. We continue to see good organic-growth potential for applications and in markets. Capital expenditures of around €470 million in 2018 will be higher than last year, but will remain below depreciation. Most investment spending will be for WACKER SILICONES. Some 55 percent of capital expenditure is aimed at securing the continued growth of our operating activities and 45 percent is for optimization and modernization projects.

At WACKER SILICONES, we are constructing a new pyrogenic-silica plant in Charleston, Tennessee (USA). Other projects include facilities to manufacture liquid silicone rubber in Burghausen (Germany) and Zhangjiagang (China). We are also building a new silicon-metal facility in Holla (Norway).

At WACKER POLYMERS, we are expanding VAE dispersion plants in Nanjing (China). Further projects include a new dispersion plant and spray dryer in Ulsan (South Korea). WACKER BIOSOLUTIONS is modernizing a large-scale fermentation plant acquired in Spain.

In 2018, we will conclude several investment projects and bring the facilities on stream.

B.65 Facility Start-Ups in 2018

Location	Projects	Year
Adrian, Michigan, USA	Discontinuous emulsion plant	2018
Burghausen	Production facility for non-postcuring liquid silicone rubber	2018
León, Spain	Cysteine plant	2018
Jincheon, South Korea	New production facility for RTV silicone compounds	2018
Nanjing, China	Capacity extension for VAE dispersions	2018

Maintenance costs will amount to about €400 million in 2018.

Future Products and Services

WACKER POLYMERS is intensifying its activities in polymeric binders for sophisticated coating and construction applications. In particular, demand is rising globally for functional additives used in water-repellent construction materials and impregnating agents. Market researchers at Lucintel expect the global market for waterproofing coatings to grow at an average annual rate of 4 percent, reaching around US$24 billion by 2021. We aim to expand our market position in this segment with our specialty dispersions. They are used in hydrophobic coatings that reliably protect kitchens, bathrooms and foundations against moisture.

Global demand for functional paints and coatings is also increasing. The specialty dispersions we have developed for stain-resistant floor and wall coatings enable a wide variety of stains – such as red wine, ketchup and oil – to be wiped away easily and, in most cases, completely. According to Research and Markets, this coatings segment will grow by 6.6 percent a year on average and will account for sales of US$4.6 billion by 2026.

In the construction segment, WACKER SILICONES has three pillars for growth: chemical products for construction coatings and materials; silicone sealants; and silane-modified hybrid polymers. Construction chemicals focus on new impregnating agents and construction coatings for cement-bound industrial flooring. Our silane-modified hybrid polymers also have a bright future. They are becoming increasingly important as a technology platform for formulating construction sealants, industrial high-durability adhesives, coatings, and waterproofing membranes. For example, in 2017, we launched an innovative hybrid polymer for formulating joint sealants that are elastic and extremely flexible, and bond well. According to MarketsandMarkets, these polymer-based adhesives and sealants will see annual volume growth of around 9 percent.

In the wound-dressing market, experts project growth of 6 percent annually through 2021. To meet this demand, WACKER is developing specialty silicone gels and silicone-resin-based adhesive systems. For large or chronic wounds, the medical sector is increasingly turning to silicone-coated wound dressings. We also anticipate volume growth in silicone additives and processing aids. Such additives are needed to develop innovative polymer compounds. We are developing new silicone products in the cosmetics and personal-care sectors. In Asia, our focus is on silicone elastomer gels for formulating skincare products and make-up. In China and India, we are expanding our portfolio of silicone fluids and emulsions for shampoos and conditioners. Asia has already become the world's largest market, with the value of goods sold exceeding €100 billion.

Wacker Biotech has developed a reliable, state-of-the-art process that will enable Chiesi, a pharmaceutical-industry customer, to produce its Retavase® biopharmaceutical in a safe, cost-efficient manner to supply the US market. The product obtained approval from the US Food and Drug Administration (FDA) in late 2017. The medication is used to treat acute heart attacks in adults. For pharmaceutical company Fresenius Medical Care, Wacker Biotech has developed an industrially scalable process for manufacturing a special antibody fragment used in apheresis products for selective dialysis. A study by Persistence Market Research indicates that the biologics sector will expand by an average of 9 percent a year to reach about US$275 billion by 2020.

Demand for high-quality polysilicon will also grow over the coming years. Crystalline solar cells have the dominant position worldwide. They are made of multicrystalline silicon in most cases, but demand for monocrystalline cells is increasing continuously. Such premium products are highly efficient and generate more electricity from the same amount of sunlight. WACKER, as a technology leader, is very well positioned here. With our hyperpure polysilicon, we are ideally placed to supply the fast growing segment for monocrystalline cells.

Research & Development

The Group's research and development work remains focused on key strategic projects. WACKER intends to spend 10 percent of its R&D budget on key projects in 2018 (2017: 11 percent). Our R&D work prioritizes the highly promising fields of energy, electronics, consumer care, biotechnology and construction applications. Energy storage and renewable energy generation will be a strong point of focus.

We introduced the WACKER Silicone Award in 1987, and will be presenting what is now the 17th such award in September 2018, during the 9th European Silicon Days in Saarbrücken (Germany).

Digitalization

We will move WACKER's digitalization program forward with a wide range of individual projects across the entire company. To enhance customer management, we are introducing a new customer information system.

Employees

We expect employee numbers to grow in 2018 due to expanding production capacities at WACKER SILICONES and WACKER POLYMERS in Asia and at the Charleston site in the USA. Prudent personnel planning will remain a priority.

Sustainability

WACKER's sustainability goals for the next few years are described in the Non-Financial Statement. An additional goal as of 2018 is to lower specific nitrogen oxide emissions by 25 percent in the period until 2022. In 2018, the regional focus of WACKER's sustainability management activities will be on the Americas, where we will examine environmental, health and safety aspects at individual sites. In 2019, the focus will be on Europe.

Outlook for 2018

WACKER's main planning assumptions relate to raw-material and energy costs, personnel expenses and exchange rates. For 2018, we anticipate a euro exchange rate of US$1.25 (2017: US$1.10). We expect the average prices of our key raw materials to increase significantly. Prices of natural gas and electricity are also likely to be slightly above the prior-year level. Our raw-material and energy supplies are largely secured for 2018. The markets in which we source our raw materials are sufficiently liquid, making bottlenecks unlikely.

Performance Indicators and Value-Based Management

WACKER's key financial performance indicators are the same as last year.

WACKER's 2018 Sales Will Reflect Volume Growth

In 2018, WACKER expects its chemical divisions to see volume growth and, in some cases, higher product prices. At the polysilicon division, volumes will be at last year's level, while average polysilicon prices will be below it. On balance, Group sales are projected to rise by a low-single-digit percentage. Sales growth will be constrained by revised IFRS 15 "Revenue from Contracts with Customers." Due to these amendments, certain supply contracts with companies can no longer be recognized as revenue. That will reduce sales performance by a euro amount in the mid-double-digit millions. Sales growth will also be dampened by the increased strength of the euro against the US dollar compared with last year.

Economic uncertainties may cause the actual performance of the WACKER Group and its divisions to diverge from our assumptions, either positively or negatively.

In 2019, sales are expected to continue growing versus the year before – provided that the world economy remains on its upward trajectory, as economic research institutes predict, and there are not any unforeseen slumps in WACKER's key regions and industries.

Outlook for Key Performance Indicators at the Group Level

From today's perspective, the key performance indicators at the Group level will develop as follows.

EBITDA margin and EBITDA: the EBITDA margin is likely to be slightly higher than a year ago (2017: 20.6 percent), while EBITDA will increase by a mid-single-digit percentage. The earnings trend will be lifted by continuing volume growth, by generally higher selling prices, by operating performance, and by further improvements in income from investments. Exchange-rate effects and rising raw-material prices, on the other hand, will hold back earnings. With an effective tax rate of about 25 percent, Group net income from continuing operations should rise markedly compared with last year.

B.66 Outlook for 2018

	Reported for 2017	Outlook for 2018
Key Financial Performance Indicators		
EBITDA margin (%)	20.6	Slightly higher than a year ago
EBITDA (€ million)	1,014.1	A mid-single-digit percentage increase
ROCE (%)	7.5	Substantially above the prior-year level
Net cash flow (€ million)	358.1	Clearly positive, substantially below last year's figure
Supplementary Financial Performance Indicators		
Sales (€ million)	4,924.2	Low-single-digit percentage increase
Capital expenditures (€ million)	326.8	Around 470
Net financial debt (€ million)	454.4	On par with last year
Depreciation (€ million)	590.4	Around 550

ROCE: due to the decline in capital intensity, ROCE will be substantially above the prior-year level (2017: 7.5 percent).

Net cash flow: we expect net cash flow to be clearly positive in 2018, but substantially below last year's figure due to higher investment spending.

Outlook for Supplementary Performance Indicators at the Group Level

Capital expenditures: in 2018, capital expenditures will reach about €470 million, which is a substantial year-over-year rise. But they will remain below depreciation. At around €550 million, depreciation in 2018 will be significantly below last year's level. Investment projects include the construction of a pyrogenic-silica plant at Charleston in the USA and a silicon-metal plant at Holla in Norway.

Net financial debt: net financial debt will be on par with last year (2017: €454.4 million).

Divisional Sales and EBITDA Trends

At WACKER SILICONES, we expect to increase sales in 2018 by a low-single-digit percentage versus last year. Performance will reflect the impact of the IFRS 15 amendments. Sales growth will be fueled by a rise in volumes and by higher prices at every WACKER SILICONES business unit. Exchange-rate effects, on the other hand, will dampen the sales trend. We expect sales to rise in all regions. Amid high capacity utilization, our aim is for specialty products to account for a higher proportion of sales volume. EBITDA should rise by a mid-single-digit percentage year over year, amid higher prices for some raw materials.

At WACKER POLYMERS, sales are projected to climb by a mid-single-digit percentage versus last year. Dispersions and dispersible polymer powders will both contribute to this growth. EBITDA is anticipated to be at last year's level, amid further price increases for raw materials and with a scheduled plant shutdown in Q2.

At WACKER BIOSOLUTIONS, we expect sales to climb by a mid-single-digit percentage in 2018. Food and nutritional supplements will be the main growth drivers. Integration costs for the new site in Spain will impact the 2018 EBITDA trend. Compared with last year, EBITDA will decrease significantly.

In our polysilicon business, our 2018 forecast is that volumes will stay unchanged – given the present shutdown at Charleston – amid lower average prices for polysilicon. As a result, we expect sales to be lower versus a year ago, declining by a high-single-digit percentage. EBITDA is projected to climb slightly year over year, supported by the continued success of cost-cutting measures, and taking account of insurance compensation.

Future Dividends

Our goal is to distribute about half of Group net income to shareholders, provided that the business situation permits this and the decision-making bodies agree.

Financing

The main features of our financing policy remain in place. We are confident that we have a strong financial profile with a sound capital structure and healthy maturities for our debt. As of December 31, 2017, WACKER had at its disposal unused lines of credit with residual maturities of over one year totaling some €900 million.

Executive Board Statement on Overall Business Expectations

The economic and political risks for 2018 have not changed significantly versus last year. At present, the global economy is performing robustly, both in advanced and emerging economies. In Europe, though, the stronger euro could dampen the pace of corporate growth there. At WACKER, we expect the world economy to continue growing in 2018.

We anticipate that our business will experience higher raw-material prices and headwinds from a stronger euro against the US dollar in 2018. Given these underlying conditions, Group sales are expected to increase by a low-single-digit percentage overall. Our chemical divisions are likely to lift their sales. At WACKER POLYSILICON, sales are projected to be lower than last year, declining by a high-single-digit percentage. A key factor here is the production shutdown at Charleston.

EBITDA growth should continue – increasing by a mid-single-digit percentage versus last year. We expect the EBITDA margin to be slightly higher than a year ago. Group net income from continuing operations is expected to rise markedly.

At around €470 million, capital expenditures will rise substantially year over year, with the main focus on supporting growth at WACKER SILICONES. Depreciation of about €550 million will be significantly lower than a year ago. We expect net cash flow to be clearly positive, but substantially below last year's figure, due to higher capital expenditures. Net financial debt will be on par with last year.

We have excellent products, which are in demand among customers all over the world. Given our innovative strength and solid presence in key markets, we are confident about reinforcing and expanding our market positions.

We see good opportunities to lift our sales again in 2018 and to continue growing our EBITDA despite higher raw-material prices and exchange-rate effects. Our increased capital expenditures will help us actively seize growth opportunities in our chemical divisions.

As of the date when these financial statements were prepared, no changes had been made to our forecast.

Consolidated Financial Statements

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C

Consolidated Financial Statements

C.1

Statement of Income

January 1 to December 31

€ million	Notes	2017	2016[1]
Sales	01	4,924.2	4,634.2
Cost of goods sold	01	–3,969.8	–3,811.4
Gross profit from sales		954.4	822.8
Selling expenses		–292.4	–261.1
Research and development expenses		–153.1	–150.0
General administrative expenses		–148.5	–126.7
Other operating income	01	84.2	141.9
Other operating expenses	01	–64.8	–90.5
Operating result		379.8	336.4
Result from investments in joint ventures and associates	02	42.0	0.2
Other investment income	02	1.9	0.9
EBIT (earnings before interest and taxes)		423.7	337.5
Interest income	02	7.5	4.7
Interest expenses	02	–38.3	–39.9
Other financial result	02	–57.9	–55.9
Financial result		–88.7	–91.1
Income from continuing operations before income taxes		335.0	246.4
Income taxes	03	–84.9	–68.3
Net income from continuing operations		250.1	178.1
Net income from discontinued operations		634.7	11.2
Net income for the year		884.8	189.3
Of which			
Attributable to Wacker Chemie AG shareholders		866.7	179.2
Attributable to non-controlling interests	10	18.1	10.1
Earnings per common share			
Earnings per common share (€) from continuing operations		4.85	3.44
Earnings per common share (€) from discontinued operations		12.60	0.17
Earnings per common share (€) (basic/diluted)	17	17.45	3.61

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations); further adjustments to selling expenses and research and development expenses

C.2

Statement of Comprehensive Income

January 1 to December 31

€ million	2017			2016		
	Before taxes	Deferred taxes		Before taxes	Deferred taxes	
Net income for the year			884.8			189.3
Items not reclassified to the statement of income						
Remeasurement of defined benefit plans	127.2	–29.9	97.3	–460.0	103.8	–356.2
Sum of items not reclassified to the statement of income	127.2	–29.9	97.3	–460.0	103.8	–356.2
Of which result from investments accounted for using the equity method	–1.4	0.9	–0.5	–	–	–
Items reclassified to the statement of income						
Difference from foreign currency translation adjustment	–186.2	–	–186.2	43.1	–	43.1
Of which recognized in profit and loss	12.4	–	12.4	2.2	–	2.2
Changes in fair values of securities available for sale	–0.1	–	–0.1	0.3	–	0.3
Of which recognized in profit and loss	–	–	–	–	–	–
Changes in fair values of derivative financial instruments (cash flow hedge)	17.4	–3.5	13.9	7.6	0.3	7.9
Of which recognized in profit and loss	1.1	–0.2	0.9	–21.1	0.3	–20.8
Effects of net investments in foreign operations	–2.5	–	–2.5	1.1	–	1.1
Of which recognized in profit and loss	–2.4	–	–2.4	–	–	–
Sum of items reclassified to the statement of income	–171.4	–3.5	–174.9	52.1	0.3	52.4
Of which result from investments accounted for using the equity method	–2.8	–1.3	–4.1	–	–	–
Income and expenses recognized in equity	–44.2	–33.4	–77.6	–407.9	104.1	–303.8
Of which						
Attributable to Wacker Chemie AG shareholders	–56.7	–33.4	–90.1	–372.7	104.1	–268.6
Attributable to non-controlling interests	12.5	–	12.5	–35.2	–	–35.2
Total income and expenses reported in the fiscal year			807.2			–114.5
Of which						
Attributable to Wacker Chemie AG shareholders			776.6			–89.4
Attributable to non-controlling interests			30.6			–25.1
The share of comprehensive income attributable to Wacker Chemie AG shareholders consists of the following:						
Continuing operations			133.3			–50.8
Discontinued operations			643.3			–38.6
The share of comprehensive income attributable to non-controlling interests consists of the following:						
Continuing operations			6.3			5.9
Discontinued operations			24.3			–31.0

C.3

Statement of Financial Position

As of December 31

€ million	Notes	Dec. 31, 2017	Dec. 31, 2016
Assets			
Intangible assets	04	**41.5**	50.4
Property, plant and equipment	04	**3,500.4**	4,594.9
Investment property	05	**1.3**	1.5
Investments in joint ventures and associates accounted for using the equity method	06	**564.6**	11.2
Securities	09	**42.1**	56.0
Other financial assets	08	**106.8**	111.5
Other receivables and other assets	08	**3.8**	3.7
Deferred tax assets	03	**452.6**	449.9
Noncurrent assets		4,713.1	5,279.1
Inventories	07	**783.6**	846.3
Trade receivables	08	**655.7**	775.7
Other financial assets	08	**78.3**	65.1
Other receivables and other assets	08	**86.0**	67.2
Income tax receivables	08	**13.9**	18.5
Securities and fixed-term deposits held to maturity	09	**218.2**	126.2
Cash and cash equivalents	09	**286.9**	283.5
Current assets		2,122.6	2,182.5
Total assets		6,835.7	7,461.6
Equity and Liabilities			
Subscribed capital of Wacker Chemie AG		**260.8**	260.8
Capital reserves of Wacker Chemie AG		**157.4**	157.4
Treasury shares		**–45.1**	–45.1
Retained earnings		**3,303.9**	2,488.7
Other equity items		**–557.8**	–482.4
Equity attributable to Wacker Chemie AG shareholders		3,119.2	2,379.4
Non-controlling interests		**50.1**	213.8
Equity	10	3,169.3	2,593.2
Provisions for pensions	11	**1,618.3**	2,107.8
Other provisions	12	**231.6**	247.4
Income tax provisions	12	**46.7**	73.7
Financial liabilities	13	**800.4**	791.1
Other financial liabilities	14	**0.5**	2.3
Other liabilities	14	**112.6**	164.2
Deferred tax liabilities	03	**4.2**	6.2
Noncurrent liabilities		2,814.3	3,392.7
Other provisions	12	**62.5**	95.0
Income tax provisions	12	**83.7**	26.8
Financial liabilities	13	**201.2**	667.1
Trade payables	14	**268.5**	369.7
Other financial liabilities	14	**15.0**	61.8
Income tax liabilities	14	**0.8**	0.8
Other liabilities	14	**220.4**	254.5
Current liabilities		852.1	1,475.7
Liabilities		3,666.4	4,868.4
Total equity and liabilities		6,835.7	7,461.6

C.4
Statement of Cash Flows

January 1 to December 31

€ million	Notes	2017	2016[1]
Net income for the year		884.8	189.3
Income from discontinued operations		–634.7	–11.2
Depreciation and impairment losses/reversals of fixed assets		590.4	618.0
Result from disposal of fixed assets		3.0	–4.6
Other non-cash expenses and income		40.0	–16.1
Result from equity accounting		–42.0	–0.2
Net interest income		30.8	35.2
Interest paid		–41.2	–38.7
Interest received		7.6	5.3
Income tax expense		84.9	68.3
Taxes paid		–92.8	–74.8
Dividends received		2.6	4.1
Change in inventories		–97.7	–56.4
Change in trade receivables		6.0	–71.8
Change in non-financial assets		–34.5	–5.2
Change in financial assets		–63.0	–3.7
Change in provisions		67.1	52.6
Change in non-financial liabilities		38.6	11.3
Change in financial liabilities		–66.8	82.2
Change in advance payments received		–70.1	–162.6
Cash flow from operating activities (gross cash flow) – continuing operations	19	613.0	621.0
Cash flow from operating activities (gross cash flow) – discontinued operations		44.1	115.6
Cash flow from operating activities (gross cash flow)		657.1	736.6
Investments in intangible assets, property, plant and equipment, and investment property		–328.2	–417.7
Investments in financial assets		–0.1	–
Proceeds from the disposal of intangible assets, and property, plant and equipment		3.2	6.2
Proceeds from the disposal of investments		0.1	–
Cash payments for acquisitions		–	–8.8
Cash flow from long-term investing activities before securities		–325.0	–420.3
Cash receipts from the disposal of securities and fixed-term deposits		245.0	79.1
Cash payments for the acquisition of securities and fixed-term deposits		–402.6	–153.2
Cash flow from investing activities – continuing operations	19	–482.6	–494.4
Cash receipts from deconsolidation of Siltronic segment less divested cash		191.8	–
Cash flow from investing activities – discontinued operations		–26.0	–135.5
Cash flow from investing activities		–316.8	–629.9
Dividends paid		–99.4	–99.4
Dividends paid to non-controlling interests		–4.6	–1.3
Cash receipts from the change in ownership interests in Siltronic AG		87.6	–
Bank loans raised		238.7	255.9
Bank loans repaid		–550.4	–285.8
Other financial liabilities repaid		–5.0	–5.2
Cash flow from financing activities – continuing operations	19	–333.1	–135.8
Cash flow from financing activities		–333.1	–135.8
Change due to exchange-rate fluctuations		–3.8	2.1
Change in cash and cash equivalents	09	3.4	–27.0
At the beginning of the year		283.5	310.5
At the end of the year		286.9	283.5

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

C.5

Statement of Changes in Equity

January 1 to December 31

€ million	Subscribed capital	Capital reserves	Treasury shares	Retained earnings	Other equity items	Total	Non-controlling interests	Total
Jan. 1, 2016	260.8	157.4	–45.1	2,408.9	–213.8	2,568.2	226.9	2,795.1
Net income for the year	–	–	–	179.2	–	179.2	10.1	189.3
Dividends paid	–	–	–	–99.4	–	–99.4	–1.3	–100.7
Income and expenses recognized in equity	–	–	–	–	–268.6	–268.6	–35.2	–303.8
Scope of consolidation/ other	–	–	–	–	–	–	13.3	13.3
Dec. 31, 2016	260.8	157.4	–45.1	2,488.7	–482.4	2,379.4	213.8	2,593.2
Jan. 1, 2017	260.8	157.4	–45.1	2,488.7	–482.4	2,379.4	213.8	2,593.2
Net income for the year	–	–	–	866.7	–	866.7	18.1	884.8
Dividends paid	–	–	–	–99.4	–	–99.4	–4.6	–104.0
Change in ownership interests in Siltronic AG (without loss of control)	–	–	–	47.9	14.7	62.6	25.0	87.6
Income and expenses recognized in equity	–	–	–	–	–90.1	–90.1	12.5	–77.6
Changes in the scope of consolidation	–	–	–	–	–	–	–214.7	–214.7
Dec. 31, 2017	260.8	157.4	–45.1	3,303.9	–557.8	3,119.2	50.1	3,169.3

C.6

Reconciliation of Other Equity Items

January 1 to December 31

€ million	Changes in fair values of securities available for sale	Difference from foreign currency translation adjustment	Changes in fair values of derivative financial instruments (cash flow hedge)	Remeasurement of defined benefit plans	Effects of net investments in foreign operations	Total
Attributable to Wacker Chemie AG shareholders						
Jan. 1, 2016	0.1	221.7	–9.5	–426.1	–	–213.8
Changes recognized in equity	–	–	–8.1	–318.0	0.6	–325.5
Reclassification to the statement of income	–	2.2	12.4	–	–	14.6
Changes in exchange rates	–	42.3	–	–	–	42.3
Dec. 31, 2016	0.1	266.2	–5.2	–744.1	0.6	–482.4
Jan. 1, 2017	0.1	266.2	–5.2	–744.1	0.6	–482.4
Changes recognized in equity	–0.1	–	13.3	85.6	–1.8	**97.0**
Reclassification to the statement of income	–	12.4	–0.4	–	–2.4	**9.6**
Change in ownership interests in Siltronic AG (without loss of control)	–	1.6	0.1	13.1	–0.1	**14.7**
Changes in exchange rates	–	–196.7	–	–	–	**–196.7**
Dec. 31, 2017	–	83.5	7.8	–645.4	–3.7	–557.8
Attributable to non-controlling interests						
Jan. 1, 2016	–0.3	–10.8	–5.5	–53.6	–	–70.2
Changes recognized in equity	0.3	–	–4.8	–38.2	0.5	–42.2
Reclassification to the statement of income	–	–	8.4	–	–	8.4
Changes in exchange rates	–	–1.4	–	–	–	–1.4
Dec. 31, 2016	–	–12.2	–1.9	–91.8	0.5	–105.4
Jan. 1, 2017	–	–12.2	–1.9	–91.8	0.5	–105.4
Changes recognized in equity	–	–	–0.3	11.7	1.7	**13.1**
Reclassification to the statement of income	–	–	1.3	–	–	**1.3**
Change in ownership interests in Siltronic AG (without loss of control)	–	–1.6	–0.1	–13.1	0.1	**–14.7**
Changes in exchange rates	–	–1.9	–	–	–	**–1.9**
Changes in the scope of consolidation	–	11.3	1.0	93.2	–2.3	**103.2**
Dec. 31, 2017	–	–4.4	–	–	–	–4.4

C.7

Segment Information by Division

January 1 to December 31

€ million	Silicones	Polymers	Biosolutions	Polysilicon	Other	Discontinued operations	Consolidation	Group[2]
2017								
External sales	2,200.0	1,225.6	205.8	1,101.3	150.8	–	–	4,883.5
Internal sales	0.2	19.5	0.1	22.7	18.0	–	–19.8	40.7
Total sales	2,200.2	1,245.1	205.9	1,124.0	168.8	–	–19.8	4,924.2
EBIT	362.2	168.1	26.1	–87.6	–48.2	–	3.1	423.7
Depreciation and impairment losses/reversals	82.7	37.5	11.4	378.0	80.8	–	–	590.4
EBITDA	444.9	205.6	37.5	290.4	32.6	–	3.1	1,014.1
EBIT includes:								
Result from investments in joint ventures and associates	2.0	–	–	–	40.0	–	–	42.0
Impairment of fixed assets	–	–	–	–	–	–	–	–
Asset additions[1]	142.8	48.1	15.7	57.6	62.5	19.5	–	346.2
Additions to financial assets	–	–	–	–	0.1	–	–	0.1
Asset additions	142.8	48.1	15.7	57.6	62.6	19.5	–	346.3
Assets (Dec. 31)	1,471.1	609.3	157.7	2,395.3	2,202.4	–	–0.1	6,835.7
Liabilities (Dec. 31)	688.8	270.9	66.0	759.6	1,881.2	–	–0.1	3,666.4
Net assets (Dec. 31)	782.3	338.4	91.7	1,635.7	321.2	–	–	3,169.3
Investments in joint ventures and associates included in net assets (Dec. 31)	9.9	–	–	–	554.7	–	–	564.6
Research and development expenses	58.6	29.3	6.0	22.6	36.6	–	–	153.1
Employees (Dec. 31)	4,737	1,539	533	2,538	4,464	–	–	13,811
Employees (average)	4,708	1,519	528	2,527	4,441	–	–	13,723
2016								
External sales	2,001.0	1,176.4	206.4	1,008.7	83.4	–	–	4,475.9
Internal sales	0.1	18.4	–	86.8	79.2	–	–26.2	158.3
Total sales	2,001.1	1,194.8	206.4	1,095.5	162.6	–	–26.2	4,634.2
EBIT	280.8	223.7	25.7	–117.1	–76.0	–	0.4	337.5
Depreciation and impairment losses/reversals	80.4	37.3	11.3	403.0	86.2	–	–0.2	618.0
EBITDA	361.2	261.0	37.0	285.9	10.2	–	0.2	955.5
EBIT includes:								
Income from investments in joint ventures and associates	0.2	–	–	–	–	–	–	0.2
Impairment of fixed assets	–	–	–	–2.5	–	–	–	–2.5
Asset additions[1]	88.6	37.5	9.1	130.0	72.9	89.5	–	427.6
Change in the scope of consolidation	26.1	–	11.2	–	–	–	–	37.3
Asset additions	114.7	37.5	20.3	130.0	72.9	89.5	–	464.9
Assets (Dec. 31)	1,379.8	580.2	151.9	3,018.1	1,326.9	1,034.4	–29.7	7,461.6
Liabilities (Dec. 31)	851.8	291.2	70.9	1,168.1	1,879.5	631.4	–24.5	4,868.4
Net assets (Dec. 31)	528.0	289.0	81.0	1,850.0	–552.6	403.0	–5.2	2,593.2
Investments in joint ventures and associates included in net assets (Dec. 31)	11.2	–	–	–	–	–	–	11.2
Research and development expenses	53.7	30.4	6.2	18.3	41.4	–	–	150.0
Employees (Dec. 31)	4,566	1,484	510	2,490	4,398	3,757	–	17,205
Employees (average)	4,468	1,480	508	2,448	4,403	3,811	–	17,118

[1] Intangible assets; property, plant and equipment; investment property

[2] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, **see Note 20.**

C.8
Segment Information by Region

January 1 to December 31

€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Discontinued operations	Consolidation	Group[3]
2017								
External sales by customer location	820.5	1,149.9	838.7	1,886.2	228.9	–	–	**4,924.2**
External sales by Group company location	3,910.0	119.5	1,167.7	859.5	12.1	–	–1,144.6	**4,924.2**
Additions to property, plant and equipment[1]	172.6	35.3	75.1	43.4	0.3	19.5	–	**346.2**
Additions to financial assets	0.1	–	–	–	–	–	–	**0.1**
Asset additions	172.7	35.3	75.1	43.4	0.3	19.5	–	346.3
Assets (Dec. 31)	5,997.2	1,498.7	2,627.3	656.9	6.2	–	–3,950.6	**6,835.7**
Liabilities (Dec. 31)	2,973.1	40.2	1,342.6	320.6	2.5	–	–1,012.6	**3,666.4**
Net assets (Dec. 31)	3,024.1	1,458.5	1,284.7	336.3	3.7	–	–2,938.0	3,169.3
Noncurrent assets[2]	1,721.5	87.0	2,015.6	284.8	2.7	–	–	**4,111.6**
Research and development expenses	153.8	–	15.9	11.0	–	–	–27.6	**153.1**
Employees (Dec. 31)	9,984	407	1,676	1,678	66	–	–	**13,811**
2016								
External sales by customer location	777.2	1,073.7	825.6	1,751.6	206.1	–	–	4,634.2
External sales by Group company location	3,703.8	121.4	1,116.2	731.2	10.4	–	–1,048.8	4,634.2
Asset additions[1]	176.9	9.8	137.1	14.2	0.1	89.5	–	427.6
Change in the scope of consolidation	–	11.2	–	26.1	–	–	–	37.3
Asset additions	176.9	21.0	137.1	40.3	0.1	89.5	–	464.9
Assets (Dec. 31)	5,303.3	1,447.7	3,066.5	610.7	6.6	1,034.4	–4,007.6	7,461.6
Liabilities (Dec. 31)	3,372.3	51.1	1,598.0	378.0	2.9	631.4	–1,165.3	4,868.4
Net assets (Dec. 31)	1,931.0	1,396.6	1,468.5	232.7	3.7	403.0	–2,842.3	2,593.2
Noncurrent assets[2]	1,305.1	62.3	2,474.8	286.6	3.0	523.8	6.0	4,661.6
Research and development expenses	143	–	12.6	9.0	–	–	–14.6	150.0
Employees (Dec. 31)	9,775	387	1,639	1,588	59	3,757	–	17,205

[1] Intangible assets; property, plant and equipment; investment property
[2] Noncurrent assets as per IFRS 8 (excluding financial instruments, deferred tax assets and benefits after termination of the employment relationship)
[3] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

The segment information by region is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, **see Note 20.**

Notes of the WACKER Group

Accounting Principles and Methods

The WACKER Group (WACKER) is a global chemical company with core activities in the fields of silicone and polymer chemistry, specialty and fine chemistry, and polysilicon production. The activities of the individual segments are explained in the management report. The Group's parent company, Wacker Chemie AG, is a listed company under the laws of the Federal Republic of Germany and headquartered in Munich, Germany (entered in Munich's commercial register under HRB 159705). Its registered office is at Hanns-Seidel-Platz 4, 81737 Munich, Germany.

The consolidated financial statements, the combined management report and any other documents subject to disclosure requirements are submitted to the publisher of the online German Federal Gazette and published on WACKER's website. KPMG AG Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements and the combined management report and issued an unqualified audit opinion for them.

www.wacker.com/annual-report

Wacker Chemie AG and its subsidiaries are included in the consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft mbH, Munich. The consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft, Munich are disclosed to the publisher of the online German Federal Gazette.

The Executive Board and Supervisory Board of Wacker Chemie AG have submitted the declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) and made it accessible to the shareholders on WACKER's website.

www.wacker.com/corporate-governance

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the supplementary rules in Section 315e (1) of the German Commercial Code (HGB). The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that were applicable in the year under review have also been implemented.

The fiscal year corresponds to the calendar year. Assets and liabilities are reported in the statement of financial position in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within 12 months of the reporting date. The statement of income is prepared using the cost-of-sales method. To improve the clarity of presentation, various items in the statement of income and in the statement of financial position have been combined. These items are shown and explained separately in the Notes.

The Group's functional currency is the euro. All amounts are shown in millions of euros (€ million) unless otherwise stated. There may be slight deviations in the additions as all amounts have been rounded up to the nearest whole number after the decimal point.

Material events occurring after the reporting date are described in detail in the Supplementary Report. The Executive Board of Wacker Chemie AG approved the consolidated financial statements on February 26, 2018. They will be submitted to the Supervisory Board for approval at its meeting on March 6, 2018.

New Accounting Standards

The new or revised accounting standards applied for the first time in these consolidated financial statements concern:

Accounting Standards Applied for the First Time in 2017

Standard/ Interpretation		Mandatory from	Endorsed by EU	Impact on WACKER
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 1, 2017	Nov. 6, 2017	The amendments provide clarification concerning the recognition of deferred tax assets for measurement differences in relation to debt instruments classified as available for sale. Further, the amendments illustrate how to estimate future taxable profit as evidence of the value of deferred tax assets for loss carryforwards. This change does not have any impact on WACKER's earnings, net assets or financial position.
Amendments to IAS 7	Statement of Cash Flows – Disclosure Initiative	Jan. 1, 2017	Nov. 6, 2017	The Notes should include a reconciliation – between the opening and closing balances for liabilities arising from financing activities – that discloses cash and non-cash changes. At WACKER, this reconciliation has been added to the disclosures in the Notes.

Other standards and interpretations to be applied for the first time are not applicable due to the absence of relevant circumstances.

Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards the application of which is not yet mandatory and which WACKER is not applying earlier than required. Only those standards that are relevant to WACKER are mentioned. If no official German translation of a new standard or interpretation exists, we use the English title. WACKER evaluates every new standard to determine its impact on the consolidated financial statements.

Accounting Standards Published by the IASB, But Not Yet Applied

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 9	Financial Instruments	July 24, 2014	Jan. 1, 2018	Nov. 22, 2016	The revised version of IFRS 9 introduces a single approach to the classification and measurement of financial assets. This approach is driven by cash flow characteristics and the business model in line with which the assets are managed. Further, the standard provides a new impairment model that is based on expected credit losses. IFRS 9 also introduces new rules for hedge accounting with enhanced focus on an entity's risk management activities, especially with regard to managing non-financial risks. The classification and measurement rules of IFRS 9 did not result in any material accounting changes. Accounting of impairments of financial assets was converted to the expected-loss model, while the simplified model is used for trade receivables. Since WACKER supplies customers of high credit standing and has not posted any material loss of receivables in the past, no significant changes will result here either. The Group does not expect a higher loss-of-receivables rate in the future thanks to its credit insurance cover and efficient credit scorings. WACKER makes use of its option to continue to conduct hedge accounting in accordance with the old IAS 39 standard. The anticipated effects of converting to the expected-loss model are insignificant. Our disclosure obligations will increase.

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	Jan. 1, 2018	Sept. 22, 2016	IFRS 15 sets out that an entity shall recognize revenue whenever the customer obtains control of, and can draw an economic benefit from, the promised goods and services. The transfer of significant risks and rewards of ownership is no longer of primary importance, as was still the case under the old IAS 18 Revenue rules. Revenue must be recognized in an amount that reflects the consideration to which an entity expects to be entitled. The new model provides a five-step framework for recognizing revenue, which first identifies the contract with a customer and the performance obligations it entails, and then determines and allocates the transaction price. The revenue must be recognized for each individual performance obligation when the customer obtains control of the good or service. WACKER has concluded its analysis of the changes. Changes in revenue recognition result from transactions in accordance with IFRS 15.5 (b) (non-monetary exchanges between entities in the same line of business to facilitate sales to customers) and transport costs that constitute a separate performance obligation. In 2018, the adjustment due to non-monetary exchanges will cause sales recognized to be €30–50 million lower. The later recognition of transport costs as sales will result in a deferral effect of between €3 million and €5 million. The effect on earnings will be insignificant. WACKER will use the modified retrospective approach as the transition guidance. The new standard will lead to more detailed disclosures in the Notes to WACKER's financial statements.
IFRS 16 Leases	Lease Accounting	Jan. 13, 2016	Jan. 1, 2019	Oct. 31, 2017	The new standard requires all lease arrangements held by the lessee to be recognized as finance transactions. A lease arrangement gives the lessee control over the use of an asset for a period of time in exchange for a consideration. Under the new definition, a leasing arrangement embedded in a supply contract for goods (IFRIC 4) should no longer be treated as a finance lease. In the future, a right-of-use is to be capitalized and the corresponding obligation posted as a liability. Straight-line depreciation of the right-of-use asset and application of the effective interest method to the liability result in depreciation and interest expense. In the Notes, WACKER currently reports operating lease obligations totaling €119 million. Analyses of the effects of the new standards have not yet been completed. The new standard will lead to more extensive disclosures in the Notes to WACKER's financial statements.
Amendments to IFRS 9	Prepayment Features with Negative Compensation	Oct. 12, 2017	Jan. 1, 2019	Planned in 2018	Measurement at amortized cost or at fair value directly in equity is now also possible for financial instruments that had previously infringed upon the cash-flow criterion solely due to a termination clause with an early repayment feature. The early repayment amount can now be either positive or negative depending on the interest. WACKER is not affected by this change.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Dec. 8, 2016	Jan. 1, 2018	Q1 2018	The interpretation determines the exchange rate to be used on initial recognition of a foreign currency transaction in an entity's functional currency when the entity pays or receives consideration in advance for the related asset, expenses or income (or parts thereof). WACKER makes investment-related advance payments to a minor extent only. The advance payments received to date for polysilicon deliveries have all been denominated in euros. The volume of other advance payments made is only minor. An analysis of the clarification's impact has already been carried out. We expect only a marginal change in earnings, net assets and financial position.

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	Jan. 1, 2019	Planned in 2018	The interpretation contains rules for recognizing and measuring uncertain tax positions and hence closes existing gaps in IAS 12 Income Taxes. Uncertain tax positions comprise all risk-related tax issues. This concerns uncertainties regarding acceptance by the tax authorities. The recognition of an uncertain tax position (whether asset or liability) depends on whether a payment is assessed to be probable. The uncertain tax position can affect both current and deferred taxes. Determining the uncertain tax position requires uniform estimates and assumptions. We assume that the interpretation will not result in any change in the WACKER Group's earnings, net assets or financial position.

Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and all companies over which Wacker Chemie AG has direct or indirect control as defined in IFRS 10, or can exercise joint control as defined in IFRS 11. Depending on their structure, companies over which Wacker Chemie AG can exercise joint control are included in the consolidated financial statements either proportionately (line-by-line) or are accounted for using the equity method. In the absence of other limiting contractual agreements, holding a majority of the voting rights usually leads to control. Joint control generally exists when voting rights are equally balanced, except if other (contractual) rights result in control by one shareholder. Currently, one company with joint control is consolidated using the equity method.

Associates in which Wacker Chemie AG can exercise significant influence as defined in IAS 28 are likewise accounted for using the equity method. Significant influence is presumed if Wacker Chemie AG directly or indirectly holds 20 percent of the voting rights in the investment, unless it can be clearly demonstrated that this is not the case.

Structured entities are also consolidated in the manner described in IFRS 10 if the economic substance of the relationship indicates the existence of control. WACKER includes one such structured entity, a special fund, in its consolidated financial statements. Wacker Chemie AG has contributed cash to this fund. The fund was established exclusively for WACKER, and all shares in the fund are held by WACKER. Contractual provisions of this fund qualify it as a structured entity as defined in IFRS 10.

Companies in which Wacker Chemie AG has a shareholding of less than 20 percent or does not exercise significant influence are shown as other investments under noncurrent financial assets.

A detailed list of the companies included in the consolidated financial statements and of Wacker Chemie AG's entire shareholdings is shown in the Breakdown of Shareholdings section in accordance with Sections 285 and 313 of the German Commercial Code.

See Note 21 to the Consolidated Financial Statements

Composition of the Group

Number	2017	2016
Fully consolidated subsidiaries (incl. parent company)	49	57
Germany	15	17
International	34	40
Companies accounted for using the equity method	3	2
Germany	1	–
International	2	2
Non-consolidated affiliated companies	–	1
Germany	–	1
International	–	–
Total	52	60
Germany	16	18
International	36	42
Structured entities	1	1
Germany	1	1
International	–	–

A total of 52 companies were included in the consolidated financial statements as of December 31, 2017 (Dec. 31, 2016: 60 companies). Compared with December 31, 2016, the scope of consolidation changed as follows:

Change in the Scope of Consolidation

%	
Reclassification of fully consolidated companies as equity-accounted companies[1]	
Siltronic AG, Munich, Germany	27
Siltronic Holding International B.V., Krommenie, Netherlands	27
Siltronic Corp., Portland, Oregon, USA	27
Siltronic Singapore Pte. Ltd., Singapore	27
Siltronic Japan Corp., Hikari, Japan	27
Siltronic Silicon Wafer Pte. Ltd., Singapore	27
Disposal/mergers of fully consolidated companies	
Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China (March 15, 2017)	100
Wacker-Chemie Dritte Venture GmbH (merged into Wacker Chemie AG as of January 1, 2017)	100

[1] Successive sale of 1.8 million shares in Siltronic AG between January 24 and February 9, 2017 (6 percent of shares); further sale of 6.3 million shares in Siltronic AG on March 15, 2017 (21 percent of shares)

Between January 24 and February 9, 2017, WACKER sold a total of 6 percent of the shares of Siltronic AG on the stock exchange. After this sale, the WACKER Group still held a stake of 51.8 percent in the Siltronic Group.

On March 15, 2017, WACKER reduced its stake in Siltronic AG from 51.8 percent to 30.8 percent by means of a bookbuilding offering to institutional investors. As WACKER had lost control of Siltronic, the segment was deconsolidated as of March 15, 2017. The remaining stake of 30.8 percent in the associate is accounted for using the equity method.

For further information on deconsolidation of the Siltronic Group and on disclosures in accordance with IFRS 5 Discontinued Operations, please refer to the Sale of Interests in Fiscal 2017 section on page 120 in the Notes.

Legal, contractual or regulatory restrictions and protective rights concerning non-controlling interests can limit the Group in its ability to retain access to assets, transfer these to or from other companies unhindered within the Group, or to settle Group debts. The distribution of dividends can be limited by the need to prioritize retirement of shareholder loans. At the reporting date, there were no significant restrictions due to protective rights to the benefit of non-controlling interests. For more information, please refer to the Notes (Equity/Non-Controlling Interests/Capital Structure Management).

See Note 10

In certain countries, regulatory requirements or local corporate-law stipulations can limit the Group's ability to transfer assets to or from other companies within the Group. Cash and cash equivalents are subject to local foreign-exchange restrictions in some Asian and South American countries. Capital may be exported from such countries only with prior approval from government authorities and by means of capital measures (dividends, capital reductions). There are no other significant limitations on assets utility within the Group.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries, joint arrangements and structured entities. The reporting date for all of these companies is December 31.

All key reporting data of these companies was audited by independent auditors prior to inclusion in the consolidated financial statements.

Business combinations are recognized by applying the purchase method as defined in IFRS 3. The acquisition costs are shown as the sum of fair values at the date of purchase of the assets transferred, of the liabilities incurred or assumed, and of any equity instruments issued in exchange for control of the entity acquired. In addition, it contains the fair values of assets and liabilities arising from contingent consideration arrangements. Assets, liabilities and contingent liabilities identified as part of the acquisition during initial consolidation are measured at fair value as of the acquisition date.

For each acquisition, the individual option exists of measuring any shares not acquired either at fair value or at the proportionate share of the fair value of the acquired entity's net assets. These non-controlling interests are recognized in the statement of financial position under the line item of the same name.

Costs associated with the business combination are recognized as expenses insofar as they do not concern costs of issuing debt instruments or equity securities.

Goodwill is the amount on the acquisition date by which the sum of acquisition costs, any existing non-controlling interests and the fair value of any previously held equity interests exceeds the acquired entity's net assets measured at fair value. Negative differences are recognized in profit or loss immediately after undertaking an additional review of the purchase price allocation.

Investments accounted for using the equity method are initially measured at acquisition cost when the acquisition is made. If the cost exceeds the pro rata share of equity, the difference (goodwill) is included in the carrying amount of the investment. The carrying amount has to be tested for possible impairment losses as of the reporting date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The carrying amounts for these entities are increased or decreased annually to reflect their pro rata earnings, dividend payouts or other changes in equity. If there is any indication that the value of the investment has been permanently reduced, an impairment is recognized in profit or loss. Long-term interests that, in substance, form part of the investor's net investment in the entity are included in the statement of changes in equity.

Interim results, sales, expenses, income, receivables and liabilities between the consolidated companies, as well as pro rata profits and losses resulting from transactions with associates, are eliminated. For those consolidation entries affecting income, the income tax effect is taken into account and deferred taxes recognized.

Estimates and Assumptions Used in Acquisitions and Consolidation

Determining the fair values of the acquired assets and liabilities requires certain estimates and assumptions, especially concerning the acquired intangible assets and property, plant and equipment, as well as the liabilities assumed and the useful lives of the acquired intangible assets, property, plant and equipment.

Measurement is based to a large extent on anticipated cash inflows and outflows. If actual cash inflows and outflows vary from those used to calculate fair values, this may affect future Group net income.

For significant business combinations, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on information available at the acquisition date.

Discretionary decisions can be made whenever it is necessary to evaluate whether control, joint control or significant influence exists for entities in which WACKER holds less than 100 percent of the voting rights. Primarily in cases where WACKER holds 50 percent of the voting rights, it must be assessed whether there are additional contractual rights or, in particular, factual circumstances that could result in WACKER having the authority to make decisions regarding the potential subsidiary, or whether joint control exists.

Changes to the contractual agreements or factual circumstances are monitored and assessed in terms of their possible impact on the evaluation of whether control or joint control exists.

Sale of Interests in Fiscal 2017

Between January 24 and February 9, 2017, WACKER sold a total of 6 percent of the shares of Siltronic AG on the stock exchange. These shares had been held by Wacker-Chemie Dritte Venture GmbH. After this sale, the WACKER Group still held a stake of 51.8 percent in the Siltronic Group.

The proceeds from the sale came to €87.6 million. As WACKER was still the majority shareholder, this transaction was accounted for as a transaction with owners and had no impact on the income statement. The transaction costs, which were minor, were recognized directly in equity. Please refer to the statement of changes in equity for equity-related changes. The changes are shown in a separate line there.

On March 15, 2017, WACKER reduced its stake in Siltronic AG from 51.8 percent to 30.8 percent by means of a bookbuilding offering to institutional investors. The total proceeds from this transaction amounted to €353.2 million, less €3.3 million in related transaction costs. As WACKER had lost control of Siltronic, the segment was deconsolidated as of March 15, 2017. The remaining stake of 30.8 percent in the associate was accounted for using the equity method. The carrying amount of the investment was remeasured at fair value and came to €518.6 million.

The following table shows the assets and liabilities WACKER divested on deconsolidation and a reconciliation to the proceeds from the transaction.

€ million	
Carrying Amounts of Divested Assets and Liabilities	
Intangible assets	5.2
Property, plant and equipment	513.2
Securities	89.3
Inventories	144.3
Trade receivables	128.4
Other assets	33.4
Cash and cash equivalents	161.4
Total assets	1,075.2
Provisions for pensions	–371.3
Financial liabilities	–41.9
Trade payables	–82.3
Other liabilities and provisions	–126.4
Total liabilities	–621.9
Sum of assets and liabilities	453.3
Proceeds from Sale	
Current net income from Siltronic, Q1 2017	17.7
Gain associated with loss of control	617.0
Income from discontinued operations	634.7
Total divested assets and liabilities of Siltronic (100%)	453.3
Remeasurement of the remaining equity-accounted shares (30.8%)	–518.6
Disposal of shares of non-controlling interests in WACKER Group	–214.7
Pro rata difference from foreign currency translation adjustment	11.6
Less current net income from Siltronic, Q1 2017	–17.7
Costs that cannot be capitalized (taxes, transaction costs)	4.6
Proceeds from sale	353.2
Liquidity outflow from deconsolidation of Siltronic	–161.4
Cash receipts from deconsolidation of Siltronic segment less divested cash	191.8

In accordance with IFRS 5, the Siltronic segment's income in Q1 2017 was recognized as discontinued operations. The following table shows the main expenses and income from discontinued operations:

€ million	2017	2016
Income from Discontinued Operations		
Sales	**258.0**	933.4
Other income	**15.3**	53.8
Expenses	**–251.8**	–968.8
Current income from discontinued operations before income taxes	21.5	18.4
Income taxes	**–3.8**	–7.2
Current income from discontinued operations after income taxes	17.7	11.2
Result from measurement adjustments/gain from disposal of discontinued operations (before taxes)	618.3	–
Income taxes	–1.3	–
Income from discontinued operations (after taxes)	634.7	11.2
Of which attributable to Wacker Chemie AG shareholders	626.2	8.1
Of which attributable to non-controlling interests	8.5	3.1

The fair value of the associate amounted to €518.6 million as of March 31, 2017. The following table shows the remaining difference calculated, as well as the goodwill that remained after the revaluation of assets and is attributable to the stake held by WACKER shareholders. The revalued assets disclosed relate primarily to the intangible assets recognized, such as technology and customer base, as well as to buildings and machinery. The average useful lives are between 5 and 10 years.

€ million	
Remeasured equity-accounted stake in Siltronic	518.6
Pro rata carrying amount of Siltronic equity	–138.4
Difference before revaluation of assets	380.2
Step-up of assets attributable to WACKER, including deferred tax liabilities	–134.5
Remaining goodwill	245.7

The company valuation as defined in IFRS 3 was concluded in August 2017.

Foreign Currency Translation

In the Group companies' separate financial statements, all of the receivables and liabilities in foreign currencies are translated at the rate prevailing on the reporting date, regardless of whether or not they have been hedged. Forward contracts that, from an economic point of view, are used for hedging are reported at fair value. The resulting translation differences are recognized in profit or loss or, if cash flow hedges are in place, recognized directly in equity under other equity items.

The financial statements of consolidated companies that are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the reporting date, while income statement amounts are translated using the average exchange rates of the period. As the Group's subsidiaries conduct their business in financial, economic and organizational autonomy, their functional currencies are basically identical to the respective local currency. Any net gains or losses arising from the translation of equity are recognized directly in equity under other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If Group companies are removed from the scope of consolidation, any translation difference is reclassified from equity to profit or loss.

The exchange rates between the most important currencies reported in these financial statements and the euro were as follows:

	ISO code	Exchange rate as of		Average exchange rate	
		Dec. 31, 2017	Dec. 31, 2016	2017	2016
US dollar	USD	**1.20**	1.05	**1.13**	1.11
Chinese renminbi	CNY	**7.79**	7.31	**7.62**	7.35

Estimates and Assumptions Used in Preparing Consolidated Financial Statements

The preparation of the consolidated financial statements in compliance with IFRS necessitates assumptions and estimates affecting the amounts and the reporting of the recognized assets and debts, income and expenses, and contingent liabilities and contingent assets. These assumptions and estimates comply with the conditions and appraisals prevailing on the reporting date. In this regard, they also impact the amount of income and expenses recognized for the fiscal years in question. The assumptions on which the estimates are based relate primarily to the uniform determination of useful lives throughout the Group, the ascertainment of fair values of financial instruments, the recognition and measurement of provisions, the realizability of future tax benefits, and the determination of discounted cash flows made in connection with impairment tests and purchase price allocations.

In individual cases, the actual values may differ from the assumptions and estimates that were made. Changes in value are recognized as soon as they become apparent and affect the net results for the period when the change occurred and, if applicable, in future reporting periods.

Intangible Assets and Property, Plant and Equipment/Investments in Associates Accounted for Using the Equity Method

The expected useful life of intangible assets and of property, plant and equipment, together with their amortization/depreciation schedules, are based on past experience, plans and estimates. This includes estimates of the period and allocation of future cash inflows derived from the investments made, as well as future technical advancements and ongoing replacement and development cycles.

Impairment tests are performed for assets if specific indicators point to a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher of either the fair value less costs to sell or the value in use. When determining the recoverable amount in the course of the impairment test, it is necessary to make estimates based on share prices, on prices of comparable transactions, or on the net present value method, other valuation methods or combinations thereof. That, in turn, calls for estimates and assessments by management. To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER assumes that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors, are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in significant deviations from the figures posted, which may lead to additional impairment losses or reversals of impairment losses.

➪ See Note 04

Financial Instruments

Financial instruments are recognized at fair value, while other assets and liabilities are disclosed at fair value in the notes to the financial statements. Calculation of the fair value of financial instruments may require making extensive estimates. The level of estimates is determined by the extent to which non-observable input parameters are taken into account. When calculating fair value, WACKER strives to include as many observable input parameters as possible and to keep the use of non-observable factors to a minimum. If the fair value cannot be reliably determined, the carrying amount is taken as an approximate value to determine fair value.

In accordance with IFRS 13, financial instruments that are measured or recognized at fair value in the consolidated financial statements must be measured and classified according to the fair value hierarchy. This hierarchy consists of three levels, to which the input parameters are assigned in accordance with the extent to which they are observable during the corresponding measurement process.

➪ See Note 18

Provisions

Significant risks inherent in environmental protection provisions and in provisions for damages and onerous contracts include possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory rules concerning the elimination and prevention of environmental damage. Changes in the discount rate also lead to adjustments when determining noncurrent provisions. The current environment of low interest rates leads to increases in the carrying amount of noncurrent provisions.

➪ See Note 12

Pensions and similar obligations are accounted for in accordance with actuarial valuations, which are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, expected salary and pension increases, the mortality rate and rate increases for preventive health care. If market and economic conditions change, these assumptions could vary considerably from actual developments, consequently leading to major changes in pension and similar obligations, as well as in the associated future expenses. In particular, the current environment of low interest rates had an impact on the carrying amount of pension provisions.

➪ See Note 11

The pension-obligation amount is determined by discounting the WACKER-specific, expected future cash flows. The discount rate is derived from the yield curve of high-grade, fixed-interest corporate bonds with maturities matching the pension obligations, as calculated at the reporting date. The bonds are all denominated in the same currency as their underlying pension obligations and have a rating of at least AA from one of the three major rating agencies. In Germany, the basis is a bond portfolio determined as of the closing date using Bloomberg and with a maturity that nearly matches the maturity of the pension obligation.

Tax provisions contain uncertain tax positions in case the amounts stated in the tax returns cannot perhaps be realized. These are determined on the basis of past experience of external audits with consideration given to the probability of occurrence (expected-value method).

Deferred Taxes

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred tax assets. Among other things, this requires management to evaluate the tax benefits resulting from currently available tax strategies and future taxable income, and also to take additional positive and negative factors into account. In the case of companies that have posted tax losses in the past, deferred tax assets are capitalized only in exceptional cases if substantial indications of their realization exist.

Accounting and Valuation Methods

The financial statements of Wacker Chemie AG and its German and international subsidiaries are prepared in accordance with uniform accounting and valuation principles.

The accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. They have been supplemented by new accounting standards to be applied for the first time in the reporting year. The Group's consolidated financial statements are based on acquisition and production costs (historical costs), with the exception of the items reflected at fair value, such as available-for-sale financial assets, derivatives, and plan assets within the scope of pension obligations.

Sales

Sales encompass the fair value of the consideration or receivable for the goods and services sold within the scope of ordinary activities. These are reported net of VAT and other taxes incurred in connection with sales and without discounts and price reductions. Sales revenues are recognized when the goods and services owed have been delivered and the main opportunities and risks of ownership have passed to the purchaser. Usually, this takes place when the goods are transferred to the customer or as stipulated in the agreed transport conditions. Sales from services are recognized once services are rendered. Sales are not reported if there are risks attached to the receipt of the consideration. Provisions are recognized for risks from returns of finished goods and merchandise, warranties and other complaints using the principle of individual evaluation. Information on the development of sales by division and region is provided in the section on segment reporting. WACKER does not conduct any business that requires recognizing sales as long-term production contracts.

Functional Costs

Cost of goods sold shows the costs of the products, merchandise and services sold. In addition to directly attributable costs, such as material costs, personnel expenses and energy costs, it includes indirect costs such as depreciation and inventory write-downs. This item also includes the cost of outward freight. Selling expenses include costs incurred by the sales organization as well as the cost of advertising, market research, and application support on customers' premises. This item also includes commission expenses. General administrative expenses include the pro rata payroll and material costs of corporate control functions, human resources, accounting and information technology, unless they have been charged as an internal service to other cost centers and thus, in certain circumstances, to other functional areas.

Research and Development Expenses

Research and development expenses include costs incurred in the development of products and processes. Research costs in the narrow sense are recognized as expenses when they are incurred, and are not capitalized. Development costs are capitalized only if all the prescribed recognition criteria have been met, the research phase can be separated clearly from the development phase, and the costs incurred can be allocated to the individual project phases without any overlaps. Additionally, there must be sufficient certainty that future cash inflows will take place.

Income Taxes

This item includes both current income taxes and deferred taxes. Current income taxes are calculated based on the respective national tax results and regulations applicable in the reporting year. These taxes also contain adjustment amounts for any incurred tax payments or tax refunds from outstanding tax returns and from tax audits from prior years. Discretion must be exercised when determining income tax provisions. WACKER determines appropriate provisions for expected risks from tax audits (uncertain tax positions).

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and carrying amounts, and for consolidation measures recognized in the statement of income. The deferred tax assets include tax relief entitlements resulting from the anticipated use of existing loss carryforwards in future years, the realization of which is sufficiently probable. Deferred taxes are determined on the basis of the tax rates which, under current law, will be applicable or are anticipated in the individual countries when they are realized. The deferred tax assets and liabilities are netted out only to the extent possible under the same tax authority. Deferred tax assets and liabilities are recognized in the statement of income. In cases where profits or losses are recognized directly in equity, the deferred tax asset or liability is likewise posted under other equity items.

Intangible Assets

Pursuant to IAS 38, acquired and internally generated intangible assets are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. They are measured at cost and, if their useful lives can be determined, amortized on a straight-line basis. The useful life is taken to be between 3 and 15 years unless otherwise indicated, e.g. by the life of a patent. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets is allocated to the functional areas that use the assets. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

Goodwill is not amortized. Existing goodwill undergoes an annual impairment test. If the impairment test indicates a recoverable amount that is lower than the carrying amount, the goodwill is reduced to its recoverable amount and an impairment loss is recognized. If events or circumstances indicate possible impairment, the intrinsic value is also examined. Impairments of goodwill are presented under other operating expenses.

Property, Plant and Equipment

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. The cost of internally generated assets includes all costs directly attributable to the production process as well as an appropriate portion of the production-related overheads. Financing costs that were incurred in connection with particular, qualifying assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time.

Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or carrying out major overhauls of property, plant and equipment are capitalized if future economic benefits are likely to accrue to the Group and if the costs can be measured reliably.

Grants from third parties reduce acquisition and production costs. Unless otherwise indicated, these grants (investment subsidies) are provided by government bodies. Income grants for which there are no future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets.

If property, plant and equipment is permanently shut down, sold or given up, the acquisition or production costs are derecognized, along with the corresponding accumulated depreciation. Any resulting gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses.

Property, plant and equipment also includes assets relating to leasing transactions. Items of property, plant and equipment financed by means of finance leases are recognized at fair value at their time of addition, unless the present values of the minimum lease payments are lower. The assets are depreciated on a straight-line basis over the expected useful life, or the contractual term if shorter. The obligations resulting from future lease payments are recognized under financial liabilities. The lease installments to be paid are split up into a redemption component and an interest component, in accordance with the effective interest method.

Depreciation of property, plant and equipment is generally based on the following useful lives:

In years	Useful life
Production buildings	10 to 40
Other buildings and similar rights	10 to 30
Technical equipment and machinery	6 to 12
Motor vehicles	4 to 10
Factory and office equipment	3 to 12

An impairment test is carried out when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount of intangible assets, and property, plant and equipment. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is then recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of either the fair value less costs to sell or the value in use. The value in use results from the present value of the estimated future cash flows from the use of the asset. In order to assess this value, pre-tax interest rates are used that have been adjusted to reflect the segment-specific risk. In order to determine the cash flow, assets are combined at the lowest level for which cash inflows can be identified separately (cash-generating units). If the reasons for recognizing impairments no longer exist, impairment losses are reversed as required. The revised amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. Impairments are reported under other operating expenses and reversals of impairment losses under other operating income.

Investment Property

Like property, plant and equipment, investment property is measured in accordance with the cost model. It consists of land and buildings that are held to earn rental income or for capital appreciation. The fair value of this property is regularly measured through external property valuations.

Leases

Leasing transactions are classified either as finance leases or as operating leases. Assets used under an operating lease are not capitalized. Lease payments to be made are recognized in profit or loss in the period in which they fall due. A finance lease is a leasing arrangement in which essentially all of the risks and rewards inherent in the ownership of the property are transferred to the lessee. Assets used under a finance lease are recognized at the present value of the minimum lease payments. Leasing contracts can be embedded within other contracts. If there is a separation obligation for an embedded leasing arrangement in accordance with IFRS rules, the contractual components are separated, and recognized and measured according to the respective rules.

Investments, Associates and Joint Ventures

Any shares in non-consolidated affiliated companies and investments are measured at cost, unless divergent market values are available. Changes in market values are recognized in the consolidated statement of income upon realization through disposal or if the market value falls below the acquisition cost. Loans granted are measured at amortized cost, except for non-interest-bearing and low-interest loans, which are recognized at their present value.

Investments in joint ventures and associates are accounted for using the equity method, with the carrying amount generally reflecting the Group's pro rata share of equity. Pro rata net profits and losses are recognized in the consolidated statement of income, and the carrying amount is increased or decreased accordingly. Any changes in equity recognized directly in the investee's equity are also recognized directly in equity in the consolidated financial statements. Dividends paid by joint ventures and associates reduce their equity and, therefore, reduce the carrying amount without affecting profit. If a joint venture or associate faces losses that have exhausted its equity, no further losses are taken into account unless there are noncurrent unsecured receivables against the company, or the Group has entered into additional obligations or made payments for the company. The carrying amount is not increased until the loss carryforward has been compensated for and the equity is positive again.

Additionally, an impairment test is carried out in the presence of corresponding indications and, where necessary, an impairment loss is recognized. The recoverable amount is determined in accordance with IAS 36 regulations. Impairment losses are reported in the result from investments in joint ventures and associates.

Financial Instruments

Financial assets and liabilities are recognized in the consolidated financial statements when WACKER becomes a contracting party to the financial instrument. They are derecognized when the contractual rights or liabilities are fulfilled or rescinded or when they expire.

In the case of normal market purchases or sales, however, the settlement date – i.e. the date on which the asset is delivered to or by WACKER – is relevant for initial recognition and derecognition. In general, financial assets and financial liabilities are not netted. A net amount is presented in the statement of financial position if, and only if, the entity currently has a right to net the recognized amounts and intends to settle on a net basis. Where financial instruments are combined, borrowed capital and equity components are split up and shown separately by the issuer.

Financial instruments are measured at fair value on initial recognition. The transaction costs directly attributable to the acquisition must be taken into account for all financial assets and liabilities not subsequently measured at fair value through profit or loss. The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets and liabilities. If these are not directly available, they must be calculated using standard valuation models on the basis of current market parameters.

Financial assets at WACKER comprise, in particular, cash and cash equivalents, trade receivables, loans granted and other receivables, held-to-maturity financial investments, and primary and derivative financial assets held for trading. Financial liabilities must generally be settled using cash or another financial asset. Financial liabilities include, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (German Schuldscheine) and derivative financial liabilities.

WACKER does not make use of its option to measure financial assets and liabilities at fair value through profit or loss on initial recognition (fair value option).

The manner in which financial assets and liabilities are subsequently measured depends on how a financial instrument is classified into the following categories pursuant to IAS 39: financial instruments can be "held for trading" or "held to maturity" and assigned to the "available for sale" or "loans and receivables" category.

Financial instruments held for trading are measured at fair value through profit or loss. This category also includes all derivative financial instruments that do not qualify for hedge accounting.

If it is both intended and, in economic terms, to be expected with sufficient certainty that a financial instrument will be held to maturity, the instrument in question is measured at amortized cost using the effective interest method. Held-to-maturity financial investments include current and noncurrent securities, and components of items reported under other financial assets.

Loans and receivables are non-derivative financial assets that are not quoted in an active market. They are measured at amortized cost using the effective interest method. This category comprises trade receivables, the receivables and loans included in other financial assets, fixed-term deposits and cash and cash equivalents.

All other primary financial assets that are not loans and receivables must be classified as available for sale and are reported at fair value if it can be determined reliably. Basically, these assets comprise equity instruments, and also debt instruments not being held to maturity. Unrealized gains and losses are recorded taking account of deferred taxes and are recognized in other equity items with no effect on income. If equity instruments have no price quoted on an active market and if their fair value cannot be determined reliably, they are measured at cost.

If the fair value of available-for-sale financial assets falls below the acquisition costs or there are objective signs that an asset's value has been impaired, the cumulative loss recognized directly in equity is reversed and shown in the statement of income. The company bases its assessment of possible impairments on all available information, such as market conditions and prices, investment-specific factors, and the duration and extent of the drop in value below acquisition costs. Impairments affecting a debt instrument are reversed in subsequent periods, provided that the reasons for the impairment no longer apply. When the financial instruments are disposed of, the cumulative gains and losses recognized in equity are included in the statement of income.

Primary financial liabilities are subsequently measured at amortized cost using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments are used for hedging purposes with the sole aim of reducing the Group's exposure to foreign-exchange rates, interest rates, and commodity-price risks arising from operating activities and the resulting financing requirements. Derivative financial instruments are recognized as of the trade date. They are always recognized at fair value, irrespective of the purpose or intention for which they were concluded. Positive fair values are recognized as receivables and negative fair values as liabilities. Differences resulting from fair value measurement are recognized in profit or loss.

Where derivative financial instruments are used to hedge risks stemming from future cash flows and items in the statement of financial position, WACKER applies hedge accounting in accordance with the requirements of IAS 39. Changes in the market values of financial instruments used to hedge risks stemming from cash flows (cash flow hedges) are recognized in other equity items, taking deferred taxes into account, until the hedged item has been realized. The profit contribution of the hedging transaction is recognized in the statement of income under other operating income and expenses when the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be reported under other equity items until the underlying transaction occurs. Ineffective parts of the hedging transaction are recognized immediately in profit or loss. Fair value hedges of recognized assets or liabilities and/or unrecognized fixed contractual obligations entail the recognition in profit or loss of market value changes for both the hedged item and the financial derivative (as the hedging instrument). At the moment, WACKER does not hedge any net investments in foreign operations.

Contracts concluded for the purpose of receiving or delivering non-financial goods according to WACKER's own needs are not recognized as derivatives, but rather as pending transactions.

Currency hedges for planned sales are recognized under other operating income and expenses, while interest rate hedges are recognized in net interest income. Currency hedges from intra-Group financing and foreign-exchange derivatives concluded to hedge financial liabilities assumed in foreign currencies are posted under other financial result. Changes in the fair value of raw-material hedges are recognized under cost of goods sold.

Inventories

Inventories are measured at cost using the average cost method. Lower net realizable values or prices as of the reporting date are taken into account by writing down inventories to fair value less costs to sell. The cost of goods sold includes directly attributable costs, appropriate portions of indirect material and labor costs, and straight-line depreciation. Due to the relatively short-term nature of the production processes, financing costs are not included. For production-related reasons specific to the chemical industry, unfinished and finished goods are reported together. Raw materials and supplies also include spare parts for the day-to-day maintenance of production facilities. The latter are likewise measured according to their periods of storage and potential usability.

Emissions certificates allotted free of charge are measured at a nominal value of zero. Emissions allowances acquired against payment are carried at cost. If the fair value is lower as of the reporting date, the carrying amount is reduced accordingly. Utilization is determined via the running average value of certificates, whether they were allotted free of charge or acquired against payment, and recognized pro rata as expenses under cost of goods sold on the basis of the quarterly emissions.

Financial Assets and Income Tax Receivables

Trade receivables and other financial and non-financial assets, including income taxes paid (but excluding financial derivatives), are recognized at amortized cost. Risks are taken into account by means of appropriate valuation allowances in separate valuation-allowance accounts. Valuation allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever collection of such receivables is assessed to be no longer probable according to the information available. If payment of a receivable is no longer expected in the actual and legal circumstances, the gross receivable is derecognized and any valuation allowances made are reversed. Expenses from valuation allowances and derecognition are reported under other operating expenses. Changes in income tax receivables are posted under income taxes in the statement of income. Noncurrent receivables that are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

Cash and cash equivalents comprise cash in hand, demand deposits, and financial assets that can be converted into cash at any time, are subject to only slight fluctuations in value and have a residual term of up to three months. They are measured at amortized cost, which is equivalent to their nominal values.

Provisions for Pensions and Similar Obligations

Defined-benefit pension commitments are measured in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the reporting date, but also of estimated increases in salaries and pensions. Moreover, the measurement is based on actuarial valuations and takes account of biometric and financial calculation principles. The fair value of the plan assets is subtracted from the present value of the pension obligations (defined benefit obligation, DBO), resulting in either a net liability or net assets of the defined benefit plans. The prior year's underlying DBO assumptions are used to determine the current service cost. The net interest cost in the fiscal year is determined by applying the discount rate set at the beginning of the year to the net liability calculated at the same time. The net interest from the net pension liability is the difference between the calculated interest income from plan assets and the interest expense from the defined benefit obligation.

Remeasurements comprise actuarial gains and losses stemming from the difference between the estimate at the start of the period and actual developments during the period – or a newer estimate on the reporting date – in relation to probable mortality rates, retirement and salary trends, and discount rates. They are recognized immediately in other comprehensive income. Similarly, differences between the interest income from plan assets calculated at the start of the period and the actual income from plan assets determined at the end of the period are recognized in other comprehensive income.

If the present value of a defined benefit obligation changes due to a plan modification or curtailment, WACKER recognizes the resulting effect as past service cost. This is recognized in profit or loss as soon as it occurs. The profits and losses resulting from settlement are also recognized in the statement of income as soon as settlement takes place. Administrative expenses that are not related to the management of plan assets are also recognized through profit or loss when incurred.

The expense from current and past service cost is allocated to the costs of the functional areas concerned. The net interest is posted under other financial result.

Provisions for phased early retirement and anniversaries are measured and recognized in accordance with actuarial appraisals. Owing to their structure, provisions for phased early retirement also constitute other noncurrent employee benefits in accordance with IAS 19 since they are linked to the rendering of future service. WACKER uses only a block model when structuring phased-early-retirement agreements. The corresponding provisions are recognized pro rata over the service period of the claim during the work phase.

Provisions

Provisions are recognized in the statement of financial position for present legal or constructive obligations toward third parties if an outflow of resources to settle these obligations is probable and its amount can be estimated reliably. The amounts recognized are those estimated to be required to cover the Group's future payment obligations, identifiable risks and contingencies. Noncurrent provisions are measured at the discounted present value as of the reporting date. The discount rate applied is the market interest rate for risk-free investments with terms corresponding to the residual term of the obligation to be settled. Expected refunds, provided that they are sufficiently secure or legally enforceable, are not offset against provisions. Instead, they are capitalized as separate assets if their realization is virtually certain.

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Provisions for contingent losses arising from onerous contracts are recognized if the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the contractual obligations. Provisions for environmental protection are recognized if the future cash outflows for complying with environmental legislation or for cleanup measures are likely, the costs can be estimated with sufficient accuracy and no future acquired benefit can be expected from the measures.

If an amended estimate results in a reduction in the scope of the obligations, a proportion of the provision is reversed and the earnings are allocated to the functional area originally charged with the expense when the provision was set aside.

Financial Liabilities and Other Financial Liabilities

On initial recognition, primary financial liabilities are measured at fair value less any transaction costs incurred. They are subsequently measured at amortized cost using the effective interest method. Derivative financial instruments are recognized at fair value. Liabilities from finance lease agreements are shown as financial liabilities at the present value of the future lease installments.

Contingent Liabilities/Contingent Assets

Contingent liabilities are potential obligations toward third parties or existing obligations for which an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient certainty. Contingent liabilities are not recognized in the statement of financial position.

Contingent assets are potential assets resulting from past events and whose existence will not be confirmed until the occurrence of one or more uncertain future events that are beyond the Group's influence.

Changes in Accounting and Valuation Methods

In 2017, the research and development costs of €28.9 million previously included in selling expenses were recognized for the first time under research and development expenses. The corresponding prior-year figures were adjusted accordingly. As a result, selling expenses were lower and research and development expenses higher, amounting to €30.0 million in 2016. The change is intended to show the functional costs more clearly. In 2017, for the first time, exchange-rate effects from intra-Group financing (including the effects of foreign currency derivatives concluded) were recognized under other financial result instead of under other operating income and expenses. The reason for this change in presentation is to show more clearly the substantially higher finance expense in 2017, due to exchange-rate effects, that is no longer attributable to the short-term interim financing associated with operating activities. The accounting and valuation methods are otherwise unchanged.

01 Sales/Cost of Goods Sold/ Other Operating Income/ Other Operating Expenses

€ million	2017	2016[1]
Sales		
Proceeds from deliveries of products and merchandise	4,788.4	4,507.9
Proceeds from other services	135.8	126.3
Total	4,924.2	4,634.2
Cost of goods sold	–3,969.8	–3,811.4
Cost of goods sold includes the following reversals (+)/ recognitions (–) of valuation allowances of inventories	14.1	–16.8
Other operating income		
Income from currency transactions	30.9	49.0
Income from reversal of provisions	9.8	8.8
Insurance compensation	1.0	5.9
Income from reversal of valuation allowances for receivables	1.3	0.9
Income from disposal of property, plant and equipment and financial assets	3.0	6.5
Income from incentives/grants	5.2	1.2
Income from changes in the scope of consolidation	–	10.0
Income from the termination of long-term supply contracts and damages received	–	20.3
Other operating income	33.0	39.3
Total	84.2	141.9
Other operating expenses		
Losses from currency transactions	–40.6	–45.6
Losses from valuation allowances for receivables	–0.9	–0.3
Losses from disposal of assets	–6.0	–1.8
Losses from impairment of fixed assets	–	–2.5
Other operating expenses	–17.3	–40.3
Total	–64.8	–90.5

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Proceeds from deliveries of products and merchandise include sales revenue of around €36 million (after €35 million a year earlier) from exchange transactions executed with companies in the same line of business to facilitate sales to customers.

Income from the termination of long-term supply contracts and from advance payments retained related to advance payments and damages received in 2016 from terminated or restructured contracts with polysilicon customers.

Other operating expenses included around €4 million from the disposal of property, plant and equipment as a result of the explosion of the plant components at the Charleston, Tennessee site in the USA.

02 Income from Investments in Joint Ventures and Associates/Other Investment Income/ Net Interest Income/Other Financial Result

€ million	2017	2016[1]
Result from investments in joint ventures and associates	42.0	0.2
Of which share of income from joint ventures	2.0	3.2
Of which share of income from associates	40.0	–3.0
Other investment income		
Other investment expenses/investment income	1.9	0.9
Total	43.9	1.1
Net interest result		
Interest income	7.5	4.7
Of which from available-for-sale financial instruments	–	0.4
Of which from financial instruments, loans and receivables	7.5	4.3
Interest expenses	–38.3	–39.9
Of which from financial liabilities (excluding finance leases)	–35.0	–36.5
Total	–30.8	–35.2
Other financial result		
Interest effect of interest-bearing provisions/liabilities	–38.6	–41.1
Other financial expenses/income	–19.3	–14.8
Total	–57.9	–55.9

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

In 2017, the result from investments in joint ventures and associates relates to the investments in Siltronic AG and in companies in China. This income includes not only the attributable net results for the year, but also the effects of the elimination of attributable interim profits and losses, and of other Group adjustments.

Borrowing costs of €1.3 million were capitalized in the reporting period, after €1.2 million a year earlier, resulting in a corresponding improvement in the net interest result. The average borrowing interest rate applied by the Group in the reporting year was 2.7 percent, compared with 2.6 percent the year before.

The interest effect of interest-bearing provisions includes net interest expenses from the accumulation of interest on pension obligations and calculated returns from plan assets totaling €32.5 million (versus €35.5 million in the prior year) and interest expenses and interest income from the accumulation and discounting of provisions of €6.1 million (versus €5.6 million).

Other financial income and expenses primarily result from exchange-rate and interest-rate effects in connection with financial transactions and their hedging.

03 Income Taxes

This item comprises income taxes paid or owed in the individual countries and deferred taxes. In Germany, alongside a corporate tax of 15.0 percent (versus 15.0 percent a year earlier), there is a solidarity surcharge of 5.5 percent (versus 5.5 percent). Trade income tax of 12.2 percent (versus 12.2 percent) must also be paid. It varies depending on the municipality in which a company is located.

Deferred taxes of German companies are therefore measured based on a total tax rate (including solidarity surcharge) of 28.0 percent (versus 28.0 percent in the prior year). The current taxes of foreign subsidiaries are determined according to domestic tax laws and rates valid in the country in which the respective company is based. The respective current income tax rates applied in each country for our foreign companies ranged from 9.0 percent to 39.0 percent (versus 10.0 percent to 39.0 percent).

The change in the US corporate tax rate had no effect on earnings in 2017. In order to calculate future deferred tax effects, the corporate tax rate for the USA was adjusted to 24.5 percent.

Deferred taxes on undistributed profits of subsidiaries were recognized only if distribution is planned. The amount of €297.7 million is available for distribution, compared with €425.0 million in the prior year.

Income taxes include current tax expenses of €18.2 million from earlier years (after €0.1 million in the prior year) and deferred tax income of €2.8 million (after €14.5 million).

Reconciliation of Actual Tax Result

€ million	2017	2016[1]
Current taxes, Germany	–115.8	–89.1
Current taxes, international	–10.3	–5.2
Current taxes	–126.1	–94.3
Deferred taxes, Germany	29.1	24.4
Deferred taxes, international	12.1	1.6
Deferred taxes	41.2	26.0
Income taxes	–84.9	–68.3
Derivation of the effective tax rate		
Income before taxes	335.0	246.4
Income tax rate for Wacker Chemie AG (%)	28.0	28.0
Expected tax expenses	–93.8	–68.8
Tax rate divergences	4.5	–3.8
Tax effect of non-deductible expenses	–19.3	–30.6
Tax effect of tax-free income	4.3	4.4
Taxes relating to other periods (current earnings)	–15.4	14.4
Effects of loss carryforwards and temporary differences	23.7	16.2
Group profit from investments in joint ventures and associates	11.7	–
Other differences	–0.6	–0.1
Total income tax	–84.9	–68.3
Effective tax rate (%)	25.3	27.7

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Due to the utilization of previously unrecognized temporary differences and previously unrecognized tax losses from earlier periods, the actual income tax expense was reduced by €15.8 million, after €11.7 million in the prior year.

Allocation of Deferred Taxes

€ million	2017		2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	16.9	3.8	11.1	4.2
Property, plant and equipment	75.6	22.2	58.2	38.6
Financial assets	–	0.8	0.8	–
Financial and non-financial assets	16.2	5.0	16.3	4.0
Provisions for pensions	316.2	–	350.2	0.4
Other provisions	41.8	–	24.9	1.9
Liabilities	13.8	7.0	25.9	–
Loss carryforwards	6.7	–	5.4	–
Setting off for companies with group taxation	–3.4	–3.4	–5.5	–5.5
Total	483.8	35.4	487.3	43.6
Setoffs	–31.2	–31.2	–37.4	–37.4
Amount recorded in Statement of Financial Position	452.6	4.2	449.9	6.2

The changes in deferred tax assets and liabilities of €41.2 million were recognized as income in the income statement (versus €26.0 million a year earlier), while €–33.4 million (versus €104.1 million) was recognized directly in equity. This mainly consists of deferred tax assets from variations in actuarial gains and losses stemming from pension provisions. Changes in the scope of consolidation resulted in deferred tax assets of €6.0 million (versus €0.0 million) that were disposed of and not recognized in the income statement, while disposals of deferred tax liabilities totaled €2.5 million (versus €4.1 million). The existing tax loss carryforwards can be utilized as follows:

€ million	2017	2016
Within 1 year	38.5	87.2
Within 2 years	15.4	49.2
Within 3 years	1.1	16.8
Within 4 years	2.1	1.1
Within 5 years or later	48.9	172.0
Total	106.0	326.3

The total loss carryforwards generated amounted to €106.0 million (versus €326.3 million in the previous year). Of this amount, €79.4 million (versus €304.7 million) is expected to be non-realizable, which is why no deferred tax assets were recognized. If they had been recognized, however, they would have amounted to €19.9 million (versus €85.3 million). Of the loss carryforwards that are not realizable for tax purposes, the amount of €48.9 million (versus €169.7 million) is unlimited as to time and amount. As of December 31, 2017, no deferred tax assets were recognized for tax-deductible temporary differences of €204.6 million (versus €668.9 million). The changes in loss carryforwards and in temporary differences resulted, on the one hand, from the deconsolidation of Siltronic and, on the other, to temporary differences in noncurrent assets.

Discontinued operations include tax expenses of €3.8 million (€7.2 million in the prior year) from the usual business activities of the discontinued division. The tax expense in connection with the sale of discontinued operations amounted to €1.3 million.

04 Intangible Assets and Property, Plant and Equipment

€ million	Intangible assets	Land, buildings and similar rights	Technical equipment and machinery*	Other equipment, factory and office equipment	Assets under construction	Property, plant and equipment	*Of which assets from finance leases
2017							
Balance as of Jan. 1, 2017	205.3	2,265.7	10,336.5	691.5	174.0	13,467.7	101.2
Additions	**10.6**	11.5	91.9	25.3	206.9	**335.6**	–
Disposals	**–1.4**	–2.1	–40.4	–22.8	–0.1	**–65.4**	–
Transfers	**1.6**	5.5	58.3	20.5	–85.9	**–1.6**	0.3
Changes in scope of consolidation	**–58.2**	–753.9	–2,463.7	–130.6	–44.4	**–3,392.6**	–
Exchange-rate differences	**–5.1**	–78.5	–301.1	–5.7	–9.8	**–395.1**	–2.9
Gross carrying amount as of Dec. 31, 2017	152.8	1,448.2	7,681.5	578.2	240.7	9,948.6	98.6
Cumulative depreciation and impairments	**–111.3**	–685.4	–5,284.2	–478.6	–	**–6,448.2**	–71.8
Changes in the scope of consolidation	**53.0**	532.5	2,224.4	122.3	0.1	**2,879.3**	–
Carrying amount as of Dec. 31, 2017	41.5	762.8	2,397.3	99.6	240.7	3,500.4	26.8
Depreciation	**–13.1**	–66.3	–506.3	–34.0	–	**–606.6**	–6.2
2016							
Balance as of Jan. 1, 2016	179.9	2,059.0	8,886.6	677.4	1,322.6	12,945.6	98.1
Additions	3.5	20.3	116.3	25.2	262.3	424.1	2.2
Disposals	–11.9	–0.4	–44.5	–21.4	–	–66.3	–
Transfers	15.1	138.5	1,230.5	3.0	–1,387.1	–15.1	–
Changes in the scope of consolidation	18.0	8.3	21.6	6.1	–	36.0	0.2
Exchange-rate differences	0.7	40.0	126.0	1.2	–23.8	143.4	0.7
Gross carrying amount as of Dec. 31, 2016	205.3	2,265.7	10,336.5	691.5	174.0	13,467.7	101.2
Cumulative depreciation and impairments	–154.9	–1,166.2	–7,122.1	–584.3	–0.2	–8,872.8	–67.3
Changes in the scope of consolidation	–	–3.6	–8.0	–5.1	–	–16.7	–
Carrying amount as of Dec. 31, 2016	50.4	1,099.5	3,214.4	107.2	173.8	4,594.9	33.9
Depreciation	–14.6	–78.5	–603.3	–38.8	–	–720.6	–7.1

Intangible assets include industrial property rights, similar rights, software and other assets acquired against payment. Acquisitions result in technologies, customer bases and order backlogs acquired against payment, which are amortized over a period of 3 to 9 years.

The acquisition costs of property, plant and equipment were reduced by investment grants totaling €477.3 million (compared with €482.2 million in the previous year).

In the reporting year, borrowing costs of €1.3 million (€1.2 million in the prior year) were capitalized as part of the acquisition costs of qualifying assets. The average financing cost rate was 2.7 percent (2.6 percent a year earlier). Property, plant and equipment also includes technical machinery and other equipment in the amount of €26.8 million (€33.9 million in the prior year) on the basis of an embedded finance lease. Due to the structure of the underlying contracts, economic ownership is attributable to WACKER.

05 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This comprises land and infrastructure facilities (for energy, wastewater, etc.). The land is rented out or leased on a long-term basis. These properties and the associated infrastructure in Cologne are operated, maintained and looked after by third parties, who charge any costs incurred directly to the tenants or leaseholders.

WACKER has undertaken to carry out future maintenance measures to the extent necessary in the next few years.

The rent and lease income is included in the following schedule.

€ million	2017	2016
Historical cost	10.3	10.5
Cumulative depreciation	–9.0	–9.0
Carrying amount as of Dec. 31, 2017	1.3	1.5
Fair value	14.0	14.0
Income from rent/operating leases	0.7	0.8
Costs	–0.1	–0.1

The fair value is based on an opinion of an external expert and is updated periodically, most recently in 2014.

From an economic standpoint, the only option open to a potential buyer would be to discontinue current operations and tear down the existing buildings to make the land available for a new use. The fair value was therefore determined using the market value based on potential proceeds from liquidation of the plant. This measurement took into account the current market situation and thus current prices. The fair value of investment property is allocated to Level 2 in the fair value hierarchy. The residual carrying amount relates to the land.

The valuation process has not been changed since the previous valuation date.

06 Investments in Joint Ventures and Associates Accounted for Using the Equity Method

The Group applies the equity method to account for joint ventures and associates. Since reduction of the company's stake in Siltronic AG and deconsolidation of the latter as of March 15, 2017, the remaining share of 30.8 percent has been accounted for using the equity method. The Group considers its investment in Siltronic AG (and its subsidiaries) to be significant.

The Siltronic Group is one of the world's leading producers of silicon wafers for the semiconductor industry. WACKER supplies Siltronic with polysilicon, the key base material for the production of silicon wafers.

Significant Investments in Associates

Company's name and registered office: Siltronic AG, Munich, Germany, and its subsidiaries	2017
Ownership interest (%)	30.83
Proportion of voting rights (%)	30.83
Total non-controlling interests (shares)	9,250,000
Xetra closing price at year-end (€)	121.30
Market capitalization of shares (€ million)	1,122.0
Dividends received (€ million)	–

Condensed Financial Information on Siltronic AG and Its Subsidiaries[1] on a 100-Percent Basis:

€ million	2017
Ownership interest (%)	30.8
Current assets	706.0
Noncurrent assets excluding goodwill	1,037.1
Current liabilities	152.1
Noncurrent liabilities	578.3
Net assets (100 percent)	1,012.7
Less share of non-controlling interests	–14.8
Group's share of net assets	307.7
Elimination of unrealized interim profits and losses	1.3
Goodwill	245.7
Carrying amount of share in associate	554.7
Sales[2]	919.3
Group net income for the year[2]	130.5
Other comprehensive income[2]	–12.4
Total[2]	118.1

[1] Consolidated financial statements of the Siltronic sub-group in accordance with IFRS
[2] Information based on figures for the period after March 15, 2017, due to first-time inclusion during the year

Reconciliation of the Equity Carrying Amount

€ million	2017
Carrying amount of equity-accounted investments	
At first-time consolidation	518.6
Share of profit/loss for the period	38.7
Other changes recognized in profit or loss	1.3
Change recognized in profit or loss	40.0
Change in other equity	–3.9
At the end of the year	554.7

Taken individually, the remaining joint ventures and associates are not of significance for the Group's earnings, net assets or financial position. The following table shows the reporting-period change in the total carrying amounts of investments:

Combined Pro Rata Financial Data for Joint Ventures Not Regarded as Significant When Taken Individually

€ million	2017	2016
Carrying amount of equity-accounted investments		
At the beginning of the year	11.2	18.0
Share of profit/loss for the period	2.0	3.2
Share of change in other equity	–0.6	0.7
Overall result of the companies	1.4	3.9
Dividends	–2.7	–4.1
Change in the scope of consolidation	–	–6.6
At the end of the year	9.9	11.2

In the previous year, Wacker Asahikasei Silicone Co. Ltd. was fully consolidated for the first time.

Combined Pro Rata Financial Data for Associates Not Regarded as Significant When Taken Individually

€ million	2017	2016
Carrying amount of equity-accounted investments		
At the beginning of the year	–	3.2
Share of profit/loss for the period	0.3	–3.0
Share of change in other equity	–5.8	–0.2
Overall result of the companies	–5.5	–3.2
Loss in excess of investment as per IAS 28.38	5.5	–
At the end of the year	–	–

If shareholders have made loans to joint ventures or associates, extinguishment of these loans takes precedence over the distribution of dividends.

Deviations between the share of net income and the result from investments in joint ventures and associates, and between the share of equity and the carrying amount of investments in joint ventures and associates accounted for using the equity method, are primarily the result of fair value adjustments and consolidation measures.

The following shows the key figures for companies accounted for using the equity method.

€ million	2017		2016	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Key Figures for Joint Ventures				
Profit or loss from continuing operations	4.0	2.0	6.4	3.2
Other comprehensive income	–1.2	–0.6	1.4	0.7
Total	2.8	1.4	7.8	3.9
Key Figures for Associates				
Profit or loss from continuing operations	127.1	39.1	–12.0	–3.0
Other comprehensive income	–35.9	–9.7	–0.8	–0.2
Total	91.2	29.4	–12.8	–3.2

07 Inventories

€ million	2017	2016
Raw materials and supplies	245.0	278.3
Unfinished and finished products, merchandise	537.3	566.8
Services not charged	1.3	1.2
Total	783.6	846.3
Of which recorded at net realizable value if lower	80.5	104.6

Cost of goods sold includes inventories recognized as expenses totaling €4.0 billion (after €3.8 billion a year earlier). Valuation allowances recognized in the reporting period as expenses declined by €–14.1 million. In the previous year, there was an increase of €16.8 million.

08 Financial and Non-Financial Assets/Receivables

€ million	2017			2016		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade receivables	655.7	–	655.7	775.7	–	775.7
Investments	11.1	11.1	–	11.1	11.1	–
Loans granted	90.5	90.5	–	96.4	96.4	–
Receivables from associates	1.3	–	1.3	0.9	–	0.9
Loan and interest receivables	1.6	–	1.6	1.4	–	1.4
Derivative financial instruments	13.4	1.5	11.9	6.1	2.0	4.1
Insurance compensation	10.2	–	10.2	0.9	–	0.9
Receivables from suppliers	4.6	–	4.6	6.2	–	6.2
Deposits	3.1	2.5	0.6	2.9	1.4	1.5
Restricted cash and cash equivalents	0.2	–	0.2	0.4	–	0.4
Sundry assets	49.1	1.2	47.9	50.3	0.6	49.7
Other financial assets	185.1	106.8	78.3	176.6	111.5	65.1
Prepaid expenses	10.2	1.2	9.0	10.1	1.7	8.4
Plan assets for phased early retirement	0.3	–	0.3	0.4	–	0.4
Advance payments made	9.1	2.3	6.8	5.8	0.9	4.9
Other tax receivables	63.7	0.3	63.4	46.1	0.7	45.4
Sundry assets	6.5	–	6.5	8.5	0.4	8.1
Other non-financial assets	89.8	3.8	86.0	70.9	3.7	67.2
Income tax receivables	13.9	–	13.9	18.5	–	18.5

Insurance compensation in the amount of €10.2 million concerns insurance claims from the loss event at the Charleston production site. The purpose of this compensation is to restore the property, plant and equipment that was destroyed or damaged.

Receivables are shown at amortized cost, which corresponds to their market value. Adequate valuation allowances are set up to cover default risks, to the extent that these are not covered by insurance, bank guarantees or advance payments received.

Valuation allowances and past-due debts developed as follows:

Changes in Valuation Allowances for Trade Receivables

€ million	2017	2016
As of Jan. 1	3.7	5.6
Utilization	–	–2.2
(+) Additions/(–) reversals	–0.1	0.2
Exchange-rate differences	–0.2	0.1
As of Dec. 31	3.4	3.7

Changes in Past-Due Trade Receivables

€ million	2017	2016
Receivables that are neither past due nor written down	513.3	634.5
Receivables that are past due but not written down:		
up to 30 days past due	120.6	134.0
31 to 45 days past due	10.2	3.3
over 45 days past due	11.4	3.5
Total	142.2	140.8
Written-down receivables	0.2	0.4
Carrying amount	655.7	775.7

No valuation allowances were recognized for other financial assets in either the period under review or the prior year. There was no significant credit risk as of December 31, 2017.

Valuation allowances are set up for identifiable credit risks and exchange-rate fluctuations. We continuously monitor the creditworthiness of our debtors to assess the intrinsic value of the corresponding receivables; where appropriate, we take out credit default insurance. In addition, customers make advance payments and provide bank guarantees. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to prevent an overdue debt or possible valuation allowance. Based on past experience and on the conditions prevailing as of the reporting date, there are no restrictions with regard to credit quality. The additions and reversals in the valuation allowances for receivables in the reporting period mainly relate to Wacker Chemie AG.

09 Cash and Cash Equivalents/Securities

€ million	2017	2016
Securities and fixed-term deposits[1]	**260.3**	182.2
Of which current	218.2	126.2
Of which noncurrent	42.1	56.0
Cash and cash equivalents		
Cash equivalents	187.1	113.8
Demand deposits, cash on hand	99.8	169.7
Total	286.9	283.5

[1] The securities mainly consist of bonds from various issuers which are predominantly classified as “available for sale.”

Demand deposits and cash on hand are shown at their nominal amounts. Cash equivalents comprise fixed-term deposits and commercial paper (from issuers with first-class credit standing) classified as “loans and receivables.” None of WACKER’s cash funds are subject to currency export restrictions.

10 Equity/Non-Controlling Interests/ Capital Structure Management

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000 and comprises 52,152,600 no-par-value shares (total). This corresponds to a notional par value of €5 per share. All of the shares are common shares – no other share classes have been issued. At the reporting date, no capital had been authorized for the issue of new shares. The Executive Board was authorized – in compliance with the provisions of Section 71 (1) no. 8 of the German Stock Corporation Act – to acquire treasury shares totaling a maximum of 10 percent of capital stock.

In the course of the IPO in April 2006, the number of shares outstanding increased due to the sale of some shares previously held as treasury shares. The following table shows the development in the year under review and in the prior year:

Units	2017	2016
Shares outstanding at the start of the fiscal year	49,677,983	49,677,983
Shares outstanding at the end of the fiscal year	49,677,983	49,677,983
Treasury shares in portfolio	2,474,617	2,474,617
Total shares	52,152,600	52,152,600

For more information on Wacker Chemie AG's shareholder structure, please refer to the note concerning Related Party Disclosures.

See Note 22

Capital reserves include the amounts generated in previous years with the issue of shares above their nominal values, as well as other contributions made to equity.

Retained earnings include the amounts of accrued reserves generated at Wacker Chemie AG in previous fiscal years, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to non-controlling interests, changes to consolidated items affecting income, and changes in the scope of consolidation.

Other equity items include the differences arising from the currency translation of the financial statements of foreign subsidiaries using reporting currencies other than the euro, and the effects of the valuation of financial instruments, cash flow hedge accounting and pensions – recognized directly in equity.

The net result attributable to non-controlling interests is made up of the following profits and losses:

€ million	2017	2016
Profits	18.6	10.1
Losses	–0.5	–
Net result attributable to non-controlling interests	18.1	10.1

Non-controlling interests in equity primarily comprised the following companies:

Non-Controlling Interests

€ million	2017	2016
Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	9.4	12.4
Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	29.1	25.2
Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore[1]	11.6	10.8
Siltronic AG, Munich, Germany[1]	–	165.4
Total	50.1	213.8

[1] Including subsidiaries

The voting rights of non-controlling interests correspond to their equity share.

In the previous year, Siltronic AG had been a significant subsidiary of the WACKER Group with non-controlling interests. After reduction of the stake in Siltronic AG from 57.83 percent to 30.83 percent, Siltronic was deconsolidated and accounted for in the consolidated financial statements using the equity method.

See Note 06

For further information on individual companies, please refer to the Breakdown of Shareholdings.

See Note 21

Information on Capital Management

The goal of the WACKER Group's capital management policy is to ensure that the company remains a going concern in the long term and to generate an appropriate return on capital employed for the company's shareholders. The capital management instruments employed to achieve this goal include dividend payments and stock buybacks.

In managing its capital, Wacker Chemie AG complies with the legal stipulations on capital maintenance. The company's Articles of Association do not stipulate any capital requirements. No special capital terminology is used. The Group's policy on dividends is generally oriented toward distributing about 50 percent of Group net income to shareholders, provided the business situation permits and the committees responsible agree.

Above and beyond this, WACKER actively manages its debt capital with the aim of achieving a balanced financing portfolio, a diversified maturities profile and sufficient liquidity reserves. In addition, our corporate financial structures are designed to keep WACKER's credit rating at least in the investment-grade range. In accordance with our policy of value-based management, net financial debt functions as a supplementary financial performance indicator.

See the Management Processes and Net Assets sections of the Group management report.

As of the reporting date, the WACKER Group's capital structure was as follows:

Capital Structure

€ million	2017	2016
Equity attributable to Wacker Chemie AG shareholders	3,119.2	2,379.4
Share of total capital (%)	75.7	62.0
Noncurrent financial liabilities	800.4	791.1
Current financial liabilities	201.2	667.1
Total	1,001.6	1,458.2
Share of total capital (%)	24.3	38.0
Total capital	4,120.8	3,837.6

11 Provisions for Pensions

Various post-employment pension plans are available to WACKER Group employees. They depend on the legal, economic and fiscal conditions prevailing in the respective countries. These pension plans generally take account of the employees' length of service and salary levels.

Company pension plans make a distinction between defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions to special-purpose funds. WACKER has both defined contribution and defined benefit plans, which are financed in part by Pensionskasse der Wacker Chemie VVaG or by funds. Pension obligations result from defined benefit plans in the form of entitlements to future pensions and ongoing payments for eligible active and former employees of the WACKER Group and their surviving dependents. The various pension plans basically guarantee employees either a life-long pension on the basis of their average salary during employment at WACKER (career average plan) or lump-sum payments.

The Group maintains the following retirement benefit plans:

Retirement Benefits Supplied by the Company Pension Fund

Employees at Wacker Chemie AG and other German Group companies are granted a basic pension model via Pensionskasse der Wacker Chemie VVaG, a legally independent German pension fund. The pension fund is financed by member and company contributions. The payments comprise old-age, disability and surviving dependents' benefits.

The pension fund is a small mutual insurance company within the meaning of Section 210 of the German Insurance Supervision Act and is regulated by Section 233 (1) of this act. It is thus subject to the regulations that apply to German insurers and is monitored by the Federal Financial Supervisory Authority (BaFin). There are statutory minimum financing obligations.

Employees who joined the pension plan before the end of 2004 receive guaranteed payments based on a defined benefit amount, which is to be taken into consideration in determining pension obligations. The pension payment is the same regardless both of the employee's age when paying contributions and of the interest generated from assets. A new basic-pension model applies to employees who joined the pension fund after 2004. Under that model, the benefits are based on guaranteed interest rates and the benefit amount depends on the age at which the employee pays contributions. Annual profit distributions can increase the future payment. In addition, employees in Germany may make voluntary payments to the "PK+" supplementary insurance fund of Pensionskasse der Wacker Chemie VVaG. The main items paid into the voluntary supplementary insurance fund comprise contributions in connection with retirement benefit plans governed by the collective bargaining agreements and concerning one-off payments and retirement benefits, and "Working Life and Demography."

Direct Commitments of the WACKER Group

In addition to the pension fund commitments, employees in Germany receive direct commitments in the form of a supplementary pension. The supplementary pension insures that part of an employee's salary that exceeds the pension insurance contribution assessment ceiling. Employees who joined the company before the end of 2004 – and their surviving dependents – receive a pension. The amount of that pension depends on the average salary earned during the period of employment with WACKER (career average plan). For employees who joined the plan as of 2005, a certain percentage of the salary exceeding the pension insurance contribution assessment ceiling is paid in. This capital accrues interest. The benefits may be paid out as a life-long pension or, in the case of commitments made from 2005 onward, as a lump sum. Employees and their surviving dependents are eligible to receive benefits. Employee entitlements are included when measuring pension obligations, regardless of whether the employees joined the company before the end of 2004 or after the beginning of 2005.

Executive Board members are granted individual pension commitments. For more information on Executive Board member pension plans, please refer to the Compensation Report.

See page 184

Employees in Germany with salaries above the standard pay scale may pay into an employee-financed pension plan (deferred compensation). This plan affords employees the option of converting part of their future salary claims into equivalent pension capital. Pension capital accrues interest according to the date the pension plan was entered into (commitment) at either 7 percent (1996–2001), 6 percent (2002–2010) or 5 percent (2011–2013). Plans bearing 7 percent or 6 percent interest may be drawn in the form of either a pension or a lump sum. Plans bearing 5 percent interest are paid out exclusively in lump-sum form. Since 2015, management employees have been able to contribute a portion of their salary to an employee-financed pension plan with a variable interest rate. The variable interest rate is linked to the five-year running yield on German bearer bonds and amounts to at least 2.5 percent and at most 5 percent. Disbursement is as a lump sum only. Pension commitments made before or on December 31, 2000 are measured (in accordance with the projected unit credit method) at the present value of years' service to date or years served to retirement, whereas any commitments made on or after January 1, 2001 are measured at the present value of the defined benefit obligation or at the equivalent of the accumulated capital.

Pension entitlements in Germany are protected against insolvency by the pension guarantee fund (Pensions-sicherungsverein a.G.). This insolvency insurance is capped. There are no statutory minimum financing obligations.

Pension Commitments outside of Germany

Various pension plans are available to employees of foreign subsidiaries, subject to the statutory provisions applicable in the respective countries. With the exception of the US pension plans, these pension plans are not material to the Group.

In the US, defined benefit plans exist for employees of Wacker Chemicals Corporation, Adrian. These plans were closed for new applications effective December 31, 2003 and remain in force for legacy policies only. Retirement benefits are paid out from age 65 in the form of a monthly pension and are based on the last average salary paid. Special rules apply to early retirement as of age 55 depending on the employee's years of service. In view of their pension-like character, obligations relating to medical care for retired employees and severance payments are likewise included under pension provisions. New employees in the USA are offered only defined contribution plans.

The present value of defined benefit plans may be reconciled with the provisions recognized in the balance sheet as follows:

Net Liability of Defined Benefit Obligations

€ million		Dec. 31, 2017			Dec. 31, 2016	
	Germany	International	Total	Germany	International	Total
Present value of the at least partially fund-financed defined benefit obligations	2,236.3	96.6	2,332.9	2,806.7	234.1	3,040.8
Fair value of plan assets	–1,625.5	–85.9	–1,711.4	–1,917.3	–177.3	–2,094.6
Funded status	610.8	10.7	621.5	889.4	56.8	946.2
Present value of unfunded defined benefit obligations	984.6	12.2	996.8	1,141.7	19.9	1,161.6
Provisions for pensions and similar obligations	1,595.4	22.9	1,618.3	2,031.1	76.7	2,107.8

Changes in the Net Liability of Defined Benefit Obligations

€ million	Present value of pension plan obligations	Market value of plan assets	Total
As of January 1, 2016	3,432.6	–1,820.9	1,611.7
Current service cost	75.9	–	75.9
Interest expense/income	96.6	–52.5	44.1
Administrative expenses paid from plan assets	–	0.8	0.8
Past service cost	0.4	–	0.4
Effects of settlements	–12.7	11.8	–0.9
Remeasurements			
Gains (–)/losses (+) from plan assets without amounts already recognized in interest income	–	–215.2	–215.2
Gains (–)/losses (+) from changes in demographic assumptions	–0.1	–	–0.1
Gains (–)/losses (+) from changes in financial assumptions	545.6	–	545.6
Gains (–)/losses (+) from changes in experience-based assumptions	130.7	–	130.7
Effects of exchange-rate differences	9.1	–5.9	3.2
Contributions by			
Employer	–	–61.5	–61.5
Pension plan beneficiaries	11.2	–11.2	–
Pension payments	–89.0	60.0	–29.0
Changes in scope of consolidation	2.1	–	2.1
As of December 31, 2016	4,202.4	–2,094.6	2,107.8
Current service cost	81.4	–	81.4
Interest expense/income	70.0	–35.4	34.6
Administrative expenses paid from plan assets	–	0.2	0.2
Past service cost	0.5	–	0.5
Effects of settlements	–0.9	1.0	0.1
Remeasurements			
Gains (–)/losses (+) from plan assets without amounts already recognized in interest income	–	–56.5	–56.5
Gains (–)/losses (+) from changes in demographic assumptions	–	–	–
Gains (–)/losses (+) from changes in financial assumptions	–113.0	–	–113.0
Gains (–)/losses (+) from changes in experience-based assumptions	40.8	–	40.8
Effects of exchange-rate differences	–15.9	11.8	–4.1
Contributions by			
Employer	–	–75.6	–75.6
Pension plan beneficiaries	20.9	–20.9	–
Pension payments	–77.7	51.6	–26.1
Settlements	–0.5	–	–0.5
Changes in the scope of consolidation	–878.3	507.0	–371.3
As of December 31, 2017	3,329.7	–1,711.4	1,618.3

Assumptions

The pension obligations are calculated by taking account of company-specific and country-specific biometric calculation principles and parameters. The calculations are based on actuarial valuations that factor in the following parameters:

Actuarial Assumptions

%	2017	2016
Germany		
Discount rate	2.09	1.94
Salary growth rate	2.5	2.5
Pension growth rate[1]		
Basic and supplementary pension	1.8/1.0	1.8/1.0
Deferred compensation	2.5/1.0	2.5/1.0
USA		
Discount rate	3.50	3.92
Salary growth rate	3.00	3.00

[1] Varies according to the date on which the employee joined the company and/or the effective date of the different plan generations.

Life expectancy calculations in Germany are based on Prof. Klaus Heubeck's modified 1998 guideline tables. The pension fund portfolio (basic pension model) is based on the official mortality tables (reduction of male mortality to 75 percent of the guideline table value, and 85 percent for females). The portfolio for other pension commitments is based on a reduction of male mortality to 60 percent of the Heubeck values and 85 percent for women, which takes into account in particular the recognized connection between life expectancy and the amount of pension paid ("Influence of socio-economic status"). In the USA, the gender-specific RP-2014 mortality tables (Scale SoA MP-2014) are used for both retirees and pension beneficiaries. The RP-2014 mortality table was extrapolated back to the year 2007 and a modified version of the MP-2014 table was used as a basis for future periods.

The discount rates and salary increase rates used in calculating the pension obligation were determined in line with the general economic situation and by applying uniform standards. The discount rate is based on a yield curve that is derived from the yields of country-specific, high-grade, fixed-interest corporate bonds with maturities corresponding to the pension obligations. The discount rate takes account of the WACKER-specific, expected future cash flows for these obligations.

Sensitivity Analysis

The following sensitivity analysis involves an adjustment of only one assumption – i.e. the other assumptions remain unchanged from the original valuation, so that the sensitivity of each individual assumption can be observed in isolation. As a consequence, possible correlation effects between the individual assumptions cannot be taken into consideration.

The following table shows the possible changes in the present value of pension obligations resulting from changes in the basic actuarial assumptions.

Sensitivity Analysis

	Dec. 31, 2017 Effect on defined benefit obligation		Dec. 31, 2016 Effect on defined benefit obligation	
	Defined benefit obligation in € million	Change (%)	Defined benefit obligation in € million	Change (%)
Present value of pension obligations as of the reporting date	3,329.7		4,202.4	
Present value of pension obligations if				
the discount rate increases by 0.5 percentage points	3,033.2	–8.9	3,820.4	–9.1
the discount rate decreases by 0.5 percentage points	3,671.6	10.3	4,643.1	10.5
salaries increase by 0.5 percentage points	3,358.6	0.9	4,242.1	0.9
salaries decrease by 0.5 percentage points	3,303.4	–0.8	4,163.2	–0.9
future pension increases are 0.25 percentage points higher	3,426.5	2.9	4,330.4	3.0
future pension increases are 0.25 percentage points lower	3,237.2	–2.8	4,080.9	–2.9
life expectancy goes up by one year	3,456.3	3.8	4,363.9	3.8

Composition of Plan Assets

Pensionskasse der Wacker Chemie VVaG invests plan assets in accordance with statutory requirements and the terms of its by-laws. The company pension fund invests nearly half of its assets in equity funds and fixed-income funds. The other half is invested directly in promissory notes (German Schuldscheine), real estate, real estate mortgages, private debt and private equity. The remainder of the assets are retained for liquidity purposes. The investment strategy follows the investment guideline provided by the board of the pension fund.

The plan assets of pension funds set up in the US are invested mainly in stocks and funds in accordance with the applicable investment rules. The composition of plan assets for the Group is shown in the following table:

Composition of Plan Assets

€ million		Dec. 31, 2017			Dec. 31, 2016	
	Market prices listed in an active market	No listing in an active market	Total	Market prices listed in an active market	No listing in an active market	Total
Real estate	–	272.5	272.5	–	347.1	347.1
Loans/fixed-interest securities	631.1	305.0	936.1	734.3	425.8	1,160.1
Shares/funds	248.5	171.4	419.9	274.8	178.7	453.5
Cash and cash equivalents	–	82.9	82.9	–	133.9	133.9
Total	879.6	831.8	1,711.4	1,009.1	1,085.5	2,094.6

The WACKER Group was utilizing €84.2 million of plan assets for its own purposes as of December 31, 2017, compared with €84.2 million in the prior year. The assets in question comprised the real estate used by Wacker Chemie AG for its headquarters in Munich.

Risks

In addition to the usual actuarial risks, the risk inherent in the defined benefit obligation relates in particular to financial risks in connection with plan assets. In Germany, substantial amounts of the defined benefit obligation are administered by the pension fund. As part of an annual asset-liability study, the current and future relationships between the portfolio structure and obligations are analyzed and projections made. The result is the long-term return required of the pension fund, on the basis of which the pension fund defines a strategic target portfolio. This leads to an annual review and coordination of the required return, company contributions of sponsoring entities and strategic asset allocation.

All capital investments are exposed to market price fluctuation risks. These risks may comprise shifts in interest rates, share prices or exchange rates. WACKER aims to limit losses to a pre-defined amount using overlay management. In some cases, derivatives are used for hedging purposes.

In addition to actuarial risks, the defined benefit plans used in the US are also subject to market-price fluctuation risks because plan assets are invested in stocks and funds.

Applicable statutes and by-laws require WACKER to reduce under-funding of pension plans by increasing the amount of company contributions in cash.

Risks arise in particular in connection with the life expectancy of the beneficiaries, the interest rate guarantee, and the salary and pension growth rates. The interest rate guarantee risk is regularly monitored as part of the risk management process. It constitutes a major focus of the company pension fund when determining the long-term interest requirements and how to fulfill them. Interest rate guarantee risks also affect the deferred compensation plans.

Pension Plan Financing

In 2017, benefits in the amount of €72.1 million (versus €78.9 million a year earlier) were paid under pension plans in Germany and €5.6 million (versus €10.1 million) under pension plans outside of Germany. WACKER anticipates that pension payments will reach approximately €80 million in the coming fiscal year. Current employer contributions to plan assets will amount to around €35 million in 2018. The weighted duration of pension obligations as of December 31, 2017 was 20.2 years in Germany (versus 20.7 years a year earlier) and 12.9 years in the us (versus 14.7 years).

Expected Pension Payments Due

€ million	Dec. 31, 2017	Dec. 31, 2016
Less than a year	–79.7	–95.4
One to two years	–85.1	–100.2
Two to three years	–89.5	–107.1
Three to four years	–93.6	–113.2
Four to five years	–99.1	–119.1

Composition of Pension Expenses

€ million	2017	2016
Current service cost from defined benefit plans	–81.4	–75.9
Past service cost/effects of settlements and curtailments	–0.6	0.5
Administrative expenses for defined benefit plans paid from plan assets	–0.2	–0.8
Net interest expense for defined benefit plans	–34.6	–44.1
Defined contribution plan expenses	–6.7	–9.7
Other pension expenses	–3.4	–1.9
Contributions to state pensions	–57.4	–65.7
Total	–184.3	–197.6

12 Other Provisions/Income Tax Provisions

€ million	2017			2016		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel	92.3	87.6	4.7	124.9	117.1	7.8
Sales/purchasing	56.3	35.6	20.7	70.9	31.5	39.4
Environmental protection	80.2	78.2	2.0	85.3	80.7	4.6
Sundry	65.3	30.2	35.1	61.3	18.1	43.2
Other provisions	294.1	231.6	62.5	342.4	247.4	95.0
Income tax provisions	130.4	46.7	83.7	100.5	73.7	26.8

Provisions for Personnel

These include obligations for anniversary payments and funeral expenses as well as provisions for early-retirement and phased-early-retirement plans. There is a continuous reduction in noncurrent provisions for anniversary payments and provisions for phased-early-retirement plans. Interest-rate effects increased anniversary-payment provisions, while provisions for phased-early-retirement plans increased due to newly concluded agreements with employees still working for the company. Compared with the prior year, personnel provisions declined primarily because of the deconsolidation of Siltronic.

Sales/Purchasing Provisions

These provisions cover warranty and product-liability obligations, as well as discounts, cash bonuses and other price reductions still to be granted, commissions payable to sales agents, and contingent losses from contractual agreements. The major portion of the provisions will probably be used for payouts over the next three years. The decrease in 2017 was attributable to the utilization of provisions for onerous contracts.

Provisions for Environmental Protection

Provisions for environmental protection are created for anticipated obligations regarding contaminated-site remediation, water pollution control, recultivation of landfills, the clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges likely to be imposed by government bodies. Compared with the prior year, provisions for environmental protection declined due to a slight increase in the long-term discount rates in 2017. The noncurrent provisions for environmental protection are likely to be utilized within a period of 25 years.

Sundry Provisions

These provisions are formed for a multiplicity of identifiable individual risks and contingencies (e.g. damages, reimbursement claims, legal expenses).

Income Tax Provisions

These contain amounts for current income tax obligations as well as for risks from tax audits and legal action. The existing noncurrent tax provisions will not be utilized for another five years.

Depending on the situation in the individual countries, interest rates of up to 3 percent were used to determine the provisions. These provisions were primarily those associated with purchasing, environmental provisions, provisions for phased-early-retirement plans and anniversary-payment provisions.

Other Provisions/Income Tax Provisions

€ million	Jan. 1, 2017	Utilization	Reversal	Addition	Interest effect	Exchange-rate differences	Changes in scope of consolidation, and other[1]	Dec. 31, 2017
Personnel	124.9	–30.6	–1.8	51.0	1.1	–0.3	–52.0	**92.3**
Sales/purchasing	70.9	–31.4	–1.0	19.5	5.0	–3.9	–2.8	**56.3**
Environmental protection	85.3	–3.4	–2.8	2.3	0.1	–0.6	–0.7	**80.2**
Sundry	61.3	–3.7	–4.2	13.5	–	–2.1	0.5	**65.3**
Other provisions	342.4	–69.1	–9.8	86.3	6.2	–6.9	–55.0	294.1
Income tax provisions	100.5	–28.8	–	67.7	–	–0.2	–8.8	130.4

[1] "Other" includes the change of €11.7 million in plan assets for phased-early-retirement commitments within provisions for personnel.

13 Financial Liabilities

€ million	2017			2016		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	**633.5**	**499.8**	**133.7**	990.8	339.6	651.2
Liabilities from lease obligations	**29.8**	**25.6**	**4.2**	36.1	32.0	4.1
Other financial liabilities	**338.3**	**275.0**	**63.3**	431.3	419.5	11.8
Financial liabilities	1,001.6	800.4	201.2	1,458.2	791.1	667.1

In 2017, a promissory note (German Schuldschein) of €150 million and current loans in China were repaid on schedule and refinanced with a new investment loan for €200 million. Ongoing repayments of investment loans totaled €16 million. In the second half of 2017, WACKER repaid a further €200 million investment loan on schedule. Additionally, bank loans of ¥10 billion (€75.3 million) were repaid. Loans from minority shareholders in the amount of SG$61.6 million (€41.9 million) were also disposed of in the course of the deconsolidation of Siltronic.

No collateral exists for the financial liabilities, nor are they secured through liens or similar rights. Some of the liabilities to banks are fixed-interest while others have variable interest rates. Moreover, some of the liabilities to banks were granted on condition that particular covenants be complied with.

The liabilities to banks comprise the following:

€ million	2017 Currency	2017 Carrying amount € million	2017 Of which with variable interest rates	2017 Maturity	2016 Currency	2016 Carrying amount € million	2016 Of which with variable interest rates	2016 Maturity
Investment loan		–	–		EUR	200.0	–	2017
Investment loan	EUR	48.0	48.0	2020	EUR	64.0	64.0	2020
Investment loan	EUR	200.0	–	2022		–	–	
Promissory note (German Schuldschein)		–	–		EUR	150.0	39.0	2017
Promissory note (German Schuldschein)	EUR	50.0	–	2018	EUR	50.0	–	2018
Bank loan		–	–		JPY	81.2	40.6	2017
Bank loan		–	–		BRL	7.3	–	2017
Bank loan		–	–		KRW	18.4	18.4	2017
Bank loan		–	–		CNY	109.5	–	2017
Bank loan	JPY	6.2	2.5	2018	JPY	4.0	–	2018
Bank loan	BRL	6.3	–	2018		–	–	
Bank loan	KRW	15.7	15.7	2018		–	–	
Bank loan	USD	208.9	208.9	2019	USD	237.6	237.6	2019
Bank loan	CNY	33.4	33.4	2019		–	–	
Bank loan	CNY	25.7	25.7	2020		–	–	
Operating loan		–	–		CNY	66.5	66.5	2017
Operating loan		–	–		JPY	1.8	1.8	2017
Operating loan	CNY	38.3	38.3	2018		–	–	
Other		1.0				0.5		
Total		633.5				990.8		
Fair value		633.5				996.0		

Other financial liabilities comprise the following:

€ million	2017 Currency	2017 Carrying amount € million	2017 Of which with variable interest rates	2017 Maturity	2016 Currency	2016 Carrying amount € million	2016 Of which with variable interest rates	2016 Maturity
Private placement (1st installment)	USD	58.5	–	2018	USD	66.3	–	2018
Private placement (2nd installment)	USD	108.4	–	2020	USD	123.2	–	2020
Private placement (3rd installment)	USD	166.6	–	2023	USD	189.5	–	2023
Minority-shareholder loans		–	–		SGD	40.4	–	Indefinite
Sundry other financial liabilities		4.8	–			11.9	–	
Total		338.3				431.3		
Fair value		331.3				423.5		

The carrying amounts of the current financial liabilities correspond to the repayment amounts. With the exception of the euro-denominated investment loan in the amount of €48 million, all the loans fall due on maturity.

The following table shows the future redemption and interest payments for the bank liabilities and other financial liabilities.

€ million	2018	2019	2020	2021	2022 to 2023
Redemption	197.0	258.3	150.3	–	366.2
Interest	21.9	15.1	9.3	7.8	9.3

There are also unused long-term lines of credit amounting to €901.1 million (€801.1 million a year earlier), where all the conditions for utilization have been met. They include a promissory note (German Schuldschein) in the amount of €300 million issued by WACKER in December 2017 and disbursed in January 2018.

As of the reporting date, the future minimum lease payments under finance lease agreements amounted to:

€ million	2017			2016		
	Nominal value	Interest	Present value	Nominal value	Interest	Present value
Minimum lease payment within a year	6.8	2.6	4.2	7.1	3.0	4.1
Minimum lease payment between one and five years	19.7	8.3	11.4	25.2	11.0	14.2
Minimum lease payment over five years	26.4	12.2	14.2	32.9	15.1	17.8
Total	52.9	23.1	29.8	65.2	29.1	36.1

There are no conditional lease payments from finance leases.

Wacker Chemie AG has capitalized a finance lease for the leased CCGT (combined-cycle gas turbine) power station at its Burghausen site. The lease for the power station is due to expire in 2019 at the latest. WACKER has the right to acquire the power station at a price oriented to book values in accordance with German commercial law. If WACKER acquires this power station, it may not be sold to a third party for five years.

WACKER also has leasing agreements for several technical facilities that qualify as finance leases and were capitalized accordingly. Here, too, the Group in some cases has rights of preemption and lease rollover options.

The lease agreements serve to simplify the procurement and financing of operating materials and fixed assets. The long-term commitment that they involve, however, leads to a constant future outflow of cash from which the company cannot extract itself.

14 Financial and Non-Financial Liabilities

€ million	2017			2016		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade payables	268.5	–	268.5	369.7	–	369.7
Liabilities due to associates	0.9	–	0.9	–	–	–
Derivative financial instruments	0.7	0.4	0.3	28.7	2.3	26.4
Sundry financial liabilities	13.9	0.1	13.8	35.4	–	35.4
Other financial liabilities	15.5	0.5	15.0	64.1	2.3	61.8
Payables relating to social security	4.1	–	4.1	5.9	–	5.9
Payroll liabilities	6.9	–	6.9	7.9	–	7.9
Variable compensation	90.0	–	90.0	72.9	–	72.9
Other personnel liabilities	21.5	–	21.5	30.0	–	30.0
Other tax liabilities	22.7	–	22.7	23.0	–	23.0
Deferred income	1.8	–	1.8	1.6	–	1.6
Advance payments received	174.3	112.5	61.8	270.7	164.1	106.6
Sundry non-financial liabilities	11.7	0.1	11.6	6.7	0.1	6.6
Other non-financial liabilities	333.0	112.6	220.4	418.7	164.2	254.5
Income tax liabilities	0.8	–	0.8	0.8	–	0.8

In addition to those tax amounts for which Group companies are liable, tax liabilities include taxes paid for the account of third parties.

Payables relating to social security refer in particular to social-insurance contributions that have yet to be paid.

The other payroll liabilities include, in particular, vacation and flextime credits, as well other HR-related liabilities.

The advance payments received relate primarily to future deliveries of polysilicon.

No collateral exists for other liabilities, nor are they secured through liens or similar rights.

15 Contingent Liabilities, Contingent Assets, Other Financial Obligations and Other Risks

Contingent Liabilities

The values assigned to contingent liabilities correspond to the extent of the liability as of the reporting date. At WACKER, contingent liabilities primarily concern incurred guarantees totaling €0.5 million, versus €0.5 million in the prior year. It is unlikely that the guarantees will be utilized.

Other Financial Obligations and Other Risks

€ million	2017	2016
Obligations from rent and operating leases		
Due within one year	45.8	49.7
Due between one and five years	56.1	82.8
Due after five years or more	16.6	52.4
Total	118.5	184.9
Lease payments occasioned by operating leases	43.1	49.6
Total expected minimum lease payments from subtenancies	4.3	4.6

The Group leases property, plant and equipment, motor vehicles and IT equipment by way of rental agreements and operating leases. These leases generally have terms of between three and five years. Tenancy agreements for office space, property, plant and equipment, etc. have considerably longer terms.

€ million	2017	2016
Obligations from orders for planned investment projects (commitments)	192.5	121.3

Obligations from orders for planned investment projects (commitments) amounted to €192.5 million, after €121.3 million in the prior year, and concern the operating segments.

The Group ensures capacity utilization at its joint venture with Dow Corning via long-term purchasing commitments of some €95 million annually, versus €90 million in the prior year. The contractually agreed transfer prices led to recognition of a provision for onerous contracts, which is included in other provisions.

As regards raw-material supplies, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. Accordingly, in net terms, the company had other financial obligations in the amount of €1.16 billion arising from significant minimum-purchasing arrangements in the reporting period, after €1.32 billion the year before. The agreements have terms of between one and seven years. There are no obligations to accept deliveries from existing consignment warehouses (compared with €8.9 million for Siltronic a year earlier).

Prospective liabilities for a euro amount in the low double-digit millions exist in connection with a contractually agreed acquisition by WACKER BIOSOLUTIONS. Execution of the transaction is still subject to fulfillment of certain closing conditions. WACKER expects the acquisition to be completed at the end of the first-half of 2018.

The insurance compensation for the operational disruption due to a hydrogen explosion at the production site in Charleston, Tennessee (USA) represents a contingent asset for WACKER. As no definitive appraisal of the loss is yet available, the insurance compensation does not qualify as a recognizable asset. WACKER received a prepayment of US$100 million in January 2018.

The Group receives government incentives and allowances for investing activities. These incentives are granted on condition that a certain number of jobs be created or maintained at certain sites. If these contractual commitments are not fulfilled, all or part of any funding received must be paid back. The period for which the Group has to fulfill its contractual commitments is limited.

WACKER is occasionally involved in legal or arbitration proceedings as well as official investigations and actions. Pending proceedings can have a negative impact on WACKER's earnings, net assets and financial position. At the present time, WACKER does not expect any significant negative effects from pending proceedings.

16 Other Disclosures

Social benefits relate mainly to the employer's share of social insurance contributions and to contributions to the employers' liability insurance association. The pension expenses consist mainly of contributions to state pensions and allocations to pension provisions. Related interest is shown in the financial result. The expenses incurred in transfers to external pension funds and pension plans are likewise included in pension expenses.

€ million	2017	2016
Cost of materials	–2,233.7	–2,233.5
Personnel expenses		
Wages and salaries	–1,018.7	–1,106.9
Social benefits and financial aid funds	–164.8	–184.7
State pension contributions	57.4	65.7
Social security contributions	–107.4	–119.0
Pension expenses	–92.3	–87.8
Contributions to state pensions	–57.4	–65.7
Pension expenses	–149.7	–153.5
Total personnel expenses	–1,275.8	–1,379.4

KPMG AG Wirtschaftsprüfungsgesellschaft was paid auditors' fees in the amount of €0.8 million (versus €1.1 million a year earlier), of which €0.6 million (€1.0 million) was for financial statement auditing services and €0.2 million (€0.1 million) for other attestation services. The other attestation services include attestation as per Section 64 of the German Renewable Energy Act (EEG), Section 15 of the Combined Heat and Power Act (KWKG), Section 20 of the German Securities Trading Act (WpHG in relation to EMIR), Article 25 (1) of the EU regulation on "electricity price compensation," and the German Packaging Regulation, as well as an assurance service for the non-financial report for the Group.

€ million	2017	2016
Expenses for auditors' fees		
Audit	**0.6**	1.0
Other attestation services	**0.2**	0.1
Tax consultation services	**–**	–
Other services	**–**	–
Total	0.8	1.1

17 Earnings per Share/Dividend

The diluted earnings per share were identical to the basic earnings in both the year under review and the previous year.

The dividend distribution for fiscal 2016 amounted to €99.4 million, or €2.00 per dividend-bearing share. No allocations to retained earnings were made at Wacker Chemie AG for fiscal 2016.

The Executive Board of Wacker Chemie AG has proposed a dividend for 2017 equivalent to 50 percent of the Group's income from continuing operations, or €2.50 per share. In addition, the shareholders are to benefit from the successful sale of Siltronic AG shares and from the good trend in net financial debt via a special bonus of €2.00 per share. The dividend proposal relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Subject to acceptance of the proposal, an amount of €223,550,923.50 will be distributed to the 49,677,983 no-par-value shares that are not held by the company.

	2017	2016
Average number of outstanding common shares (units)	**49,677,983**	49,677,983
Number of common shares outstanding at the end of the year (units)	**49,677,983**	49,677,983
Dividend per dividend-bearing common share (€)	**2.50**	2.00
Special bonus from the sale of Siltronic shares (€)	**2.00**	–
Distribution per dividend-bearing common share (€)	**4.50**	2.00
Income from continuing operations	**250.1**	178.1
Less income from continuing operations attributable to non-controlling interests	**–9.6**	7.0
Net result for the year from continuing operations attributable to Wacker Chemie AG shareholders (€ million)	**240.5**	171.1
Net result for the year from discontinued operations attributable to Wacker Chemie AG shareholders (€ million)	**626.2**	8.1
Net result for the year attributable to Wacker Chemie AG shareholders (€ million)	**866.7**	179.2
Earnings due to common shares (€ million)	**866.7**	179.2
Earnings per common share (average, €)	17.45	3.61
Earnings per common share (as of reporting date, €)	17.45	3.61
Of which earnings per share from continuing operations	**4.85**	3.44
Of which earnings per share from discontinued operations	**12.60**	0.17

18 Financial Instruments

The following table shows a presentation of financial assets and liabilities by measurement categories and classes. Liabilities from finance leases and derivatives that qualify for hedge accounting are also shown even though they do not belong to any of the IAS 39 measurement categories. WACKER has not pledged any financial assets as security.

The fair value of financial instruments measured at amortized cost is determined by means of discounting, taking into account market-participant interest rates that are adequate to the inherent risk and correspond to the relevant maturity. The fair value of current items in the statement of financial position is seen as equivalent to their carrying amounts as the differences are immaterial.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2017

€ million

				Measurement pursuant to IAS 39	Measurement pursuant to IAS 17	
	Balance sheet carrying amount Dec. 31, 2017	(Amortized) cost	Fair value through profit or loss	Fair value through other comprehen-sive income	(Amortized) cost	Fair value Dec. 31, 2017
Trade receivables	655.7	655.7	–	–	–	655.7
Loans and receivables	–	655.7	–	–	–	655.7
Other financial assets	185.1	171.7	8.4	5.0	–	174.0
Loans and receivables	–	160.6	–	–	–	160.6
Available-for-sale financial assets[1]	–	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	–	–	3.0	–	–	3.0
Derivatives that qualify for hedge accounting	–	–	5.4	5.0	–	10.4
Securities and fixed-term deposits	260.3	156.8	–	103.5	–	260.3
Loans and receivables	–	156.8	–	–	–	156.8
Available-for-sale securities	–	–	–	103.5	–	103.5
Cash and cash equivalents	286.9	286.9	–	–	–	286.9
Loans and receivables	–	286.9	–	–	–	286.9
Held-to-maturity securities	–	–	–	–	–	–
Total financial assets	1,388.0	–	–	–	–	1,376.9
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,260.0	1,260.0	–	–	–	1,260.0
Held-to-maturity securities	–	–	–	–	–	–
Available-for-sale financial assets	114.6	11.1	–	103.5	–	103.5
Derivatives that do not qualify for hedge accounting	3.0	–	3.0	–	–	3.0
Derivatives that qualify for hedge accounting	10.4	–	5.4	5.0	–	10.4
Financial liabilities (excluding finance leases)	971.8	971.8	–	–	–	964.8
Measured at amortized cost	–	971.8	–	–	–	964.8
Liabilities from finance leases	29.8	–	–	–	29.8	29.8
Trade payables	268.5	268.5	–	–	–	268.5
Measured at amortized cost	–	268.5	–	–	–	268.5
Other financial liabilities	15.5	14.8	0.7	–	–	15.5
Measured at amortized cost	–	14.8	–	–	–	14.8
Derivatives that do not qualify for hedge accounting	–	–	0.7	–	–	0.7
Derivatives that qualify for hedge accounting	–	–	–	–	–	–
Total financial liabilities	1,285.6	–	–	–	–	1,278.6
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	1,255.1	1,255.1	–	–	–	1,248.1
Derivatives that do not qualify for hedge accounting	0.7	–	0.7	–	–	0.7
Derivatives that qualify for hedge accounting	–	–	–	–	–	–

[1] This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is shown along with noncurrent loans in the statement of financial position under noncurrent financial assets.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2016

€ million

	Balance sheet carrying amount Dec. 31, 2016	(Amortized) cost	Fair value through profit or loss	Measurement pursuant to IAS 39: Fair value through other comprehensive income	Measurement pursuant to IAS 17: (Amortized) cost	Fair value Dec. 31, 2016
Trade receivables	**775.7**	775.7	–	–	–	775.7
Loans and receivables	–	775.7	–	–	–	775.7
Other financial assets	**176.6**	170.5	2.9	3.2	–	165.5
Loans and receivables	–	159.4	–	–	–	159.4
Available-for-sale financial assets[1]	–	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	–	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	–	–	–	3.2	–	3.2
Securities and fixed-term deposits	**182.2**	78.9	–	103.3	–	182.2
Loans and receivables	–	78.9	–	–	–	78.9
Available-for-sale securities	–	–	–	103.3	–	103.3
Cash and cash equivalents	**283.5**	283.5	–	–	–	283.5
Loans and receivables	–	283.5	–	–	–	283.5
Total financial assets	1,418.0	–	–	–	–	1,406.9
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	**1,104.8**	1,104.8	–	–	–	1,104.8
Held-to-maturity securities	**192.7**	192.7	–	–	–	192.7
Available-for-sale financial assets	**114.4**	11.1	–	103.3	–	103.3
Derivatives that do not qualify for hedge accounting	**2.9**	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	**3.2**	–	–	3.2	–	3.2
Financial liabilities (excluding finance leases)	**1,422.1**	1,422.1	–	–	–	1,419.5
Measured at amortized cost	–	1,422.1	–	–	–	1,419.5
Liabilities from finance leases	**36.1**	–	–	–	36.1	36.1
Trade payables	**369.7**	369.7	–	–	–	369.7
Measured at amortized cost	–	369.7	–	–	–	369.7
Other financial liabilities	**64.1**	35.4	17.4	11.3	–	64.1
Measured at amortized cost	–	35.4	–	–	–	35.4
Derivatives that do not qualify for hedge accounting	–	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	–	–	13.1	11.3	–	24.4
Total financial liabilities	1,892.0	–	–	–	–	1,889.4
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	**1,827.2**	1,827.2	–	–	–	1,824.6
Derivatives that do not qualify for hedge accounting	**4.3**	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	**24.4**	–	13.1	11.3	–	24.4

[1] This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is shown along with noncurrent loans in the statement of financial position under noncurrent financial assets.

The loans and receivables reported include trade receivables, other loans and fixed-term deposits as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the conversion rate prevailing on the reporting date. Their carrying amounts correspond to their fair values. The fair value of the loans corresponds to their present value, i.e. the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date.

Available-for-sale financial assets include securities and investments in joint ventures and associates. Investments in joint ventures and associates are measured at cost, as no observable prices on active markets are available.

The carrying amounts of trade payables and other financial liabilities correspond to their fair values. The fair values of financial liabilities constitute the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other financial liabilities are valued at cost as no observable prices are available for them.

The following table shows the net gains and losses from financial instruments.

€ million	2017	2016[1]
Net gains/losses from financial instruments		
Loans and receivables	–20.3	17.4
Available-for-sale financial assets	1.9	1.3
Assets/liabilities measured at fair value through profit or loss	46.4	–12.1
Financial liabilities measured at amortized cost	–86.6	–34.9
Total	–58.6	–28.3

[1] 2016 figure adjusted for Siltronic earnings

The net result of the category “Loans and receivables” primarily comprised net losses/gains from foreign currency translation, interest income from financial assets, fixed-term deposits, demand deposits and valuation allowances.

The category “Available-for-sale financial assets” includes interest income from fixed-interest securities and dividends from investments in joint ventures and associates.

The gains and losses from changes in the fair value of foreign-exchange, interest-rate and commodity derivatives that do not fulfill the requirements of IAS 39 for hedge accounting are posted in the category “Assets/liabilities measured at fair value through profit or loss.” This item also reflects changes in value from the remeasurement of hedging transactions as part of fair value hedge accounting.

The interest income from financial assets that are not recognized at fair value through profit or loss amounted to €7.5 million, compared with the prior-year figure of €4.3 million. This income mainly comprised interest on bank deposits, fixed-term deposits and loans.

The interest expense from financial liabilities that are not recognized at fair value through profit or loss amounted to €38.3 million, versus €39.9 million in the prior year. These interest expenses are mainly attributable to financial liabilities.

The net losses in the category “Financial liabilities measured at amortized cost” primarily comprise interest expenses on bank liabilities and other financial liabilities, as well as net losses/gains from foreign currency translation.

Neither in the year under review nor in the previous year were there any reclassifications of financial assets between those recognized at amortized cost and those recognized at market value or vice versa.

The financial assets and liabilities measured at fair value in the financial statements were allocated to one of three categories in accordance with the fair value hierarchy described in IFRS 13. Allocation to these categories reveals which of the fair values reported were settled through market transactions and the extent to which the measurement was based on models in the absence of observable market transactions.

The following are the levels of the hierarchy.

Level 1
Financial instruments measured using quoted prices in active markets, the fair value of which can be derived directly from prices in active liquid markets and for which the financial instrument observable in the market is representative of the financial instrument being measured. These include fixed-interest securities traded in liquid markets.

Level 2
Financial instruments measured using valuation methods based on observable market data, the fair value of which can be determined using similar financial instruments traded in active markets or using valuation methods all of whose parameters are observable. These include hedging and non-hedging derivative financial instruments, loans and financial liabilities.

Level 3
Financial instruments measured using valuation methods not based on observable parameters, the fair value of which cannot be determined using observable market data and which require the application of different valuation methods. The financial instruments belonging to this category have a value component that is not market-observable and has a major impact on fair value. These include over-the-counter derivatives and unquoted equity instruments.

The following table shows the categories in the fair value hierarchy to which the financial assets and liabilities measured at fair value in the statement of financial position are allocated. The table also shows financial assets and liabilities measured at cost in the statement of financial position. Their fair values are given in the Notes:
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WACKER regularly reviews whether its financial instruments are still allocated to the appropriate fair-value-hierarchy levels. As was the case in the previous year, no reclassifications were carried out within the fair value hierarchy in 2017.

In the period under review, WACKER measured only financial assets and liabilities at fair value. The market values were calculated using market information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methodologies (discounted cash-flow or well-established actuarial methodologies, such as the par method).

Derivative financial instruments and available-for-sale financial assets are recognized at fair value and are thus subject to a recurring fair value assessment.

The fair value of derivative financial instruments is calculated based on market data such as exchange rates or yield curves in accordance with market-specific valuation methodologies. The calculation of the fair value contains our own and the counterparty's default risk, using maturity-matching and market-observable CDS values. The fair value of available-for-sale financial assets can be derived from prices listed in active markets.

Loans and financial liabilities are measured at amortized cost. However, the fair values must be provided in the Notes.

The fair value of the loans corresponds to the present value of expected future cash flows. Application of the discounted cash flow method using market interest rates means that the carrying amount of the loans corresponds to their fair value.

The fair value of financial liabilities is determined using the net present value method and is based on standard market interest rates.

It was not possible to calculate the fair value of the equity instruments that WACKER measures at amortized cost as no stock market prices or market values were available. The instruments in question are shares in unlisted companies for which there was no indication of a lasting impairment on the reporting date and the fair value of which cannot reliably be determined. WACKER had no intention of selling any of the shares reported as of December 31, 2017.

The unilateral call option held by WACKER for the purchase of 1 percent of the shares in the subsidiary WACKER Asahikasei Silicones Co. Ltd., Japan was recognized at cost as of December 31, 2017.

WACKER does not currently have any financial instruments measured at fair value that are allocated to Level 3 of the fair value hierarchy.

No changes were made to the valuation methodology compared with the previous year.

Management of Financial Risks
In the normal course of business, WACKER is exposed to credit, liquidity, and market risks from financial instruments. The aim of financial risk management is to limit risks from operations and the resultant financing requirements by using certain derivative and non-derivative hedging instruments.

The risks connected with the procurement, financing and selling of WACKER's products and services are described in detail in the management report. WACKER counters financial risks via the risk management system it has in place. That system is monitored by the Supervisory Board.

Fair Value Hierarchy 2017

€ million	Fair value hierarchy Level 1	Level 2	Level 3	Total
As of December 31, 2017				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	3.0	–	3.0
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	10.4	–	10.4
Available-for-sale securities and fixed-term deposits	103.5	–	–	103.5
Total	103.5	13.4	–	116.9
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	90.5	–	90.5
Total	–	90.5	–	90.5
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	0.7	–	0.7
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	–	–	–
Total	–	0.7	–	0.7
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	964.8	–	964.8
Total	–	964.8	–	964.8

Fair Value Hierarchy 2016

€ million	Fair value hierarchy Level 1	Level 2	Level 3	Total
As of December 31, 2016				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	2.9	–	2.9
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	3.2	–	3.2
Available-for-sale securities and fixed-term deposits	103.3	–	–	103.3
Total	103.3	6.1	–	109.4
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	96.4	–	96.4
Total	–	96.4	–	96.4
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	4.3	–	4.3
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	24.4	–	24.4
Total	–	28.7	–	28.7
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	1,419.5	–	1,419.5
Total	–	1,419.5	–	1,419.5

The fundamental purpose of the risk management system is to identify, analyze, coordinate, monitor and communicate risks in a timely manner. The Executive Board receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material price risks, foreign-exchange risks and interest-rate risks on EBITDA and the interest result.

Credit Risk (Risk of Default)

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill its commitments. The maximum risk is therefore the amount of the respective financial instrument's positive fair value. To limit the risk of default, particularly for investments of securities and cash, transactions are conducted only within defined limits and with partners of very high credit standing. To ensure risks are managed as efficiently as possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal credit-risk principles and are subject to monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged with trade credit insurance, advance payments and bank guarantees. Customer credit ratings and limits are based on generally available information from rating agencies and internal documents. No collateral exists for financial instruments. Receivables from major customers are not so high as to represent an extraordinary concentration of risks. Default risks are accounted for by valuation allowances and take advance payments received into account.

Liquidity Risk

A liquidity risk means that a company may not be able to meet its existing or future financial obligations due to inadequate funds. To ensure uninterrupted solvency and financial flexibility, the Group holds long-term lines of credit at financial institutions of high credit standing and liquid funds based on multiyear financial planning and rolling liquidity planning.

To limit liquidity risk, WACKER keeps liquid reserves in the form of current investments and unused lines of credit. WACKER has also concluded agreements with a number of banks for long-term syndicated loans and bilateral loans.

For information on the maturity analysis for non-derivative financial liabilities, please refer to the note on Financial Liabilities.

➪ See Note 13

Market Risk

Market risk refers to the risk that fair values or future cash flows of a primary or derivative financial instrument could fluctuate due to changing risk factors.

Foreign-Exchange Risk

The potential currency exposure to be hedged with derivative financial instruments is determined on the basis of the company's major foreign-currency income and expenditure. The greatest risk is posed by the US dollar. US-dollar income is taken to mean all sales invoiced in US dollars, while all purchases in US dollars as well as site costs incurred in US dollars are reported under US-dollar expenditure. The evaluation of potential risks includes not only direct US-dollar income and expenditure, but also the indirect US-dollar impact of WACKER's main raw materials (methanol and natural gas). The US dollar is the only relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in US dollars. By comparison, increases in the euro exchange rate against the renminbi (CNY) and yen (JPY) have a minor impact. In determining sensitivity, we simulate a 10-percent US-dollar devaluation against the euro, taking as a starting point the exchange rate used in the forecast. Such a devaluation would have had an effect on EBITDA of €–50 million as of December 31, 2017 and of €–58 million as of December 31, 2016. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €22.2 million (versus €15.3 million a year earlier). The Group's currency exposure amounted to €498 million as of December 31, 2017 (versus €582 million).

Interest-Rate Risk

The interest rate risk results mainly from financial liabilities and interest-bearing investments. The Executive Board determines the mix of fixed- and variable-interest financial debt. Interest rate derivatives are concluded as required, taking account of the given structure. Depending on whether the instrument in question has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. As financial liabilities and fixed-interest investments are measured at amortized cost, under IFRS 7 they are not subject to any interest-rate risk. Available-for-sale securities are recognized at fair value. Due to their short maturities, they are not subject to a significant risk of changes in interest rates. Hedge accounting is not used for any of the interest-rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments and are thus included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest-rate derivatives affect the financial result, and are consequently included in any earnings-related sensitivity analysis. If the market interest rate on December 31, 2017 had been 100 base points lower (December 31, 2016: lower), the interest result would have been €1.4 million (€0.4 million) lower (higher).

Raw-Material Price Risk

In general, the company is faced with the risk that its supplies of raw materials may be inadequate and that potential increases in raw-material prices could threaten its results. These risks are covered by long-term contracts. Cash flow hedge accounting is used only to a minor degree for long-term energy needs in Norway. This item is recognized in profit or loss under the cost of goods sold.

Derivative Financial Instruments

Financial risks are also hedged using derivative financial instruments. The raw-material price risks that WACKER hedges against result principally from ongoing energy procurement. Electricity-supply prices are hedged via contracts for which the “own-use exemption” rules of IAS 39 can generally be invoked. These contracts, which are concluded for the purpose of receiving or delivering non-financial goods according to WACKER’s own needs, are not recognized as derivatives, but rather as pending transactions.

In those cases where WACKER hedges against currency risks, it uses derivative financial instruments, in particular foreign-exchange forwards, options and swaps. Derivatives are used only if they are backed by positions, cash deposits and funding, or scheduled transactions arising from operations. The scheduled transactions also include anticipated, but not yet invoiced, sales in foreign currencies.

Foreign-exchange hedging is carried out, in particular, for the US dollar. Potential interest rate hedges are based on the maturities of the underlying transactions.

Operational foreign-exchange hedging relates to the receivables and liabilities already recognized, and generally covers time horizons of between two and three months. The time horizon for strategic hedging is between three and a maximum of 15 months. The hedged cash flows influence the statement of income at the time when sales are realized. The cash inflows are usually recorded shortly afterward, depending on the payment deadline. As well as receivables from and liabilities to third parties, intercompany financial receivables and liabilities are hedged.

The fair values refer to the repurchase values (redemption values) of the financial derivatives as of the reporting date and are calculated using recognized actuarial methods.

The derivatives are recognized at their fair values, irrespective of their stated purpose. They are reported in the statement of financial position under other financial assets or other financial liabilities. Where permissible, cash flow hedge accounting is carried out for the strategic hedging of currency-exchange risks from future foreign-exchange positions. Depending on the nature of the underlying transaction, they are posted in the statement of income either under the operating result or, if financial liabilities are being hedged, under interest result or other financial result.

For strategic hedging purposes, the aim is to achieve a hedging ratio of some 50 percent in relation to the expected net exposure in US dollars. The expected net exposure for 2018 is about 43 percent hedged. The average hedging ratio for operational hedging in US dollars is around 50 percent.

In 2017, the accumulated income and expenses recorded directly in equity included a pre-tax result from cash flow hedges amounting to €17.4 million (versus €7.6 million in the prior year). During 2017, €1.1 million was reclassified to the statement of income (versus €–21.1 million). In the result for the period, no gains or losses from hedge accounting ineffectiveness were recorded, as the hedging relationships were almost entirely effective.

The purpose of fair value hedges is to hedge against changes in the fair value of financial assets and liabilities that come about because of fluctuations in the value of currencies (foreign-exchange swaps). If the hedge is effective, the carrying amount of the corresponding underlying transaction is amended to reflect the changes in the fair value of the hedged risks. At year end, WACKER recognized income of €59.7 million from the realization and valuation of the hedging instruments under fair value hedges (versus income of €5.1 million in the prior year). At the same time, an expense of €–71.7 million was realized on the underlying transactions (expense of €–5.1 million a year earlier). Both amounts were recognized in the financial result. The differences result from the US dollar-euro interest rate component of the hedge. The interest rate component has no influence on the effectiveness of the fair value hedge.

€ million	Dec. 31, 2017		Dec. 31, 2016	
	Nominal values	Market values	Nominal values	Market values
Foreign-exchange derivatives	949.4	11.6	1,637.2	–21.8
Other derivatives	16.7	1.1	15.0	–0.8
Total	966.1	12.7	1,652.2	–22.6
Market values of derivative financial instruments used for hedge accounting		10.4		–21.1

The foreign exchange derivatives mainly comprise forwards, options and swaps amounting to US$392.0 million, ¥400.0 million and €619.0 million (versus US$610.8 million, ¥33.1 billion, SG$70.7 million and €687.0 million a year earlier). Derivatives with market values of €11.5 million are due in 2018.

Other derivatives involve electricity futures traded on the Norwegian market for a nominal amount of €16.7 million (€15.0 million in the prior year). The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents up to 90 percent of the Holla (Norway) site's future silicon-production power needs not covered by long-term supply contracts. The futures have maturities of between one and four years. Derivatives with maturities until 2020 were concluded.

The following table contains information on the netting of financial assets and liabilities in the consolidated statement of financial position.

Financial Assets/Liabilities Subject to Netting Agreements, Enforceable Global Netting Agreements and Similar Agreements

€ million	Dec. 31, 2017		Dec. 31, 2016	
	Derivatives with a positive market value	Derivatives with a negative market value	Derivatives with a positive market value	Derivatives with a negative market value
I Gross amounts of recognized financial assets/liabilities	13.7	–1.0	7.4	–29.9
II Gross amounts of recognized financial assets/liabilities netted out in the statement of financial position	–0.3	0.3	–1.3	1.3
I + II Net amounts of financial assets/liabilities presented in the statement of financial position	13.4	–0.7	6.1	–28.6
Related amounts not netted out in the statement of financial position: Financial Instruments	–1.6	–	–5.0	5.0
Net amount	11.8	–0.7	1.1	–23.6

In addition to the financial instruments complying with the provisions on netting pursuant to IAS 32, the table also includes those financial instruments that are subject to netting agreements or master netting agreements but may not be netted pursuant to IAS 32.

As a part of its strategic hedging activities, WACKER closes out forward-exchange contracts prior to maturity by means of offsetting transactions. The strategic forward-exchange contract and the corresponding offsetting forward-exchange transaction are recognized as a net amount in accordance with IAS 32 criteria. In addition, general offsetting agreements, which apply only in cases of insolvency, have been concluded with a number of banks.

The net amount shows the amount of financial assets or liabilities that, despite netting and global netting agreements, is not received or must be paid in the event of insolvency.

19 Notes to the Statement of Cash Flows

Cash flow from operating activities is calculated using the indirect method, which adjusts the relevant changes in statement-of-financial-position items for any exchange-rate effects and effects of changes in the scope of consolidation. This means that changes to the relevant statement-of-financial-position items cannot be reconciled with the corresponding values based on the published consolidated statements of financial position.

Construction-related borrowing costs that have to be capitalized were deducted from the interest payments recognized in cash flow from operating activities. These construction-related borrowing costs increased the capital expenditure included in cash flow from investing activities by €1.3 million (versus €1.2 million in the prior year).

In the case of cash flow from investing activities, the actual outflows of funds are recognized. As a result, it is also not possible to reconcile these figures with the additions to investments in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the effects of these transactions are shown as separate items in the statement of cash flows. Investment in securities falling due in more than three months is reported separately under cash flow from investing activities because, in economic terms, these transactions are considered an element of liquidity.

The Group is financed mainly by bank loans granted in the form of loan commitments. Within the defined approval limits for loan commitments, our utilization of credit may be subject to fluctuations both within a given year and over several years. Loans raised and repaid in foreign currencies are converted at the exchange rate prevailing on the transaction date. The following table shows a reconciliation of all cash inflows and outflows as well as other non-cash changes in financial liabilities:

Cash and Non-Cash Changes in Financial Liabilities

€ million	Jan. 1, 2017	Cash changes	Non-cash changes			Dec. 31, 2017
			Acquisitions / disposals	Exchange-rate-related changes	Other	
Liabilities to banks	990.8	–311.7	–	–45.6	–	633.5
Lease obligations	36.1	–4.1	–	–2.2	–	29.8
Other financial liabilities	431.3	–0.9	–40.9	–45.6	–5.6	338.3
Financial liabilities	1,458.2	–316.7	–40.9	–93.4	–5.6	1,001.6

Please see Note 09 for more details on the composition of funds comprising cash and cash equivalents.

See Note 09

Cash flow from discontinued operations includes the pro rata cash flow of the Siltronic segment, from both operating and investing activities, until the deconsolidation date.

20 Explanatory Notes on Segment Reporting

The Group's segment reporting is in line with the internal organizational and reporting structure. WACKER reports on four operating segments (Silicones, Polymers, Biosolutions and Polysilicon), which are organized and managed autonomously on the basis of the type of products they offer and their different risk and income structures. For a detailed description of the segments' products and organization, please refer to the Management Report. The Siltronic segment ceased to exist upon the deconsolidation of Siltronic in 2017. Business segments are not combined. Any activities or results not assigned to an operating segment are shown under "Other," including the result from the investment in Siltronic. Foreign currency gains and losses are also shown under "Other."

Items in the statement of financial position and statement of income are assigned to the operating segments in accordance with the commercial power of disposition. Assets used jointly by several segments are generally shown under "Other" if they cannot be assigned clearly to a particular segment. A similar approach is adopted for borrowed funds. The carrying amount of the strategic investment in Siltronic, which is accounted for using the equity method, is also recognized under "Other." For the geographical regions, the assets and liabilities are assigned in accordance with where the respective Group company's site is located. Sales are classified in accordance with both the customer's location and the respective Group company's site. Both the income from, and the carrying amount of, the equity-accounted investment in Siltronic were assigned to the region "Germany" in 2017. Due to the deconsolidation of Siltronic, the assets and liabilities of its entities are no longer recognized in the regions in question.

WACKER measures the segments' success using the segment profitability variable EBITDA. EBITDA is calculated by adjusting EBIT for depreciation and amortization, impairments, and write-ups. EBIT consists of the gross profit from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses, including income from investments in joint ventures and associates and other income from investments.

Asset additions, depreciation, amortization and write-ups refer to intangible assets, to property, plant and equipment, to investment property and to financial assets. Internal sales show the sales that are generated between the segments. They are settled mainly on the basis of market prices or planned cost of sales. Segment information is based on the same presentation and accounting methods used for the consolidated financial statements. Receivables and liabilities, provisions, income, expenses, and results between the segments are eliminated in the course of consolidation. In 2017 and in the prior-year period, the remaining segments' internal sales with the Siltronic segment, accounted for as a discontinued operation, were not consolidated. For improved comparability with future periods, the internal sales were kept within the Group, enhancing total sales.

As a rule, the assets reported for the segments encompass all of their assets. Loans, cash and cash equivalents, and deferred tax assets, however, are allocated to the "Other" segment.

The liabilities shown for the segments represent all of their liabilities – except deferred tax liabilities, which are shown under "Other." The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. Provisions for pensions are allocated in accordance with Group HR ratios. Advance payments received are allocated directly to the individual segments.

Non-cash expenses and income are divided up between the individual segments as follows:

Other Non-Cash Expenses (+) and Income (–)

€ million	2017	2016[1]
SILICONES	**–0.9**	–1.4
POLYMERS	**–0.5**	–2.4
BIOSOLUTIONS	**–3.3**	0.8
POLYSILICON	**–16.3**	15.1
Other	**61.0**	–28.2
Total	40.0	–16.1

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

The decline in both advance payments received for polysilicon deliveries and advance payments retained due to the termination of polysilicon contracts amounted to €71.7 million (versus €161.1 million in the prior year). The Biosolutions segment accounted for €0.5 million of this decrease (versus €1.9 million). The "Other" segment grew by €2.4 million in the year under review. The deconsolidation of Siltronic led to a decline of €26.2 million.

Important valuation changes not recognized through profit or loss include changes in the market value of derivative financial instruments (cash flow hedging) and changes in value from the remeasurement of defined benefit pension plans.

The "Other" segment accounted for €8.4 million of the change in the market value of derivative financial instruments from cash flow hedging (after €–1.9 million a year earlier). A change of €5.4 million in derivative financial instruments from the investment in Siltronic was also recognized under "Other."

The changes in value due to the remeasurement of defined benefit plans are allocated to the segments as follows:

Changes in Value from the Remeasurement of Defined Benefit Pension Plans

€ million	2017	2016
SILICONES	27.0	–93.6
POLYMERS	9.8	–35.4
BIOSOLUTIONS	2.4	–9.2
POLYSILICON	18.2	–63.8
SILTRONIC	–	–90.5
Other	69.8	–167.5
Total	127.2	–460.0

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit, sales amounted to €627.2 million in the USA (after €625.4 million in the previous year) and €455.1 million in China (after €406.3 million). Measured by the customer location in the USA and China, the respective sales generated were €652.1 million (after €648.8 million) and €1,044.9 million (versus €928.4 million). WACKER has no major customer whose sales it is obliged to report.

The reconciliation of the segments' aggregate results with the net income for the year is shown in the following list:

Reconciliation of Segment Results (EBIT)

€ million	2017	2016[1]
Operating result of reporting segments	**420.6**	337.1
Consolidation	**3.1**	0.4
Group EBIT	**423.7**	337.5
Financial result	**–88.7**	–91.1
Income before taxes	335.0	246.4
Income taxes	**–84.9**	–68.3
Net income from continuing operations	250.1	178.1
Net income from discontinued operations	**634.7**	11.2
Net income for the year	884.8	189.3

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

21 Breakdown of Shareholdings

Unless otherwise stated, the following figures for international subsidiaries were calculated in accordance with IFRS.

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
Affiliated Companies						
Germany						
1 Alzwerke GmbH, Munich	Other	a), b)	7,160	–	100.00	0
2 DRAWIN Vertriebs-GmbH, Hohenbrunn-Riemerling	Silicones	a), b)	5,015	–1	100.00	0
3 Wacker-Chemie Versicherungsvermittlung GmbH, Munich	Other	a), b)	26	–	100.00	0
4 Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	–		29	–	100.00	0
5 Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	–		27	–	100.00	0
6 Wacker-Chemie Erste Venture GmbH, Munich	–		79	–1	100.00	0
7 Wacker-Chemie Zweite Venture GmbH, Munich	–		35	–	100.00	0
8 Wacker-Chemie Sechste Venture GmbH, Munich	–		27	–	100.00	0
9 Wacker Biotech GmbH, Jena	Biosolutions	a), b)	290	–	100.00	0
10 Wacker-Chemie Siebte Venture GmbH, Munich	–		24	–1	100.00	0
11 Wacker-Chemie Achte Venture GmbH, Munich	–	a), b)	2,753	–	100.00	0
12 Wacker-Chemie Zehnte Venture GmbH, Munich	–		25	–	100.00	0
13 Wacker-Chemie Elfte Venture GmbH, Munich	–		25	–	100.00	0
14 Wacker-Chemie Zwölfte Venture GmbH, Munich	–		25	–	100.00	0

Serial number	Activity	Identi-fier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
Rest of Europe						
15 Wacker Chemicals Finance B.V., Zaanstad, Netherlands	Holding		1,440,735	3,416	100.00	0
16 Wacker-Chemicals Ltd., Purley, Surrey, Great Britain	Sales and distribution		992	888	100.00	0
17 Wacker Chemie Italia S.r.L., San Donato Milanese, Italy	Sales and distribution		2,868	1,285	100.00	0
18 Wacker-Chemie Benelux B.V., Zaanstad, Netherlands	Sales and distribution		609	591	100.00	15
19 Wacker Chimie S.A.S., Lyon, France	Sales and distribution		481	205	100.00	0
20 Wacker-Kemi AB, Solna, Sweden	Sales and distribution		411	359	100.00	0
21 Wacker Química Ibérica, S.A., Barcelona, Spain	Sales and distribution		636	498	100.00	0
22 Wacker-Chemie s.r.o., Plzeň, Czech Republic	Sales and distribution, Silicones		3,440	225	100.00	0
23 Wacker-Chemia Polska Sp. z o.o., Warsaw, Poland	Sales and distribution		563	415	100.00	0
24 Wacker-Chemie Hungary Kft., Budapest, Hungary	Sales and distribution		618	433	100.00	0
25 LLC Wacker Chemie Rus, Moscow, Russia	Sales and distribution		888	195	100.00	0
26 Wacker Chemicals Norway AS, Holla, Hemne, Norway	Silicones		80,565	–1,975	100.00	15
27 Wacker Kimya Tic. Ltd.Sti., Istanbul, Turkey	Sales and distribution		358	275	100.00	15
28 Wacker Biosolutions León, S.L.U., León, Spain	Biosolutions		14,970	–32	100.00	15
The Americas						
29 Wacker Química do Brasil Ltda., Jandira – São Paulo, Brazil	Silicones, Polymers		23,969	–45	99.90	0
					0.10	2
30 Wacker Mexicana S.A. de C.V., Mexico, D.F., Mexico	Sales and distribution		1,055	254	100.00	0
31 Wacker Chemical Corp., Adrian, Michigan, USA	Silicones, Polymers, Biosolutions		1,473,316	1,129	100.00	15
32 Wacker Polysilicon North America, L.L.C., Cleveland, Tennessee, USA	Polysilicon		970,899	–6,278	100.00	31
33 Wacker Colombia S.A.S., Bogotá, Colombia	Sales and distribution		188	24	100.00	15
Asia						
34 Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	Silicones		19,005	–1,009	50.00[4]	0
35 Wacker Chemicals (South Asia) Pte. Ltd., Singapore	Sales and distribution		2,470	1,073	100.00	0
36 Wacker Chemicals Hong Kong Ltd., Hong Kong, China	Sales and distribution		2,703	366	100.00	0
37 Wacker Metroark Chemicals Pvt. Ltd., Kolkata, India	Silicones		59,455	17,481	51.00	0
38 Wacker Chemicals Korea Inc., Seongnam-si, South Korea	Silicones, Polymers		85,022	4,308	100.00	15
39 Wacker Chemicals East Asia Ltd., Tokyo, Japan	Sales and distribution		450	388	100.00	0
40 Wacker Chemicals Fumed Silica (Zhangjiagang) Holding Co. Private Ltd., Singapore	Holding		47,954	–17	51.00	0
41 Wacker Chemicals Fumed Silica (Zhangjiagang) Co. Ltd., Zhangjiagang, China	Silicones		23,771	3,303	100.00	40
42 Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	Silicones		54,551	3,761	100.00	43

Serial number	Activity	Identi-fier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
43 Wacker Chemicals (China) Co. Ltd., Shanghai, China	Sales and distribution		178,624	40,277	100.00	0
44 Wacker Chemicals (Nanjing) Co. Ltd., Nanjing, China	Polymers, Biosolutions		53,253	2,093	100.00	43
45 Wacker Chemie India Pvt. Ltd., Mumbai, India	Sales and distribution		3,891	148	99.90	15
					0.10	0
46 PT. Wacker Chemicals Indonesia, Tangerang, Indonesia	Silicones, Polymers, Biosolutions		177	42	99.00	15
					1.00	2
Other Regions						
47 Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	Sales and distribution		530	214	100.00	0
48 Wacker Chemicals Middle East Ltd., Dubai, UAE	Sales and distribution		3,135	541	100.00	0
Joint Ventures/Associates						
49 Dow Corning Siloxane (Zhangjiagang) Holding Co. Private Ltd., Singapore[2]	Silicones		323,250	1,293	25.00	0
50 Wacker Dymatic Silicones (Shunde) Co. Ltd., Foshan, China	Silicones		19,852	3,945	50.00	43
51 Siltronic AG, Munich[2]	Other		638,123	192,427	30.83	0
Special-Purpose Entity						
52 WMM Universal-Fonds, Germany[3]			104,856	–658	100.00	0

* Identifier:
a) Wacker Chemie AG has concluded profit and loss transfer agreements with these entities.
b) The shareholders of Wacker Chemie AG have agreed not to disclose the financial statements of these entities (Section 264 (3) of the German Commercial Code).

[1] Serial number 0: Wacker Chemie AG
[2] Only direct holdings in the relevant parent companies are listed; figures from consolidated financial statements in accordance with IFRS
[3] Share of special assets; as per IFRS
[4] Control on the basis of potential voting rights

22 Related Party Disclosures

IAS 24 stipulates that a person or company which controls, or is controlled by, Wacker Chemie AG must be disclosed unless the party in question is already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. A shareholder is deemed to have control if the shareholder has more than half of the voting rights in Wacker Chemie AG or, by virtue of provisions in the Articles of Association or contractual arrangements, has the possibility of controlling the financial and business policy of the WACKER Group's Executive Board.

In the year under review, the WACKER Group was affected by the disclosure obligations under IAS 24 in respect of the business relations with Wacker Chemie AG's major shareholders and its Executive and Supervisory Board members. The principles of IAS 24 also apply to all transactions with non-consolidated subsidiaries, associates and joint ventures, since Wacker Chemie AG exercises significant influence over them.

Dr. Alexander Wacker Familiengesellschaft mbH, Munich, informed Wacker Chemie AG on June 7, 2006, that it holds over 50 percent of the voting shares in Wacker Chemie AG. Blue Elephant Holding GmbH, Pöcking, informed Wacker Chemie AG on April 12, 2006, that it holds over 10 percent of the voting shares in Wacker Chemie AG.

The WACKER Group is controlled by its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, which holds over 50 percent of the voting shares in Wacker Chemie AG.

The provision of services between Wacker Chemie AG and its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, as well as with the shareholders of Dr. Alexander Wacker Familiengesellschaft mbH and their close family members, is of subordinate importance, and concerns the renting of office space and exchange of services. None of these services is of significant business scope. These transactions are conducted at arm's length.

Further, WACKER Group companies have not conducted any material transactions with members of Wacker Chemie AG's Executive or Supervisory Boards or with any other key management personnel or with companies of whose executive or supervisory bodies these persons are members. The same applies to close family members of the aforementioned persons.

Wacker Chemie AG's pension fund is also considered a related party pursuant to IAS 24. The provision of services takes place between the two entities in the area of company pension plan benefits. WACKER makes payments to plan assets to cover pension obligations. Wacker Chemie AG also rents the headquarters building and the land on which it stands from a subsidiary of the pension fund. Overall, expenditures amounted to €36.6 million (versus €44.8 million in the prior year). As of December 31, 2017, receivables amounted to €31.5 million (versus €48.0 million), while liabilities came to €0.0 million (versus €0.5 million).

Further detailed information has been published in the German register of companies.

➪ www.unternehmensregister.de

Business with joint ventures and associates, the pension fund, and non-consolidated subsidiaries is conducted under conditions that are customary between outside third parties (arm's length transactions). Contractually agreed transfer-price formulas have been defined for joint-venture and associated-company product shipments.

Related Party Disclosures

€ million	2017				2016			
	Income	Expenses	Receivables	Liabilities	Income	Expenses	Receivables	Liabilities
Associates	135.2	131.0	12.0	19.1	7.8	125.8	3.6	15.0
Joint ventures	5.5	1.0	0.5	0.1	24.4	1.1	0.9	0.1

Transactions with joint ventures and associates relate to such supplies and services that arise in the normal course of business (for example in connection with sales revenue, license revenue and administrative expense allocations). Joint ventures and associates submitted invoices for material purchases and commissions. Any guarantees or other security pledges are reported under Other Financial Obligations.

➪ See Note 15

In 2014, Wacker Chemie AG entered into a contractual agreement to take on a certain number of Siltronic AG employees over a fixed period of five years.

In addition, there was a loan to an associate totaling €90.5 million (€96.4 million in the prior year).

Information Regarding Compensation for the Supervisory and Executive Boards:

Compensation for the Executive and Supervisory Boards

€	Fixed compensation	Variable compensation	Pension expenses[1]	Total
Executive Board compensation 2017	2,631,856	4,956,160	1,415,435	**9,003,451**
Executive Board compensation 2016	2,611,723	4,866,125	1,177,876	**8,655,724**
Pension commitments for active members of the Executive Board 2017				**28,090,779**
Pension commitments for active members of the Executive Board 2016				**27,587,433**
Compensation for former members of the Executive Board and their surviving dependents 2017				**1,995,326**
Compensation for former members of the Executive Board and their surviving dependents 2016				**2,383,467**
Pension commitments for former members of the Executive Board and their surviving dependents 2017				**37,590,405**
Pension commitments for former members of the Executive Board and their surviving dependents 2016				**39,163,469**
Supervisory Board compensation 2017	2,152,945	–	–	**2,152,945**
Supervisory Board compensation 2016	2,165,000	–	–	**2,165,000**

[1] The compensation for retirement benefits is based on service cost. Interest expense amounted to €535,197, after €624,036 in the prior year.

Detailed information about Executive Board compensation is contained in the compensation report, which forms part of the management report. German commercial law (HGB) requires the inclusion of this information in the notes to the consolidated financial statements.

Other business relations with members of the Supervisory and Executive Boards comprise the purchase and sale of shares in Wacker Chemie AG. Such transactions take place on customary market terms and conditions. These transactions were published both in the German register of companies and on the Wacker Chemie AG website.

www.wacker.com/directors-dealings

The members of Wacker Chemie AG's Supervisory Board and Executive Board are listed on the following pages.

23 Events after the Balance Sheet Date

In January 2018, WACKER received a collection-only check for US$100 million from its insurance company as partial advance compensation for the damage caused by the technical defect and subsequent operational disruption that occurred at its production site in Charleston, Tennessee (USA).

The promissory note (German Schuldschein) in the amount of €300 million that had been signed in December 2017 was disbursed to WACKER on January 9, 2018. The interest rate for the loan, which falls due on maturity, has both fixed and variable components. Therefore, the loan is no longer recognized as a noncurrent unused line of credit as it was on December 31, 2017.

Munich, February 26, 2018
Wacker Chemie AG

Rudolf Staudigl **Christian Hartel**

Tobias Ohler **Auguste Willems**

Declaration by the Executive Board on Accounting Methods and Auditing

The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were prepared in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The internal auditing division continuously examines the reliability and workability of the monitoring and steering systems on a worldwide basis. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report were discussed in detail by the Supervisory Board's Audit Committee at its meeting on February 26, 2018. For information about the Supervisory Board's audit, please refer to its report.

Assurance by the Legal Representatives in Accordance with Sections 297 (2) and 315 (1) HGB
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, earnings and financial position, and the combined management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Munich, February 26, 2018
Wacker Chemie AG

Rudolf Staudigl **Christian Hartel**

Tobias Ohler **Auguste Willems**

Reproduction of the Auditor's Report

Independent Auditor's Report

To: Wacker Chemie AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Wacker Chemie AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the report on the position of the Company and the Group for the financial year from January 1 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Sale of shares and deconsolidation of Siltronic AG

Please refer to the explanatory notes to the financial statements for further information on this audit matter and the accounting policies applied. Further explanations can be found in the notes to the financial statements and the combined management report ('Net assets' section).

THE FINANCIAL STATEMENT RISK

Wacker Group sold shares in Siltronic AG through two tranches in the first quarter of 2017. As part of the first tranche, 1.8 million shares (corresponding to an ownership interest of 6%) were placed on the stock exchange for EUR 88 million. Following that sale, WACKER still held a 51.8% stake in Siltronic AG. Wacker Group treated this transaction which preserves its controlling interest as a business transaction with owners. In a second tranche on 15 March 2017, 6.3 million shares (corresponding to a 21% interest) were sold for EUR 353 million to institutional investors via a placement process. The reduction in the Group's share in Siltronic AG from 51.8% to 30.8% results in the loss of control over that company. Accordingly, Siltronic AG was deconsolidated and, as of this date, no longer included as a fully consolidated entity, but instead recognised in the consolidated financial statements using the equity method.

The equity-accounted investee (non-controlling interest) was initially recognised at the fair value of the shares as at the transaction date of EUR 519 million. Subsequently, the purchase price was allocated to the proportional share of assets and liabilities reflected in the carrying amount based on the equity method. This purchase price allocation is based on measurement assumptions requiring judgement and the valuation models are complex. Wacker Chemie AG engaged an independent expert for purchase price allocation.

Against this background and considering the transaction value as well as applicable financial reporting standards, recognition of the business transaction with owners as well as deconsolidation and determination of the gain on disposal represent a risk for the financial statements. Furthermore, the audit of proper presentation of the Siltronic segment as discontinued operations within the meaning of IFRS 5 as well as the accuracy of measurement of the proportional share of assets and liabilities reflected in the carrying amount based on the equity method are of material significance to our audit.

OUR AUDIT APPROACH

We first assessed whether and when Wacker Chemie AG, besides the loss of control over the majority of voting rights, also lost actual control of the company. For this purpose, we evaluated the analysis prepared by the company on the majority of voting rights at the annual general meeting. Moreover, we examined intercompany agreements to assess whether it was possible to deduce from other contractual arrangements with Siltronic AG any actual control through the right to issue instructions or direct relevant activities.

By inspecting internal documentation as well as committee meeting minutes, we assessed whether the sale of shares in two tranches is to be treated as one transaction.

We verified the deconsolidation entries and assessed these in light of the relevant financial reporting standards. Furthermore, we assessed how the disposal of the Siltronic segment was presented, especially with regard to correct classification as discontinued operations pursuant to the criteria of IFRS 5, as well as proper disclosure in the consolidated financial statements.

We reconciled initial recognition using the equity method as at the transaction date to the related market price. We assessed the professional competence, skills, impartiality and findings of the external expert appointed by Wacker for purchase price allocation. In order to assess the appropriateness of measurement, we included our valuation specialists to first analyse whether the model used is in line with the relevant financial reporting standards. We then assessed the material assumptions for measurement. For this purpose, we discussed – with those in charge of purchase price allocation – the revenue and margin development used for measurement on the basis of the most recent planning available. We compared the licence fees used to measure the intangible assets with benchmarks from relevant databases. We compared the assumptions and parameters underlying capital cost, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data. In summary, we compared and verified the enterprise value derived from the assumptions with market price capitalisation as at the transaction date.

We arithmetically verified in a model the measurements of material assets and liabilities.

OUR OBSERVATIONS

The approach taken by Wacker Chemie AG to deconsolidate, determine the gain on disposal and disclose the Siltronic segment as discontinued operations is appropriate. The valuation method used for measuring the proportional share of assets and liabilities reflected in the carrying amount based on the equity method is appropriate and in line with the relevant accounting policies. The key assumptions and parameters used for measurement are appropriate.

Impairment testing of property, plant and equipment in the WACKER POLYSILICON segment

For further information on the presentation of the WACKER POLYSILICON segment in the year under review, please refer to 'Segment data by division in the consolidated financial statements' and 'Segment reporting' in the combined management report. Please refer to the presentation in the notes starting on page 123 for information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

Approximately EUR 2.5 billion in investments was made at the production sites for polysilicon over the past few years. Business performance of the WACKER POLYSILICON segment was influenced in the past by fluctuating market prices for polysilicon. The production plants in Burghausen, Nünchritz and Charleston are assigned to this segment. Besides the challenging market environment in recent years, there was an explosion at a plant unit at the Charleston production site in September 2017. According to the Company's estimate, damage to the plant unit was of decidedly minor importance for property, plant and equipment. The Company does not anticipate any material financial damage from this incident. An impairment loss on property, plant and equipment of the WACKER POLYSILICON segment was not recognised in the reporting year.

Property, plant and equipment must be tested for impairment if there are specific indications of potential impairment. The recoverable amount of the item of property, plant and equipment (asset) concerned has to be estimated, i.e. the higher of its fair value less costs to sell and its value in use.

An indicator of potential impairment could be the development of the segment's anticipated cash inflows and outflows according to adopted operational planning, also with a view to the explosion. Operational planning and, thus, the assessment of whether property, plant and equipment of the WACKER POLYSILICON segment are impaired requires judgment and numerous forward-looking estimates – e.g. regarding the risk of overcapacity, price risks relating to polysilicon and anticipated cash inflows and outflows. Against this background and due to the high level of investment, the risk of impaired property, plant and equipment in the WACKER POLYSILICON segment was of material significance during our audit.

OUR AUDIT APPROACH

By talking with the management board, representatives of the WACKER POLYSILICON segment, corporate accounting, the legal and insurance departments as well as plant management at the Charleston site, among others, we obtained an understanding in particular of the planning process, assumptions and parameters used for measurement during that process and especially their assessment of the potential implications of the explosion at the Charleston site. In order to examine the appropriateness of the assumptions underlying the anticipated cash inflows and outflows of the WACKER POLYSILICON segment, we compared the business plan approved by the supervisory board with general and sector-specific market expectations (peer group comparison), especially in the area of photovoltaics in terms of volume and price developments. Among other approaches, we used information from prior periods as well as current interim results to analyse adherence to budget. Furthermore, based on the information obtained during our audit, we assessed whether there were any indications for impairment of property, plant and equipment which were not identified by the Company. In addition, we assessed the committee meeting minutes dealing with the effects of the explosion as well as the defined measures. We also inspected the correspondence with insurance companies.

OUR OBSERVATIONS

The assumptions and parameters used by the Company for impairment testing of property, plant and equipment in the WACKER POLYSILICON segment, including analysis of the explosion's financial impact, are appropriate.

Other information

Management is responsible for the other information. The other information comprises the separate non-financial report and corporate governance statement which we obtained prior to the date of this independent auditor's report, and the remaining parts of the annual report which will presumably be submitted to us after this date, with the exception of the audited consolidated financial statements and the report on the position of the Company and the Group and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 19, 2017. We were engaged by the supervisory board on December 15, 2017. We have been the group auditor of the Wacker Chemie AG without interruption since the financial year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Alfons Maurer.

Munich, 26th February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Andrejewski	**Maurer**
Auditor	**Auditor**

Further Information

Supervisory Board, Executive Board, Corporate Governance Report and Non-Financial Report

VINNAPAS® 8034 H

A dispersible polymer powder for water-repellent facades – the amount in the finished product may be small, but the effect is enormous.

D

Further Information

Supervisory Board, Executive Board, Corporate Governance Report and Non-Financial Report

Supervisory Board

Dr. Peter-Alexander Wacker [1,2,3]
Chairman

Bad Wiessee
Former President & CEO
of Wacker Chemie AG, businessman

Chairman of the Supervisory Board
Blue Elephant Energy AG

Chairman of the Administrative Council and Board of Trustees
ifo Institute – Leibniz-Institut für Wirtschaftsforschung
an der Universität München e.V.

Manfred Köppl*[1,2,3]
Deputy Chairman
Kirchdorf
Chairman of the Employee Council, Burghausen Plant,
Wacker Chemie AG

Peter Áldozó*
Burghausen
Deputy Chairman of the Group Employee
Council of Wacker Chemie AG

Dr. Andreas H. Biagosch
Munich
Managing Director of Impacting I GmbH & Co. KG
and Impact GmbH

Member of the Board of Directors
Ashok Leyland, Chennai, India
Hinduja Leyland Finance, Chennai, India

Member of the Supervisory Board
Aixtron SE

Member of the Advisory Board
ATHOS Service GmbH (since September 30, 2017)
Lürssen Werft GmbH & Co. KG

Member of the Southern Regional Advisory Council
Commerzbank AG

Dr. Gregor Biebl
Munich
Undersecretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity

Matthias Biebl
Munich
Attorney and in-house lawyer
UniCredit Bank AG

Dagmar Burghart*
Kirchdorf
Team Leader of Retirement Benefits
Service Center, Wacker Chemie AG

Konrad Kammergruber*
Burghausen
Director of Infrastructure Services, Wacker Chemie AG

Eduard-Harald Klein*[1]
Neuötting
Chairman of the Group and General Employee
Councils of Wacker Chemie AG

Franz-Josef Kortüm [1,2,3]
Munich
Former Chairman of the Executive Board of Webasto SE

Deputy Chairman of the Supervisory Board
Webasto SE

Chairman of the Advisory Council
Brose Fahrzeugteile GmbH & Co. KG

Member of the Board of Directors
Autoliv Inc., USA

Barbara Kraller*
(since April 24, 2017)
Taching
Deputy Chairwoman of the Employee Council, Burghausen Plant,
Wacker Chemie AG

Seppel Kraus*
Olching
Regional head of the IG BCE labor union, Bavaria

Member of the Supervisory Board
Novartis Deutschland GmbH
Hexal AG
Gerresheimer AG (until April 26, 2017)

Hansgeorg Schuster*
(until March 14, 2017)
Braunau am Inn, Austria
Member of General Employee Council of Siltronic AG

Harald Sikorski*
Munich
District Chairman of the IG BCE labor union, Altötting

Member of the Supervisory Board
Siltronic AG

Dr. Thomas Strüngmann
Tegernsee
Co-Managing Director of ATHOS Service GmbH

Dr. Susanne Weiss
Munich
Attorney and a partner in the law firm
Weiss Walter Fischer-Zernin

Chairwoman of the Supervisory Board
ROFA INDUSTRIAL AUTOMATION AG

Member of the Supervisory Board
Porr AG, Austria
Schattdecor AG
UBM Development AG, Austria

Chairwoman of the Advisory Council
Alu-Sommer GmbH, Austria
Wirtschaftlicher Verband der Stadt und
des Landkreises Rosenheim e.V.

Prof. Ernst-Ludwig Winnacker
Munich
Professor emeritus of Biochemistry
at LMU Munich

* Employee representative; subject to the rules of the German Trade Union Confederation (DGB) and of the Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.
[1] Mediation Committee (Chairman: Dr. Peter-Alexander Wacker)
[2] Executive Committee (Chairman: Dr. Peter-Alexander Wacker)
[3] Audit Committee (Chairman: Franz-Josef Kortüm)

Executive Board

Dr. Rudolf Staudigl
President & CEO

WACKER POLYSILICON
Executive Personnel
Corporate Development
Corporate Communications
Investor Relations
Corporate Auditing
Legal
Compliance
Retirement Benefits

Chairman of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG

Deputy Chairman of the Supervisory Board
Groz-Beckert KG

Member of the Advisory Council, Bavaria
Deutsche Bank AG

Dr. Christian Hartel

WACKER POLYMERS
Human Resources (Personnel Director)
Corporate Engineering
Region: Asia

Dr. Tobias Ohler

SILTRONIC (until March 14, 2017)
Corporate Accounting and Tax
Corporate Controlling
Corporate Finance and Insurance
Information Technology
Procurement & Logistics
Region: The Americas

Chairman of the Supervisory Board
Siltronic AG

Member of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG

Auguste Willems

WACKER SILICONES
WACKER BIOSOLUTIONS
Sales & Distribution
Corporate Research & Development
Intellectual Property
Site Management
Corporate Security
Environment, Health, Safety
Product Stewardship
Regions: Europe, Middle East

Member of the Bavarian State Branch Advisory Committee
TÜV Süd AG

Corporate Governance Report and Declaration on Corporate Management

Corporate governance is an important part of a company's success and of responsible corporate management and supervision. Wacker Chemie AG attaches great importance to the rules of proper corporate governance. In this report, the Executive Board provides details – also for the Supervisory Board – on corporate governance in accordance with Section 3.10 of the German Corporate Governance Code (the Code) and Sections 289 f and 315 d of the German Commercial Code (HGB).

Declaration of Conformity and Corporate Governance Reporting

In 2017, the Executive Board and the Supervisory Board dealt intensively with the company's corporate governance and the recommendations of the Code in its currently valid version published on February 7, 2017. The Executive and Supervisory Boards resolved in December 2017 to issue the following Declaration of Conformity, which is available to the general public on the company's website.

Declaration of Conformity 2017 Issued by the Executive Board and Supervisory Board of Wacker Chemie AG

1. General Declaration Pursuant to Section 161 of the German Stock Corporation Act

In December 2016, the Executive Board and the Supervisory Board of Wacker Chemie AG issued their most recent declaration of conformity pursuant to Section 161 of the German Stock Corporation Act. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code (the Code) as amended on May 5, 2015 – with the exceptions listed below in Section 2 a), c), d), e), g) and h) in the following. It has also complied with the recommendations of the Code as amended on February 7, 2017 – with the exceptions listed below in Section 2.

Wacker Chemie AG will continue to comply with the recommendations of the Code in the version dated February 7, 2017, with the exceptions listed hereinafter.

2. Exceptions

a) D&O Insurance Deductible for Supervisory Board Members (Section 3.8 (2))

German law and a company's articles of association set clear limits with regard to a supervisory board's ability to exert influence on the business activities of a stock corporation. Pursuant to Section 76 (1) of the German Stock Corporation Act, the executive board has direct responsibility for managing the corporation. The supervisory board is instrumental in defining the main features of corporate strategy. However, beyond this contribution, the supervisory board's abilities are limited in terms of influencing the implementation of corporate strategy or operations. The same applies to measures taken to avert damage or loss to the company. Furthermore, since our Supervisory Board members receive only a relatively small amount for reimbursement of expenses compared to our Executive Board compensation, we do not deem the agreement of a deductible reasonable for members of our Supervisory Board.

b) Forward-Looking Assessment Basis for Variable Compensation of Executive Board Members (Section 4.2.3 (2))

The variable components of the Executive Board members' compensation are calculated on a three-year (= multiyear) assessment basis. Furthermore, 15 percent of the variable compensation is paid in the form of shares that are subject to a holding period of two years. Even if the assessment basis is not essentially forward-looking, we are of the opinion that our compensation system is balanced and suitable for setting the right incentives for a sustainable corporate policy. Our compensation system ensures that our Executive Board members participate in positive and negative developments at the company over a longer period – by means of the share component on the one hand and the average assessment over a three-year period on the other.

c) Formation of a Nomination Committee within the Supervisory Board (Section 5.3.3)

A supervisory board is required to establish a nomination committee that is exclusively composed of shareholder representatives and whose task it is to make recommendations to the supervisory board with regard to candidates suitable for proposal to the annual shareholders' meeting.

We do not comply with this recommendation because, in view of our shareholder structure, we do not believe that the formation of such a committee is appropriate. Due to the majority situation, nominations to the Supervisory Board must be agreed with the majority shareholder in any case, so that an additional nomination committee would not serve to increase efficiency.

d) Defining Concrete Objectives Regarding the Number of Independent Members of the Supervisory Board (Section 5.4.1 (2))

The Supervisory Board of Wacker Chemie AG, as it is composed at present, meets the requirements of the Code regarding an adequate number of independent members. The Supervisory Board will continue to ensure that, in future elections, it recommends to the shareholders what it considers to be an appropriate number of independent candidates. Additionally defining a concrete objective in this regard would not only limit the choice of suitable candidates for the Supervisory Board, but also restrict the shareholders' right to elect those Supervisory Board members whom they consider to be the most suitable. For these reasons, we do not comply with this recommendation.

e) Limit to Supervisory Board Members' Term of Office (Section 5.4.1 (2))

According to this recommendation, the supervisory board shall determine a general limit to its members' term of office. A generally applicable term limit of this sort is not required in our opinion, as we consider an individual analysis of our Supervisory Board members to be more effective. This particularly applies since the Code provides for self-inspection of the supervisory board and its members anyway as part of the regular examination of efficiency. Furthermore, a general term limit would restrict the majority shareholder's freedom to choose representatives on the Supervisory Board at its own discretion in fulfillment of its corporate responsibility.

f) Curriculum Vitae of Supervisory Board Members (Section 5.4.1 (5))

According to this recommendation, proposals for candidates for the supervisory board should be accompanied by a curriculum vitae, while the résumés of existing members should be published on the company's website. We fulfill the legal requirements regarding the proposals for candidates. Furthermore, the annual report includes the essential information on our Supervisory Board members. We believe that such information is sufficient. We do not see what additional merit a curriculum vitae could have – in particular when taking into account the rights of privacy of our Supervisory Board members.

g) Time Limit Placed on Applications for the Judicial Appointment of a Supervisory Board Member (Section 5.4.3)

According to this recommendation, applications for the judicial appointment of a supervisory board member shall be limited in time up to the next annual shareholders' meeting.

We do not comply with this recommendation. Proposals for candidates to be appointed by the court are agreed with the majority shareholder beforehand anyway. In view of the majority situation, the election of this same candidate at the next Annual Shareholders' Meeting would merely constitute a confirmation of his/her appointment, which we consider redundant.

h) Announcement of Proposed Candidates for the Chair of the Supervisory Board to Shareholders (Section 5.4.3)

According to this recommendation, shareholders shall be informed of any candidates for the supervisory board chair even though, as a rule, the supervisory board has not yet been appointed. Under German law, the supervisory board chair must be elected by, and from among, the supervisory board members. There is no legal requirement to announce the candidates for the chair from among a yet-to-be-appointed group of supervisory board members. Furthermore, this would result in a de facto predetermination that is also not provided for under German law. For these reasons, we do not comply with this recommendation.

A new recommendation concerning preparation of a profile of skills and expertise for the entire supervisory board was included in the version of the Code of February 7, 2017 (Section 5.4.1 (2)). Wacker Chemie AG has complied with this recommendation since a corresponding resolution was taken by the Supervisory Board on September 21, 2017.

Corporate Governance Reporting

Shareholders and Annual Shareholders' Meeting

Transparent Information for Shareholders and the Public

WACKER's aim is to inform all of the company's target groups – shareholders, shareholder representatives, analysts and the media – as well as the interested general public promptly and without preference. We regularly publicize important company dates in a financial calendar published in our Annual Report, in the interim reports and on our website. Capital market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. Once a year, we organize an event for analysts. Important presentations are available on the internet, as well as all press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report. Further information is provided by our online customer magazine, media library and Podcast Center.

www.wacker.com

Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and inclusive forum for informing shareholders about the company's situation. Even before the Annual Shareholders'

Meeting begins, shareholders receive important information about the previous fiscal year in the Annual Report. The agenda items are described and the conditions of attendance explained in the invitation to the Annual Shareholders' Meeting. The notice of the Annual Shareholders' Meeting – together with all legally prescribed reports and documents, including the Annual Report (of which the consolidated financial statements and the combined management report form part) – as well as the annual financial statements of Wacker Chemie AG are also available on the company's website. After the Annual Shareholders' Meeting, we publish the attendance figures and the results of the votes on the internet. All these communication measures contribute to the regular exchange of information with our shareholders. WACKER helps its shareholders exercise their voting rights by giving them the option of casting their vote either in person or by proxy. Proxies are available to exercise shareholders' voting rights as instructed and can also be contacted during the Annual Shareholders' Meeting.

Working Methods of the Executive and Supervisory Boards

Wacker Chemie AG has a dual management system as prescribed by the German Stock Corporation Act. It consists of the Executive Board, which manages the company, and the Supervisory Board, which supervises and advises the Executive Board in its management of the company. These two bodies are kept strictly separate from one another with regard to both their membership and their spheres of competence. The Executive and Supervisory Boards collaborate closely, however, to ensure WACKER's sustainable long-term success.

Executive Board

The Executive Board currently consists of four members. It bears direct responsibility for managing the company and represents Wacker Chemie AG in all dealings with third parties. The Executive Board's actions and decisions are driven by the company's interest and the aim to sustainably increase the Group's value. With this goal in mind, the Executive Board determines the WACKER Group's strategic alignment. It then steers and monitors this by allocating funds, resources and capacities, and by supporting and overseeing the operating units. The Executive Board also ensures compliance with legal requirements and an appropriate risk management system and control.

While the members of the Executive Board bear joint responsibility for managing the company, each individual member is directly responsible for managing his/her respective unit. All Executive Board decisions require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he/she does not have the right to veto Executive Board resolutions.

Close Collaboration between the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board work together closely to promote the interests of the company. Their common goal is the sustainable growth of the company and the enhancement of its value. The Executive Board reports to the Supervisory Board and the Audit Committee regularly, promptly and comprehensively on all relevant issues of strategy, planning, business development, risk exposure, risk management and compliance. The Supervisory Board chairman likewise maintains contact with the Executive Board, in particular with the president & CEO, in the period between meetings, consulting with that body on the above-mentioned issues. The Executive Board explains any deviations from approved business plans and objectives to the Supervisory Board and gives reasons for these deviations.

The Rules of Procedure for Wacker Chemie AG's Executive Board stipulate that certain measures require the consent of the Supervisory Board before their implementation. These include approving the annual budget (including financial and investment planning), acquiring and disposing of shares in companies, establishing new production or business units, or suspending existing ones, and concluding sizable long-term loans.

Supervisory Board

The Supervisory Board appoints, oversees and advises the Executive Board and is directly involved in any decisions of crucial importance to WACKER. Fundamental decisions on the company's development require Supervisory Board approval.

Supervisory Board Composition

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee representatives. Shareholder representatives are elected by the Annual Shareholders' Meeting and employee representatives by the employees, as stipulated by the German Co-Determination Act. As a rule, the term of office is about five years.

Targets for the Composition and Skills Profile of the Supervisory Board of Wacker Chemie AG

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. In compliance with the recommendation made in Item 5.4.1 of the Code, WACKER's Supervisory Board resolved in 2010 to set itself concrete objectives with respect to its composition. In September 2017, the Supervisory Board revised these and resolved on the following new objectives for its composition (including a profile of skills for the entire Supervisory Board), taking into account the recommendations of the Code:

The Supervisory Board shall be composed in such a way that all its members have the knowledge, skills and professional experience required to properly perform their duties.

(I) Targets for Composition

1. International Expertise
In view of the international nature of the company's business activities, the Supervisory Board shall have an appropriate number of members – but at least one – with international experience.

2. Prevention and Handling of Conflicts of Interest
The Supervisory Board's Rules of Procedure already contain extensive provisions on members' conflicts of interest. In addition, the Supervisory Board actively strives to prevent conflicts of interest that are material and not merely of a temporary nature, and takes this goal into consideration when making recommendations to the Annual Shareholders' Meeting.

3. Age Limit for Supervisory Board Members
The provisions concerning an age limit set down by the Supervisory Board in its Rules of Procedure must be observed.

4. Diversity
As regards the diversity of its composition, the Supervisory Board strives to take account of different professional experience, professional expertise and educational backgrounds and, in particular, to ensure appropriate representation of women and men. In accordance with Section 96 (2) of the German Stock Corporation Act (AktG), at least 30 percent of the members of the supervisory board must be women and at least 30 percent men.

(II) Skills Profile
When filling the positions on our Supervisory Board, we strive to achieve a mix of young and old, industry insiders and those from other sectors, and different professional backgrounds. We expect all members to be willing and able to make the necessary commitment to their Supervisory Board duties. Beyond that, the Supervisory Board as a whole must have the skills, knowledge and experience that are important to the WACKER Group's business activities and that enable it to properly oversee the company and provide professional advice to the Executive Board. This includes the following:

- The Supervisory Board should have sufficient members with the necessary expertise in corporate management, accounting, financial controlling, risk management, corporate governance and compliance.
- The Supervisory Board as a whole must be familiar with the chemical industry (Section 100 (5) AktG).
- At least one member of the Supervisory Board must have expertise in the fields of accounting or auditing (Section 100 (5) AktG).

The Supervisory Board does not comply with the recommendation made in Item 5.4.1 of the Code as amended on February 7, 2017, to set a general term limit for the length of service of its members. The reasons for this decision are given in the Declaration of Conformity of December 2017.

The Supervisory Board believes that it comprises an adequate number of independent members. All of its shareholder representatives are classed as independent within the meaning of Item 5.4.2 of the Code. For the reasons given in the Declaration of Conformity of December 2017, we do not comply with the additional recommendation made in Item 5.4.2 of the Code as amended on February 7, 2017, to name a specific target number of independent members.

The Supervisory Board will take into account the objectives it has set as well as its profile of skills when making its nomination proposals to the Annual Shareholders' Meeting. The current composition of the Supervisory Board complies with the objectives set in September 2017.

Committees Increase the Supervisory Board's Efficiency
The Supervisory Board has constituted three professionally qualified committees to help it perform its duties optimally. The work of those committees is reported on regularly at Supervisory Board meetings.

The Executive Committee prepares the Supervisory Board's personnel decisions, especially the appointment and dismissal of Executive Board members and the nomination of the president & CEO. In addition, it negotiates contracts with Executive Board members and develops a compensation system that the full Supervisory Board then uses as a basis for determining the compensation for Executive Board members. In 2017, the Executive Committee consisted of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Manfred Köppl and Franz-Josef Kortüm.

The Audit Committee does the groundwork for the Supervisory Board's decision on the adoption of the annual financial statements and the approval of the consolidated financial statements. To this end, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the combined management report and the proposal on appropriation of profits. In addition, it discusses and examines the half-yearly financial reports and the quarterly figures. The Audit Committee gives the Supervisory Board a well-founded recommendation as to which auditors it should propose to the Annual Shareholders' Meeting. In accordance with the resolution of the Annual Shareholders' Meeting, it awards the auditing contract to the auditors and determines the focus of auditing. It then monitors the audit, in particular the auditors' independence and the services they deliver. Above and beyond that, the Audit Committee reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems, as well as compliance-related issues. The members of this committee in 2017 were Franz-Josef Kortüm (as chairman), Dr. Peter-Alexander Wacker and Manfred Köppl.

In addition, there is the Mediation Committee, the formation of which is stipulated by German law. Its duties are to prepare proposals for the Supervisory Board concerning the appointment, and revocation of appointments, of Executive Board members in cases where they fail to achieve the required two-thirds majority of the votes of the Supervisory Board members in the first ballot. In 2017, the committee comprised Dr. Peter-Alexander Wacker (as chairman), Manfred Köppl, Franz-Josef Kortüm and Eduard-Harald Klein.

Key Corporate Management Practices

Compliance as a Key Managerial Duty of the Executive Board

At WACKER, managerial and monitoring duties include ensuring that the company complies with legal requirements and that employees observe internal company regulations. WACKER's compliance management system is regularly reviewed and adapted.

These tasks are the responsibility of the compliance management department. For a detailed description of compliance management, please refer to the Risk Management Report on page 86. The company has appointed and trained compliance officers in Germany, Norway, the USA, China, Japan, India, South Korea, Brazil, Mexico, Singapore, Russia and the United Arab Emirates, who hold regular training courses to inform employees of key legal provisions and internal regulations. They also serve as contacts whenever employees have questions or need advice, information and training relating to compliance.

Principles of Corporate Ethics

— Beside our vision and goals, our ethical principles form the third pillar of WACKER's corporate policy guidelines. These principles – embedded in five separate codes – govern how the company goals should be achieved. A set of rules consisting of regulations and instructions supplement the codes.

— Code of Conduct: this contains our principles for dealing with business partners and third parties. It also governs the handling of information, confidentiality and data security, the prevention of money laundering, and the separation of personal and business interests.

— Code of Innovation: this specifies our principles concerning research and development, partnerships, patents and innovation management.

— Code of Teamwork & Leadership: this outlines our understanding of teamwork and leadership. Key aspects here include trust and esteem, motivation and success, recognition and development, teamwork and equal opportunity, work-life balance and the positive example set by managerial employees.

— Code of Safety: this defines our safety culture and sets safety guidelines for workplaces, facilities, and products and their transport.

— Code of Sustainability: this lists principles for sustainability to be adhered to by R&D, procurement and logistics, production and products, and describes our commitment to society.

The codes are available at: www.wacker.com/cms/en/wacker_group/wacker_facts/policy/policy.jsp

Responsible Care® and the Global Compact – Integral Parts of Corporate Management

Two voluntary global initiatives form the basis for sustainable corporate management at WACKER: the chemical industry's Responsible Care® initiative and the UN's Global Compact. WACKER has been an active member of the Responsible Care® initiative since 1991. Program participants undertake to continually improve health, safety and environmental performance on a voluntary basis – even in the absence of statutory requirements. WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which address social and environmental standards, anticorruption and the protection of human rights. We also expect our suppliers to respect the principles of the Global Compact, and we evaluate them on this point in our risk assessments.

In 2011, WACKER created an internal Corporate Sustainability department, which implements the company's voluntary commitments under Responsible Care® and the Global Compact, and coordinates its sustainability activities worldwide.

Social Commitments

Companies can be commercially successful only if they have society's trust. Consequently, WACKER is serious about its social responsibilities toward communities near its sites and wherever people are in need around the world. We regularly promote and support a wide variety of charitable projects, organizations and initiatives. Our commitment covers activities relating to science, education, sports and various charities.

Further Information on Corporate Governance at WACKER

Compliance with the Provisions of Art. 17 of MAR

We comply with the provisions of Art. 17 of MAR (EU regulation No. 596/2014 – Market Abuse Regulation). For a number of years, we have maintained an ad-hoc publicity coordination unit in which representatives of various specialist areas examine issues for their ad-hoc relevance. In this way, we guarantee that potential insider information is handled in accordance with the law. Employees who have access to insider information as part of their jobs are included in insider lists.

Share Dealings by the Executive and Supervisory Boards

Persons discharging managerial responsibilities (at Wacker Chemie AG, these are members of the Executive and Supervisory Boards) as well as persons closely associated with them are obligated under Art. 19 of MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the company within three business days of transactions conducted on their own account relating to the shares or debt instruments of that company or to derivatives or other financial instruments linked thereto. A reporting obligation exists, however, only where the total volume of the transactions made by the person concerned reaches or exceeds €5,000 within a calendar year.

The transactions reported to Wacker Chemie AG in 2017 were published in the proper manner; more detailed information can be found at: www.wacker.com/cms/en/investor-relations/corporate-governance/directors_dealings/directors_dealings.jsp

Dealing Responsibly with Opportunities and Risks

Dealing responsibly with risks is an important part of good corporate governance. WACKER has in place an opportunity and risk management system to regularly identify and monitor material risks and opportunities. Its objective is to recognize risks at an early stage and minimize them through systematic risk management. The Executive Board informs the Supervisory Board regularly about existing risks and their development. The Audit Committee regularly reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems. It is also involved in auditing the financial statements. The opportunity and risk management system is continuously being enhanced and adapted to meet changing conditions.

Accounting and Auditing

As stipulated by the Corporate Governance Code, we have agreed with the auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, that the Chairman of the Supervisory Board shall be informed without delay during the audit about any grounds for disqualification and/or bias. In addition, the auditors shall immediately report all significant discoveries and events which concern the Supervisory Board's duties. If, in the course of their audit activities, the auditors establish facts that reveal errors in the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act, the Supervisory Board shall be notified accordingly and/or a note included in the audit report.

D&O Insurance

WACKER has concluded a financial liability insurance policy that also covers the activities of the Executive and Supervisory Board members (i.e. D&O insurance). This insurance provides for a statutory deductible for the members of the Executive Board.

Supporting the Participation of Women in Executive Positions

Effective May 1, 2015, the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector calls for the Supervisory Board of Wacker Chemie AG to be composed of at least 30 percent female members and at least 30 percent male members. These requirements applied to new appointments for the first time as of January 1, 2016. Since that date, no new shareholder representatives have been appointed to the Supervisory Board of Wacker Chemie AG. When employee representative and Siltronic employee Hansgeorg Schuster left the Supervisory Board following the deconsolidation of Siltronic AG on March 15, 2017, Barbara Kraller was appointed as replacement employee representative by order of the District Court of Munich on April 24, 2017. The proportion of female members on the Supervisory Board therefore currently totals 18.75 percent (one shareholder representative and two employee representatives; prior year: 12.5 percent).

The act also requires Wacker Chemie AG to specify target values for the proportion of women on the Executive Board and in the two management levels below the Executive Board. The target values for the Executive Board are set by the Supervisory Board and those for the two management levels below the Executive Board are set by the Executive Board.

Both the target value for the Executive Board (zero; deadline for implementation: June 30, 2017) and the respective target values for the two management levels below the Executive Board (target value for management level directly below the Executive Board: 10 percent; target value for the second management level below the Executive Board: 17.5 percent; deadline for implementation in both cases: June 30, 2017) were achieved or exceeded before the deadline for implementation.

In September 2017, the Supervisory Board set the target for the proportion of women on the Executive Board for the period up to June 30, 2022 at zero.

In June 2017, the Executive Board of Wacker Chemie AG set target values of 16 percent for the management level directly below the Executive Board and 18 percent for the second management level below the Executive Board, with a deadline for implementation of December 31, 2019 in both cases.

Diversity Strategy

1. Diversity Strategy for the Executive Board

The Executive Board of Wacker Chemie AG shall be composed in such a way that all its members have the knowledge, skills and experience required to manage a chemical company that is active in international markets. We are convinced that only a diverse group of individuals can do justice to this task. The decisive factor is achieving a balanced composition that reflects a cross-section of the duties involved.

Proceeding on this basis, the Supervisory Board mainly takes the following aspects of diversity into account when proposing new members of the Executive Board:

- High priority is accorded to different educational backgrounds and professional careers. The executive board of a chemical company must have members with scientific expertise and/or experience in the chemical industry. At the same time, knowledge and experience of accounting, financial management, corporate decision-making, planning and strategy are required, as is a profound understanding of the workings and requirements of the capital markets.

- What is more, in a global company like Wacker Chemie AG, different cultural backgrounds – or at least obvious international and intercultural experience – are essential.

- A balanced age structure across the entire Executive Board is also important. The Supervisory Board's Rules of Procedure provide for a standard retirement age of 67, which must be taken into account when Executive Board members are appointed.

- We are convinced that mixed teams achieve better results – and that also means having women on the Executive Board. In this context, a whole range of measures has already been put in place across the company to raise the proportion of women in management positions.

The goal of the diversity strategy described above is to give the Executive Board an optimal composition to ensure the company is managed in a manner that is both successful and sustainable. A diverse composition guarantees that the Executive Board can assess all relevant issues with the appropriate expertise, view all material aspects from different standpoints and set the right priorities. The standard retirement age for Executive Board members ensures that the company can profit from the longstanding professional and life experience of individual members. At the same time, it enables younger managers to advance to the Executive Board and contribute new ideas and impetus.

The full Supervisory Board takes the diversity strategy into account when making appointments to the Executive Board. The Executive Committee, which is tasked with preparing the personnel decisions of the Supervisory Board, regularly discusses long-term succession planning for the Executive Board, and also takes account of the company's management staff planning in consultation with the Executive Board members.

In 2017, WACKER renewed the service contracts of its longstanding president & CEO, Dr. Rudolf Staudigl (age 63), and of Executive Board member Dr. Christian Hartel (age 46), who first joined the board three years ago. The standard retirement age, in particular, was given due consideration in this context, with Dr. Staudigl's contract being renewed for a further three years only, until September 30, 2021. With their different professional backgrounds and experience, both these managers contribute to the diversity of the Executive Board.

2. Diversity Strategy for the Supervisory Board

The diversity that the Supervisory Board wishes to see in its own composition is reflected in the goals and the profile of skills it adopted in September 2017.

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Accordingly, the diversity criteria of international and intercultural experience, a balanced age structure, and different professional experience, expertise and educational backgrounds are considered when positions on the Supervisory Board are filled. In addition, the Supervisory Board's Rules of Procedure provide for a standard retirement age of 80 for its members. In accordance with the statutory requirements, the Supervisory Board must also comprise at least 30 percent female members and 30 percent male members, and must have an equal number of shareholder and employee representatives.

The goal of the diversity strategy is to ensure that the Supervisory Board as a whole is able to effectively oversee and advise the Executive Board. A Supervisory Board whose members are diverse in line with above-mentioned criteria is better placed to assess topics from different standpoints, and to scrutinize the Executive Board's management of the company, its decisions and its strategy in a constructive and comprehensive manner. The retirement-age provision enables members to contribute their long-standing professional and life experience for the good of the company. At the same time, it ensures that younger individuals can advance to the Supervisory Board at regular intervals.

The Supervisory Board gives due consideration to this diversity strategy when presenting its recommendations for candidates to the Annual Shareholders' Meeting; the next opportunity for this will be the Supervisory Board elections scheduled for 2018. What is more, during its regular examinations of efficiency, the Supervisory Board conducts a self-evaluation that also includes aspects such as its own composition and diversity.

In 2017, one change was made to the employee representatives on the Supervisory Board: following the appointment by court order of Barbara Kraller, the number of female Supervisory Board members rose to three.

Compensation Report

The following compensation report forms part of the combined management report and of the audited consolidated financial statements.

Compensation System for the Executive Board

On the basis of preparatory input from the Executive Committee, the full Supervisory Board is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

In accordance with the Executive Board compensation system in effect since January 1, 2010, the Executive Board's compensation comprises the following key components:

(I) A fixed annual salary:

The fixed annual salary is paid in equal monthly installments.

(II) A variable, performance-related bonus:

The amount of the variable bonus (long-term bonus), which is paid annually and in arrears, depends on the achievement of agreed annual Group targets set by the Supervisory Board for all Executive Board members. The bonus is calculated based on target achievement in the reporting year, as well as on average overall target achievement in the two years prior to the reporting year. The targets are based on the following key indicators: business value contribution, cash flow, target return, and return on capital employed (ROCE). The computational target bonus in the event of 100-percent target achievement during the evaluation period depends on the Executive Board member in question and amounts to either 180 percent or 140 percent of the average annual base salary in the last year of the evaluation period. The maximum bonus, too, depends on the specific Board member and amounts to either 220 percent or 180 percent of the average annual base salary in the last year of the evaluation period. The Supervisory Board thus has the discretion to increase or reduce the calculated bonus by as much as 30 percent, taking into account all circumstances and the Executive Board member's individual performance. The Executive Board members are obligated to purchase Wacker Chemie AG shares for an amount equal to 15 percent of their annual gross bonus and to hold those shares for at least two years. First of all, the annual gross bonus is calculated, 15 percent of which is invested in shares. Any taxes payable are deducted from the remaining 85 percent of the annual gross bonus and the net amount disbursed to the Executive Board members. As a result, around 30 percent of the annual net bonus is accounted for by the stock component and has a forward-looking, multiyear assessment basis. The exact percentage depends on each Executive Board member's personal tax situation.

(III) A contribution to retirement benefits:
The members of the Executive Board are entitled to payment of an annual retirement pension should the event insured against occur, i.e. reaching retirement age or suffering permanent occupational disability. Before said event occurs, Dr. Rudolf Staudigl has a basic entitlement to the premature payment of an annual pension if he leaves the Executive Board against his will without good cause or if he, of his own accord, ceases his activity for good cause and the company is responsible for said cause. The amount of the pension is calculated on the basis of the last pensionable fixed annual salary received and the length of Executive Board membership. A percentage of the pensionable base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service. Entitlement to a pension presupposes at least five years of service on the Executive Board. The increases in the annual salaries of Dr. Rudolf Staudigl and Auguste Willems that took effect on April 1, 2016 were agreed as additional fixed, non-pensionable salary components and thus have no influence on the calculation of their pensions – though they do have an effect on the calculation of their long-term bonuses (see (II) above).

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible as stipulated in the German Stock Corporation Act (AktG).

If they leave the company, Executive Board members are subject to a 12-month obligatory waiting period, during which they are paid competitive-restriction compensation. The competitive-restriction compensation is calculated as 50 percent of the member's latest overall annual compensation (average of the last three years). Any pension received is set off against the competitive-restriction compensation.

If Executive Board membership is prematurely terminated without good cause, the contracts with Executive Board members specify that any compensatory payments shall be limited to a maximum of two full annual salaries (in the case of Dr. Rudolf Staudigl, Auguste Willems and Dr. Tobias Ohler) or one full annual salary (in the case of Dr. Christian Hartel). This is referred to as the severance pay cap.

Total Compensation for the Members of the Executive Board for Fiscal 2017
The current level of each Executive Board member's compensation is listed in the tables below, which follow the model tables recommended by the German Corporate Governance Code (DCGK).

No changes were made to the Executive Board members' compensation in 2017.

The following table shows the payments for fiscal 2017 from fixed compensation, additional benefits and variable compensation – grouped according to one-year and multiyear variable compensation – as well as pension expenses.

Payments in the Year under Review (Compensation for Fiscal 2017 and 2016)

€	2017	2016	2017	2016
	Dr. Rudolf Staudigl President & CEO		Auguste Willems Executive Board member	
Fixed compensation[1]	**840,000**	830,000	**610,000**	602,500
Additional benefits[2]	**54,644**	54,733	**48,406**	50,302
Total	**894,644**	884,733	**658,406**	652,802
Multiyear variable compensation[3]	**1,774,080**	1,734,700	**1,288,320**	1,259,225
Total	**2,668,724**	2,619,433	**1,946,726**	1,912,027
Pension expenses[4]	**–**	10,079	**618,631**	538,976
Total compensation	**2,668,724**	2,629,512	**2,565,357**	2,451,003
	Dr. Tobias Ohler Executive Board member		Dr. Christian Hartel Executive Board member	
Fixed compensation[1]	**580,000**	580,000	**400,000**	400,000
Additional benefits[2]	**48,314**	44,479	**50,492**	49,709
Total	**628,314**	624,479	**450,492**	449,709
Multiyear variable compensation[3]	**1,224,960**	1,212,200	**668,800**	660,000
Total	**1,853,274**	1,836,679	**1,119,292**	1,109,709
Pension expenses[4]	**578,020**	456,746	**218,784**	172,075
Total compensation	**2,431,294**	2,293,425	**1,338,076**	1,281,784

[1] Calculation of the pensionable portion of the compensation excluded an amount of €40,000 (Dr. Staudigl) and €30,000 (Mr. Willems) in 2017.
[2] Additional benefits include, in particular, social insurance allowances and the use of a company car.
[3] Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments.
[4] Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits

The following table shows the value of compensation and benefits granted for fiscal 2017. It also lists the minimum and maximum attainable values.

Compensation and Benefits for the Year under Review (Targets)

€	2017 (target)	2017 (min.)	2017 (max.)	2016 (target)	2017 (target)	2017 (min.)	2017 (max.)	2016 (target)
	Dr. Rudolf Staudigl President & CEO				Auguste Willems Executive Board member			
Fixed compensation[1]	**840,000**	840,000	840,000	830,000	**610,000**	610,000	610,000	602,500
Additional benefits[2]	**54,644**	54,644	54,644	54,733	**48,406**	48,406	48,406	50,302
Total	**894,644**	894,644	894,644	884,733	**658,406**	658,406	658,406	652,802
Multiyear variable compensation[3]	**1,545,600**	729,120	2,162,160	1,552,100	**1,122,400**	529,480	1,570,140	1,126,675
Total	**2,440,244**	1,623,764	3,056,804	2,436,833	**1,780,806**	1,187,886	2,228,546	1,779,477
Pension expenses[4]	**–**	–	–	10,079	**618,631**	618,631	618,631	538,976
Total compensation	2,440,244	1,623,764	3,056,804	2,446,912	2,399,437	1,806,517	2,847,177	2,318,453
	Dr. Tobias Ohler Executive Board member				Dr. Christian Hartel Executive Board member			
Fixed compensation[1]	**580,000**	580,000	580,000	580,000	**400,000**	400,000	400,000	400,000
Additional benefits[2]	**48,314**	48,314	48,314	44,479	**50,492**	50,492	50,492	49,709
Total	**628,314**	628,314	628,314	624,479	**450,492**	450,492	450,492	449,709
Multiyear variable compensation[3]	**1,067,200**	503,440	1,492,920	1,084,600	**576,000**	274,400	821,600	588,000
Total	**1,695,514**	1,131,754	2,121,234	1,709,079	**1,026,492**	724,892	1,272,092	1,037,709
Pension expenses[4]	**578,020**	578,020	578,020	456,746	**218,784**	218,784	218,784	172,075
Total compensation	2,273,534	1,709,774	2,699,254	2,165,825	1,245,276	943,676	1,490,876	1,209,784

[1] Calculation of the pensionable portion of the compensation excluded an amount of €40,000 (Dr. Staudigl) and €30,000 (Mr. Willems) in 2017.
[2] Additional benefits include, in particular, social insurance allowances and the use of a company car.
[3] Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments. The actual level of target achievement in the two previous years was taken into consideration when the minimum and maximum values were calculated. The following values were set for 2017: a minimum value of 0 percent and a maximum value of either 220 percent or 180 percent. The theoretically achievable minimum or maximum values are also influenced by the Supervisory Board's potential scope of discretion.
[4] Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits

Compensation for Former Members of the Executive Board or Their Surviving Dependents

€	2017	2016
Total	1,995,326	2,383,467[1]

[1] This compensation contains the competitive-restriction compensation paid to Dr. Rauhut in 2016 in connection with the expiry of his employment contract.

Pension Obligations for Executive Board Members

€	2017	2016
Pension obligations for active Executive Board members		
Total	28,090,779	27,587,433
Pension obligations for former members of the Executive Board or their dependents		
Total	37,590,405	39,163,469

Compensation of Supervisory Board Members

The compensation of Wacker Chemie AG's Supervisory Board members is governed by the company's Articles of Association.

In return for their work, the members of the Supervisory Board receive fixed annual compensation in the amount of €90,000, payable when the fiscal year expires, and are additionally refunded any VAT payable on their compensation. Supervisory Board members who join, or depart from, the Supervisory Board during the fiscal year receive the corresponding compensation pro rata temporis.

The compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for the Vice Chairman and for chairs of committees, and by a factor of 1.5 for members of committees. Multiple functions are ignored in this calculation.

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €20,000 and are also reimbursed for any VAT payable on that lump sum.

The company grants the members of the Supervisory Board appropriate insurance coverage; in particular, the company concludes a D&O insurance policy for the benefit of the Supervisory Board's members.

Supervisory Board Compensation

€	2017	2016
Fixed compensation[1,2]	2,152,945	2,165,000
Variable compensation	–	–
Total	2,152,945	2,165,000

[1] Fixed compensation includes the above-mentioned annual lump sum.
[2] The employee representatives are subject to the rules of the German Trade Union Confederation (DGB) and of the Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.

Separate Non-Financial Statement Combined for the WACKER Group and for Wacker Chemie AG

Information on the WACKER Group

The Business Model of Wacker Chemie AG

WACKER is a global company with state-of-the-art specialty chemical products. The Group's business model and legal structure are described in detail in the combined management report in the Group Business Fundamentals section.

See page 43 onward of this Annual Report

Report Framework and Auditing

Our sustainability reporting, as well as this separate non-financial report combined for the Group (hereinafter the "Report"), are guided by the sustainability reporting standards of the Global Reporting Initiative (GRI).

The Report also constitutes the separate non-financial statement for the WACKER Group and for Wacker Chemie AG – as defined in Sections 315b, 315c and 289c through 289e of the German Commercial Code (HGB) – for the 2017 fiscal year. The Report was examined by the Supervisory Board of Wacker Chemie AG. In compliance with the revised International Standard on Assurance Engagements 3000 (ISAE 3000 (Revised): "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"), it was reviewed on behalf of the Executive Board by KPMG AG, Wirtschaftsprüfungsgesellschaft, to obtain a limited assurance engagement relating to the disclosures legally required in accordance with Sections 315b, 315c and 289c through 289e HGB.

For the sake of comparability, the figures published in the Report for both fiscal 2017 and fiscal 2016 exclude data on Siltronic AG, which was deconsolidated as of March 15, 2017.

All the references in this Report relate to more detailed information, with the exception of those relating to the Group management report.

Significance to WACKER of Sustainability and Other Non-Financial Performance Indicators

Sustainability has been firmly rooted in our business processes for many years. Sustainable development means balancing economic, ecological and social factors in everything we do. The fact that we have made sustainability one of our strategic goals emphasizes its importance. As an innovative chemical company, WACKER makes a vital contribution to improving the quality of life around the world. We want to continue developing and supplying solutions that meet our own expectations of adding value for our customers and shareholders, and growing sustainably.

Sustainability also lies at the heart of our strategic medium-term plan for the WACKER Group through 2020, which we presented at the Capital Market Day in October 2016. One of our five strategic goals is to "focus even more strongly on sustainability."

Responsible Care® and the UN Global Compact

Our actions are guided by two voluntary global initiatives that form the basis for sustainable corporate management at WACKER: the chemical industry's Responsible Care® initiative and the UN Global Compact. WACKER has been an active member of the Responsible Care® initiative since 1991 and, as a program participant, the company must act to continually improve health, safety and environmental performance on a voluntary basis – even in the absence of statutory requirements. As a member of the UN Global Compact, we actively support the goals of this, the world's most important and extensive initiative for responsible corporate management. The Global Compact addresses the protection of human rights, social and environmental standards, and the fight against corruption. We submit our progress report every year in April. The progress reports from recent years can all be viewed on the UN Global Compact website.

www.unglobalcompact.org/what-is-gc/participants/10060-Wacker-Chemie-AG#cop

The current progress report is also published on the WACKER website at www.wacker.com/cms/en/wacker_group/sustainability/selbstverpflichtungen/global_compact.jsp

Principles of Corporate Ethics

Beside our vision and goals, ethical principles form the third pillar of WACKER's corporate policy guidelines. These principles are laid down in five corporate codes – including the Code of Sustainability – and are supplemented by a body of regulations and directives. They are mandatory for all employees worldwide. The content of the codes is described in detail in the corporate governance report.

See page 177 onward of this Annual Report

The codes can also be viewed on the WACKER website at www.wacker.com/cms/en/wacker_group/wacker_facts/policy/policy.jsp

Integrated Management System

We control operational processes via our integrated management system (IMS). It stipulates uniform standards throughout the Group for issues of quality, environmental protection, health and safety. We have our Group management system certified by an international certification organization to ensure its compliance with ISO 9001 (quality) and ISO 14001 (environmental protection) standards, and with ISO 50001 (energy) at our German sites.

Our Group certification program ensures that customer-driven specifications and our corporate standards are implemented at all WACKER sites. Almost all WACKER production sites are included in the ISO 9001 (quality) and ISO 14001 (environment) Group certificates. Exceptions are Wacker Química do Brasil, the Kolkata plant belonging to Wacker Metroark Chemicals Pvt. Ltd., India, and the Tsukuba site of Wacker Asahi Kasei Silicone Co., Ltd., Tokyo, Japan. All these sites have corresponding individual certificates. We will incorporate the plant in Charleston, Tennessee (USA), into the ISO 14001 Group certificate in 2018. We have recertified all sites to the new specifications of ISO 9001:2015 and 14001:2015.

In the reporting year, the regional sustainability management focus was on Asia. The Chinese sites Nanjing, Shanghai and Zhangjiagang, as well as the Kolkata site in India, underwent occupational health and safety inspections. In 2018, the regional focus will be on the Americas.

Sustainability Report

Every two years, we publish a sustainability report in order to inform our stakeholders about WACKER's sustainability work in an open and comprehensive manner. In 2017, WACKER published its Sustainability Report for 2015/2016. Reasons for again publishing the report exclusively as an online version included minimizing resource consumption and thus serving the interests of environmental protection. The report was compiled in accordance with GRI Standards ("Core" option). The Sustainability Report contains a detailed description of our non-financial performance indicators.

www.wacker.com/sustainabilityreport

Analysis of Fundamental Sustainability Issues

WACKER communicates regularly with a number of stakeholder groups: employees, customers, suppliers, analysts, investors, journalists, scientists, neighbors and politicians, as well as representatives of associations and NGOs. For years, WACKER has conducted regular surveys of its stakeholders as part of its sustainability reporting. The global survey conducted in 2016 helped us determine which sustainability topics stakeholders and top managers consider to be material, and how they rate our sustainability efforts. The result was that compliance, product safety and plant safety are the top three issues as seen by the company and stakeholders.

As a chemical company, we also attach particular importance to environmentally sound and resource-efficient production, the development of new, sustainable products with the goal of further reducing CO_2 emissions in the use phase, and the handling of dangerous goods.

Detailed information on the sustainability survey and the subsequent materiality analysis can be found as from page 31 of our 2015/2016 Sustainability Report, which was published in July 2017.

For further information on economical production and sustainable products, please refer to the combined management report, section "Further Information on R&D, Employees, Procurement, Production, and Sales and Marketing."

D.1 WACKER's Environmental Targets through 2022

Region	Key Environmental Indicator	Base Year	Targets for 2022[1] (%)
WACKER Germany	Weighted specific energy consumption (per metric ton of net production)[2]	2007	–50
WACKER Germany	Specific carbon dioxide emissions (per metric ton of net production)[2]	2012	–15
Group	Specific dust emissions (per metric ton of gross production)[2]	2012	–50
Group	Specific emissions of relevant VOCs (volatile organic compounds; per metric ton of gross production)[2]	2012	–25

[1] The target-related success level is not achieved in the form of linear progress, but by means of individual projects that are implemented at different stages throughout the target period. This is why no intermediate results are reported.
[2] Gross production corresponds to the total production (target products and byproducts) of a plant or site. Net production is calculated by subtracting the internal reuse of products from a plant or site's gross production.

Environmental Concerns

By setting quantifiable environmental targets, we intend to lower the environmental impact of our production activities.

See Table D.1 on page 190

Environmental Protection

WACKER attaches particular importance to integrated environmental protection, which commences with product development and plant planning. WACKER constantly works to improve its production processes, with the aim of conserving resources. One of our main tasks is to close material loops and recycle byproducts from other areas back into production. It enables us to reduce or prevent energy and resource consumption, as well as emissions and waste, and to integrate environmental protection into our production processes. The integrated production system is described in the "Group Business Fundamentals" section of the combined management report).

See pages 46–47 of this Annual Report

D.2 Environmental Protection Costs

€ million	2017	2016
Operating costs	78.3	78.4
Capital expenditures	4.2	2.4

Our Groupwide environmental-protection standards apply to all our production sites and technical centers. The site managers ensure that our environmental-protection measures conform to legal requirements and that we adhere to environmental standards. The Group Coordinator for the Environment checks the implementation of environmental standards in practice at the sites and performs random checks to verify legal compliance.

In 2017, WACKER invested €4.2 million in environmental protection (2016: €2.4 million). Environmental operating costs amounted to €78.3 million (2016: €78.4 million). Examples of investment in environmental protection at the Burghausen site are analysis technology in the wastewater treatment plant and a process control system for the waste disposal center.

Assessment Using the Global Water Tool™

In 2013, we used the Global Water Tool™ (GWT) developed by the World Business Council for Sustainable Development (WBCSD) to analyze the relative water stress index of the countries in which our main global production sites are located. This index provides information on the relationship between water consumption and the availability of renewable fresh water. The outcome of the analysis is that our most important production sites are located in regions with a low relative water stress index. These regions account for more than 97 percent of our annual water use and over 90 percent of our production volume.

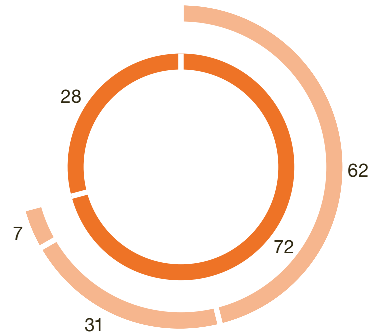
As part of the Bavarian Environmental Pact, we joined with seven other companies from ChemDelta Bavaria to establish Naturnahe Alz (Natural Alz), an association through which we support the state of Bavaria in renaturalizing the Alz river and enhancing its ecosystem long-term.

Energy

The chemical industry is one of the most energy-intensive sectors. WACKER's sites in Germany consume 3,946 GWh of electricity, representing approximately 0.8 percent of the country's electricity consumption. WACKER is continually improving the energy efficiency of its processes. This enables us to remain globally competitive while at the same time contributing to climate protection.

D.3 Electricity Supply

%



Group electricity consumption: 5,460 GWh
72% Consumption in Germany
28% Consumption abroad[1]

Electricity consumption, Germany: 3,946 GWh
62% Procured electricity
31% CHP[2]
7% Hydropower[2]

[1] Outside Germany, we purchase electricity from third parties based on the local standard energy mix.
[2] Burghausen

D.4 Energy Consumption

GWh	2017	2016
Electricity consumption	5,460	5,199
Heat consumption	3,505	3,827
Primary energy use (total)	6,055	6,405
Of which		
Natural gas	5,056	5,378
Solid fuels[1]	750	769
Heat supplied by third parties[2]	249	258

[1] Coal, charcoal and wood; used as reducing agents at the silicon-metal plant in Holla, Norway
[2] Steam and district heating

Many chemical reactions generate heat that can be put to use in other production processes. In addition to recovering heat from such chemical reactions, we have been using integrated heat-recovery systems in Burghausen and Nünchritz for years and are continually improving them. In this way, we can reduce the amount of primary energy (natural gas) consumed by our power plants.

To enhance energy efficiency and reduce specific energy consumption (amount of energy per unit of net production output), the Executive Board has defined energy targets for WACKER Germany. We have set a goal of reducing specific energy consumption by 2022 to one-half of the 2007 level. Net production is calculated by subtracting the internal reuse of products from a plant or site's gross production. Gross production corresponds to the total production (target products and byproducts) of a plant or site.

Our primary source of energy is climate-friendly natural gas. At Burghausen, our largest site, we produce steam and electricity using a cogeneration system. The highly efficient combined heat and power (CHP) plant operates at more than 85-percent fuel efficiency, which is significantly higher than that of conventional power plants. We also use hydropower to generate electricity in Burghausen, and our Norwegian site, Holla, generates its electricity mainly from hydropower.

WACKER's German production sites accounted for 72 percent (2016: 71 percent) of its total electricity consumption. We have taken energy-efficiency measures to reduce specific energy consumption even further in 2017.

The Group's power plants – the hydroelectric and CHP plants in Burghausen and the cogeneration plant in Nünchritz – produced 1,481 GWh of electricity in 2017 (2016: 1,416 GWh). This means that WACKER covered about 38 percent of its total energy requirements in Germany from its own production. Groupwide, carbon dioxide emissions from

D.5 Environmental Indicators from 2016 to 2017

	2017[2]	2016
Air		
CO_2 emissions[1]		
Direct (kt)	1,239	1,277
Indirect (kt)	1,606	1,588
NO_X nitrogen oxides (t)	1,860	1,970
Non-methane volatile organic compounds (NMVOCs) (t)	880	890
Dust (t)	278	515
Water		
Water use (thousand m^3)	197,430	207,930
Chemical oxygen demand (COD) (t)	1,310	1,210
Halogenated organic hydrocarbons (AOX) (t)	2.6	3.1
Waste		
Disposed of (t)	41,400	38,640
Recycled (t)	120,420	114,080
Hazardous (t)	75,800	73,660
Non-hazardous (t)	86,020	79,060

[1] CO_2 emissions are measured on the basis of the Greenhouse Gas Protocol (GHG Protocol: "A Corporate Accounting and Reporting Standard"), published by the World Resources Institute and World Business Council for Sustainable Development. Scope 1: direct CO_2 emissions. Scope 2: indirect emissions from the consumption of purchased energy (converted into CO_2 equivalents for purchased electricity, steam and heat). Conversion is based on emission factors of the International Energy Agency (electricity) and from the GEMIS database (steam and heat).
[2] Due to a change in financial consolidation, the production site at Tsukuba was included for the first time in the calculation of environmental indicators for 2017.

captive power plants subject to emissions trading rules and from silicon-metal production in Holla totaled about 1.0 million metric tons in the reporting period (2016: 1.0 million metric tons).

WACKER is subject to the regulations of the EU emissions trading system because of its power plants at the Burghausen and Nünchritz sites. We have covered shortfalls since 2014 by buying emission allowances for facilities subject to emissions trading.

Emissions

In 2017, direct emissions of carbon dioxide (Scope 1 of the Greenhouse Gas Protocol) declined by 3 percent year over year, chiefly due to improvements in the utilization of steam at the Charleston, Tennessee site. The production shutdown that occurred at this site in September 2017 was another factor in the decline in CO_2 emissions.

The lower levels of nitrogen oxide (NO_x) emissions were attributable mainly to the drop in production at the Holla site. Compared with the previous year, we succeeded in reducing specific NO_x emissions at our Holla site by almost 3 percent per metric ton of product.

One of our environmental targets is to halve specific dust emissions per metric ton of gross production groupwide between 2012 and 2022. This target primarily affects the production of silicon metal at the Holla site. The improvements made in recent years, especially to the baghouses, helped us achieve our target figure of 50 percent for the first time in the reporting period.

Water use declined by around 5 percent groupwide in 2017, mainly due to lower water use at the Burghausen site.

Owing to the strong production-related increase in plant utilization at Burghausen, chemical oxygen demand (COD) rose by around 8 percent.

The groupwide increase of about 6 percent in waste volume is predominantly the result of increased production in Burghausen and of construction activity at the Burghausen and Holla sites.

Our indirect CO_2 emissions from procured energy (Scope 2) rose to 1,606 kilotons (kt) in the reporting period (2016: 1,588 kt). This was due to increased production volumes at the Burghausen, Charleston and Nünchritz sites. The strong reduction in the electricity to CO_2 emissions conversion factors for power generation in Germany and the United States (data as per CO_2 Emissions from Fuel Combustion, 2017 Edition, International Energy Agency) more than compensated for the increase in emissions. We used energy-efficiency measures to also reduce weighted specific energy consumption and related specific CO_2 emissions – while maintaining a comparable product portfolio.

Measuring the Group's carbon footprint is an important tool for improving climate protection. That is why – in addition to our indirect greenhouse gas emissions from procured energy (Scope 2), which we began tracking in 2011 – we have been measuring, since 2012, all the emissions generated along our supply chain, e.g. by suppliers or through waste disposal and the transport of products.

In 2017, we once again forwarded this emissions data to the Carbon Disclosure Project (CDP), which WACKER joined in 2007. Wacker Chemie AG's performance profile was rated B (on a scale from A to D) in CDP's annual sustainability ratings.

Plant, Transport and Product Safety

Operating plants and processes in a manner that poses no risk to people or the environment is an important objective at WACKER. To this end, we have installed a groupwide safety management system that addresses both workplace and plant safety.

Plant Safety

The first step in ensuring plant safety is to systematically identify risks and assess them. This includes analyzing how well we control the energy present in a process (e.g. pressure, heat) and determining the effect that a single error might have on a chain of events that could lead to the escape of a substance or to an accident. After completing this comprehensive analysis, we specify safety measures to prevent undesirable incidents.

Our safety management system focuses on prevention. Even so, safety-critical incidents cannot always be prevented. This was seen, for example, at our Charleston site (USA) in September 2017. A hydrogen explosion occurred there, resulting in an ongoing production shutdown. In the wake of this incident, two plant employees were taken to the hospital for examination but were discharged on the same day.

Safety Training and Inspections

WACKER attaches particular importance to providing its safety experts with ongoing training. We hold regular training sessions, for example, on plant safety and explosion-damage protection. During 2017, we inspected the Nanjing, Shanghai and Zhangjiagang sites in China, as well as the Kolkata site in India. At WACKER, we give special recognition to facilities that operate for sustained periods of time without a reportable accident.

D.6 Environment- and Safety-Related Incidents

	2017	2016
Groupwide number of environment- and safety-related incidents[1]	22	44
Groupwide environment- and safety-related incidents per 1 million hours worked[2]	1.0	2.1

[1] According to European Chemical Industry Council (Cefic) criteria
[2] WACKER Process Safety Incident Rate (WPSIR)

Product Safety

WACKER provides information on the safe use of its products and is continually working to prevent or reduce the use in products of substances that are harmful to human health or the environment. WACKER markets its products only in countries where it has a valid chemicals registration.

As a guide for our product developers, we maintain a list of about 550 substances that WACKER products may no longer contain. In addition to prohibited and restricted chemicals (such as materials listed in Annexes XIV and XVII to the REACH Regulation), the list also includes substances that are undesired by individual companies. We avoid substances that are on the European Chemicals Agency's List of Substances of Very High Concern (SVHC).

The REACH Regulation, which came into force in 2007, governs the registration, evaluation, authorization and restriction of chemicals within the European Union. REACH involves the collection of extensive data. REACH imposes high requirements on the manufacturers, importers and users of chemical products. All substances on the European market that are used or imported in annual quantities exceeding one metric ton must be registered and evaluated. The scope of evaluation work is largely determined by the quantity produced or imported and the expected risks. Particularly high-risk substances are subject to regulatory approval. As part of REACH, WACKER had submitted 220 registration dossiers to the European Chemicals Agency (ECHA) through the end of 2017. For some of the phase-one and phase-two dossiers, submitted in 2010 and 2013, ECHA required additional information as part of its evaluation activity, all of which we provided on time in 2017.

WACKER's close contact with its suppliers extends to matters relating to substances not yet registered under REACH. We make systematic requests for definitive statements from our suppliers concerning registration status and the further availability of raw materials, especially in view of the expiration of the final registration phase for phase-in substances (> 1 metric ton/year) on May 31, 2018.

The ICCA (International Council of Chemical Associations) has developed the Global Product Strategy (GPS), which is a guideline on how to assess chemical properties and provide product safety information. In Europe, most GPS requirements are satisfied by REACH and by the CLP Regulation (Classification, Labeling and Packaging of Substances and Mixtures). By the end of 2017, we had published 75 Safety Summaries on the ICCA chemicals website for the substances we have registered under REACH.

Safe Transport of Hazardous Materials

WACKER ensures that its products are stored and transported safely, especially where hazardous goods are involved. In 2017, we had inspections carried out on over 11,000 trucks for outgoing shipments of hazardous goods at our sites and warehouses in Germany (2016: over 9,500). We reject any that are defective. Failure rates have been low for years now. The rate for 2017 was about 1.4 percent for hazardous goods shipments from Burghausen, our largest site in Germany (2016: 1.3 percent). WACKER regularly audits its hazardous goods shippers.

We rely on well-trained personnel for transport safety, too. In the reporting year, our workforce in Germany alone completed over 1,400 classroom training courses on the safe transportation of hazardous goods and some 800 online courses about securing freight.

We regularly review aspects of transport safety with our logistics providers, e.g. during the annual Supplier Day. If deficiencies are found, we agree on improvements and then follow up on their implementation. WACKER uses in-house criteria and internationally recognized systems when selecting logistics providers and evaluating their performance. Through the use of standards and specifications, WACKER ensures that even its suppliers' subcontractors meet our stringent safety requirements.

For products with a high hazard potential, we use packaging and tanks of the highest quality.

We recorded a total of eight transport incidents in the reporting year. This number includes not only accidents and incidents involving the distribution of our intermediates and products where we commissioned the transport, but also incidents that do not involve hazardous goods, as well as those that do not adversely impact people or the environment. These incidents, too, form part of our shipper assessments.

D.7 Transport Accidents

Number of Accidents	2017	2016
Road	6	2
Rail	2	4
Sea	–	–
Inland waterways	–	1
Air	–	–

Personnel Matters

The people at WACKER are key to our success. WACKER requires committed and skilled workers if it is to remain innovative and competitive.

In the spirit of the UN's Sustainable Development Goal 8 – Decent Work and Economic Growth – WACKER ensures that its employees can realize their potential, assume responsibility and contribute their own ideas. It does so by offering them basic and advanced training opportunities. To this end, we want to provide secure jobs, generous employee benefits and a work culture that facilitates a positive work-life balance. We place great emphasis on offering all our employees equal opportunity. It is also our aim to permanently integrate employees who are disabled or suffer from long-term occupational disabilities. Vocational training has always been a key focus of personnel development at WACKER. We offer our employees attractive compensation and promotion prospects and share our company's success with them.

In our Code of Conduct, we explicitly commit ourselves to the UN Global Compact's Ten Principles. They include the principles on labor standards, namely upholding the freedom of association (Principle 3), eliminating all forms of forced labor (Principle 4), abolishing child labor (Principle 5) and eliminating discrimination (Principle 6). We also make commitments to our customers to uphold these same labor standards.

The sanctions we impose for any proven misconduct in personnel matters are determined by the seriousness of the incident. There were no incidents of note in the reporting year.

Basic and Advanced Training at High Levels

Vocational training is another key component of WACKER's personnel development activities. In 2017, 188 young people began their training at WACKER or at the Burghausen Vocational Training Center (BBiW). In total, the company employed 601 trainees, slightly more than a year earlier (2016: 596). At 5.7 percent, the trainee ratio (trainees as a

D.8 Workplace Accidents Involving Permanent Staff and Temporary Workers

	2017	2016
Accident rate across Group: accidents[1] per 1 million hours worked	2.8	3.0
Europe	3.3	3.8
The Americas	2.2	0.7
Asia	0.4	0.8
Accident rate across Group: reportable accidents[2] per 1 million hours worked	1.4	1.6
Fatal workplace accidents	–	–

[1] Accidents leading to at least one day off work
[2] Accidents leading to over three days off work

percentage of Group employees in Germany) was higher than in the previous year because of the deconsolidation of Siltronic AG (2016: 4.7 percent). In 2017, WACKER offered jobs to virtually all suitable trainees – 144 graduates – hiring 110 of them on permanent contracts and 34 on temporary contracts. The Burghausen Vocational Training Center also provides training for 20 partner companies outside the WACKER Group.

Overall, WACKER invested €7.9 million in personnel-development measures and advanced training in 2017 (2016: €7.2 million).

Workplace Safety

Workplace and plant safety are of vital importance for WACKER. That is why we define safety goals in the annual performance reviews together with our executive personnel and management employees in Germany.

Our processes and standards relating to workplace safety are aligned with the international OHSAS 18001 standard. Systematic workplace safety includes regular evaluation of hazards and work-area monitoring.

All our employees are given safety training specific to their individual work areas. WACKER Germany, for example, offers 42 online training courses on workplace safety. Topics range from general safety guidelines for office and laboratory workers to instruction on safe behavior in potentially explosive atmospheres and the classification of hazardous materials.

We defined minimum health and safety standards for technical centers in 2017. The centers were tasked with making initial self-assessments and with eliminating any weaknesses they identified. The new standards will also form the basis for future audits of the technical centers.

Workplace accident performance is one of the most important non-financial performance indicators. One of our workplace safety goals is to ensure that the number of workplace accidents per 1 million hours worked does not exceed 1.7 groupwide in 2020. In terms of reportable accidents (accidents with more than three workdays missed), WACKER's numbers are far better than the German chemical industry average. The reportable accident rate at WACKER in 2017 was 1.4 per 1 million hours worked; by contrast, Germany's statutory employer liability insurance carrier of the basic materials and chemical industries (BG RCI) registered 9.4 reportable accidents per 1 million hours worked in chemical companies in 2016. As in the previous year, WACKER did not record any fatal workplace accidents involving its employees during the reporting period.

D.9 Diversity, Inclusion and Equal Opportunity

	2017	2016
Workforce, groupwide	13,811	13,448
Of whom female	3,154	3,047
Female employees, groupwide (%)	22.8	22.7
Workforce in Germany	9,984	9,775
Of whom non-German	1,046	1,034
Non-German employees in Germany (%)	10.5	10.6
Employees in third-level management, groupwide (%)	3,043	2,927
Of whom female	690	650
Women in third-level management, groupwide (%)	22.7	22.2
Executive personnel (OFK), groupwide[1]	166	165
Of whom female executive personnel	21	19
Female executive personnel, groupwide (%)	12.7	11.5

[1] Executive personnel (OFK) figures exclude inactive employment contracts and the Executive Board of Wacker Chemie AG.

Very few of the accidents at WACKER involve chemicals. The most common causes are tripping, slipping and falling, and performing manual activities without due care. Not satisfied with our accident rate, we are stepping up our occupational-safety efforts. In 2017, we introduced a safety program to reduce personal-mobility accidents at our production sites in Germany. We are continuing to implement our WACKER Safety Plus (WSP) program, which builds on elements of successful safety strategies at sites with particularly low accident rates – such as safety patrols, discussions with the workforce and emergency drills. The goal of WACKER Safety Plus is to recognize and avoid unsafe behavior.

Diversity and Equal Opportunity

Equal opportunity: we view human diversity as an asset. We oppose discriminatory or derogatory treatment on the basis of gender, race, ethnicity, religion, ideology, disability, sexual orientation or age. These principles are valid across the WACKER Group and, as part of our corporate culture, are embodied in our Code of Teamwork & Leadership. Employees can report any discrimination to their supervisors, as well as to their compliance officer, employee council or designated HR contact person. Reports can be anonymous. The complaint will be investigated and the reporting employee informed of the results. Cases of potential discrimination are included in the monthly compliance reports submitted to the Executive Board and form part of the regular reports submitted to the Supervisory Board. We require all employees at our German sites to complete an e-learning course to familiarize themselves with the country's General Equal Treatment Act (AGG).

Promoting diversity: in 2015, WACKER started a groupwide initiative to promote diversity and inclusion in the workforce. The company also joined Germany's Diversity Charter initiative. Every year since then, WACKER has focused on specific topics aimed at making employees aware of the opportunities and challenges associated with a diverse workforce. The focus in 2017 was on WACKER's generational mix and on changes. The fact is that, in years to come, different generations will be working together some ten years longer than today, making the workforce more heterogeneous in this respect.

In addition to this issue, diversity management at WACKER is placing greater emphasis on gender and cultural background. People from 65 different nations work for WACKER. At the end of 2017, 38 out of a total of 166 executive personnel groupwide were of non-German nationality – which corresponds to 22.9 percent of the total. Overall, 15 nationalities (2016: 15) were represented at the executive level.

In 2017, WACKER signed the Equal Opportunity Charter initiated by the German mining, chemical and energy labor union (IG BCE). The signatories to this initiative are underscoring their commitment to advancing equal opportunity within their areas of responsibility. The areas in which WACKER has already shown its commitment by means of specific measures include life-phase-oriented working-time models, the promotion of women in managerial positions, and networks for women.

Proportion of Women in Executive Positions

We have set the goal of significantly increasing the proportion of women in middle and senior management positions in the medium to long term. WACKER's talent-management project helps to systematically recognize and promote female management potential. The corporate governance report contains additional information about the proportion of women in management positions and, in particular, about how WACKER is implementing the German statute on equal opportunity for women and men in management that came into force on May 1, 2015.

➪ See page 182 onward of this Annual Report

New Variable Compensation System

In the reporting year, WACKER completed negotiations with employee representatives on a new variable compensation system for its employees on standard and above-standard pay scales in Germany. Beginning in 2018, the new system will supersede the existing variable compensation components and replace them with a transparent, standardized, market-oriented methodology that is comparable to the method for calculating variable compensation for executive personnel (OFKs).

Introduction of Family Leave

Since 2017, WACKER has offered an additional option to help employees caring for children until their ninth birthday. This new form of support is called WACKER Family Leave. Depending on the working-time model, employees receive up to one week of paid family leave per calendar year. WACKER Family Leave corresponds to one of the options of the Demography Fund provided for under collective-bargaining agreements, which is to promote life-phase-oriented working-time models.

Employee Turnover

Good social benefits, competitive compensation and motivating tasks make WACKER an attractive employer, something our high level of employee loyalty confirms. The average length of service in Germany (permanent staff) was 18.3 years (2016: 18.3 years). The average length of service of WACKER's executive personnel is 20.5 years.

D.10 Employee Turnover Rate

%	2017	2016
Germany	0.5	0.8
International	8.2	7.0
Group	2.6	2.4

Employee Representation

Industrial union membership has always been high among WACKER employees, especially at the German sites.

All WACKER Group sites in Germany have employee representation.

WACKER employees at sites outside Germany can also form unions. At non-German sites without (statutory or voluntary) employee representation, HR staff members are the contacts for employee interests.

Social Responsibility

WACKER sees itself as a corporate citizen – an integral part of the society in which we live and work, which is why we take our social responsibilities seriously, especially in communities around our sites.

Social Issues

Neighbors: corporate citizenship begins with a good relationship with municipalities and with our immediate neighbors. We speak openly about what goes on behind our plant gates. Our sites throughout the world welcome questions from the public, with nearby residents receiving fast, comprehensible responses to their concerns. We maintain local hotlines and have central contact partners available to deal with questions.

We inform the public about our sites by means of environmental reports and other publications, and we issue invitations to open houses and to other events. These include the WACKER WISSENSFORUM (knowledge forum) and the Environment Information Days at our Burghausen site, as well as the annual community meetings at Nünchritz.

At many sites, we offer free services to surrounding communities including, for example, health and eye checkups in India and a Household Hazardous Waste Day organized for neighbors of our Adrian site in the United States, where nearby residents can bring in chemical household products not allowed in trash cans.

Schools and universities: WACKER wants to get children and young people excited about technology and the natural sciences. After all, as a chemical company, we are going to need outstanding scientists in the future – a goal we are pursuing in a variety of ways.

WACKER supports progressive teaching methods and modern school management systems. We are one of the founding members of the Bavarian Educational Pact, a foundation comprising 143 companies and the state of Bavaria. The pact has set itself the task of modernizing the Bavarian educational system.

WACKER attaches considerable importance to fostering young scientific talent and maintaining close contacts with universities. Our researchers are frequently invited to give presentations and guest lectures at universities, and university groups visit our sites for an inside look at the workings of an industrial corporation. WACKER offers students plant jobs and internships, as well as opportunities to write doctoral theses and papers for bachelor's and master's programs.

Our 2015/2016 Sustainability Report discusses in detail our diverse cooperation activities with schools and universities.

Details can be obtained from our 2015/2016 Sustainability Report (starting on page 98).

Respect for Human Rights

Respect for human rights, and the elimination of human rights abuses, are fundamental to our activities. We are explicitly committed to the UN Global Compact's Ten Principles, which includes supporting the protection of human rights and precluding human rights abuses. We condemn slavery and all other forms of forced or compulsory labor. In doing so, we follow the OECD Guidelines for Multinational Enterprises, the ILO Core Labor Standards and the UN Guiding Principles on Business and Human Rights.

This means focusing not only on working conditions at the company itself, but also on upholding human rights in our supply chain. We expect our suppliers to comply with the principles of the Global Compact and the Responsible Care® initiative, and have made this part of our General Terms and Conditions of Procurement. As part of our Together for Sustainability (TfS) initiative, we use assessments and audits to check compliance.

Anti-Corruption and Bribery

The same fundamental understanding applies to corruption and bribery: they have no place in our business model. Our Code of Conduct contains corresponding principles in this area, and all WACKER employees are required to follow this code. Training courses on compliance raise employees' awareness of the relevant risks and convey binding rules of behavior for daily work routines.

According to Transparency International's Corruption Perceptions Index (CPI), WACKER is predominantly active in countries that have a low or very low risk of corruption.

Sustainable Supply-Chain Management

With production sites in Europe, the Americas and Asia, our company procures goods and services from numerous countries. As a member of both the United Nations Global Compact and the chemical industry's Responsible Care® initiative, it is important to us to verify that our suppliers comply with generally accepted sustainability principles as well. Potentially critical topics include working conditions, ethical standards, safety standards (especially when hazardous materials are being handled) and the use of local resources (e.g. water use or energy consumption).

That is why WACKER joined the TfS initiative in January 2015. This chemical-industry procurement initiative has developed a process to review the sustainability management of suppliers. Because results are standardized and accessible to all TfS members, the program is also attractive for suppliers.

The results of the TfS audit and assessment are an integral part of our supplier evaluations. Especially when results are not satisfactory, we discuss them with the supplier concerned, with the objective of defining measures for improvement. Reassessments or repeated audits are used to follow up on progress. Consistently poor results combined with an unwillingness to cooperate can have consequences, and may ultimately lead to termination of the business relationship.

In raw material and energy procurement, we aim to have the sustainability performance of all our key suppliers evaluated via TfS. Since joining TfS, we have made good progress along this path. Suppliers evaluated via TfS already cover 80 percent of our raw-materials and energy procurement volume. The achievement of TfS goals is tracked in a monthly management report.

Details can be obtained from our 2015/2016 Sustainability Report (starting on page 41).

We additionally expect our suppliers to use a management system that meets the requirements of ISO 9001 (quality) or comparable specifications such as GMP (Good Manufacturing Practice), and also require our industrial suppliers to be certified to ISO 14001 (environmental protection).

D.11 Corruption and Bribery Incidents

	2017	2016
Prevention		
Number of organizational units subjected to corruption and bribery audit	26	26
Legal entities subjected to corruption and bribery audit (%)	17	19
Corruption and Bribery Incidents		
Audited	4	2
Completed	4	1
Measures taken as a result of corruption and bribery incidents[1]		
Written warnings	–	–
Termination of employment contract	1	1
Number of complaints	–	1
Level of key fines[2] and number of non-monetary penalties	–	–

[1] WACKER Germany only
[2] Level of key fines: starting at €10,000

Risk and Compliance Management

Managing Corporate Risks

Risk and compliance management at WACKER is presented in detail in the risk management report within the combined management report. The same apples to the central risk areas affecting WACKER's business and how they are dealt with.

See page 82 onward of this Annual Report

Overall, we see no serious risks that might arise from environmental concerns, personnel matters, social issues, human rights, corruption or bribery. We similarly see no serious sustainability risks that might arise from our business relationships or our products.

Information on Wacker Chemie AG

In addition to the information on the WACKER Group provided in the combined non-financial report, the key indicators for Wacker Chemie AG are given below.

Wacker Chemie AG is the parent company of the WACKER Group and is headquartered in Munich, Germany. It is divided into four business divisions: WACKER SILICONES, WACKER POLYMERS, WACKER BIOSOLUTIONS and WACKER POLYSILICON. Wacker Chemie AG also comprises corporate departments providing services to the Group as a whole. Key indicators used in the management decision-making process are applied across all of the Group's business divisions. Corporate goals for the divisions are defined and reported on a groupwide basis. Even though Wacker Chemie AG is an independent entity, no separate key performance indicators are defined or reported for it. That also applies to matters such as sustainability and non-financial performance indicators. For more information, please refer to the respective details provided on the WACKER Group as a whole.

D.12 Energy Consumption

GWh	2017	2016
Electricity consumption	3,944	3,788
Heat consumption	2,204	2,240
Primary energy use (total)	4,729	4,762
Of which Natural gas	4,707	4,740
Solid fuels[1]	–	–
Heat supplied by third parties[2]	22	22

[1] Coal, charcoal and wood
[2] Steam and district heating

D.13 Environment- and Safety-Related Incidents

	2017	2016
Number of environment- and safety-related incidents[1], Wacker Chemie AG	14	16
Environment- and safety-related incidents at Wacker Chemie AG per 1 million hours worked[2]	0.9	1.1

[1] According to European Chemical Industry Council (Cefic) criteria
[2] WACKER Process Safety Incident Rate (WPSIR)

D.14 Workplace Accidents Involving Permanent Staff and Temporary Workers

	2017	2016
Accident rate at Wacker Chemie AG: accidents[1] per 1 million hours worked	3.1	3.3
Accident rate at Wacker Chemie AG: reportable accidents[2] per 1 million hours worked	1.5	1.5
Fatal workplace accidents	–	–

[1] Accidents leading to at least one day off work
[2] Accidents leading to over three days off work

D.15 Number of Employees and Temporary Workers as of December 31

	2017	2016
Employees	9,740	9,539
Temporary workers	138	137

D.16 Environmental Indicators from 2016 to 2017

	2017	2016
Air		
CO_2 emissions[1]		
Direct (kt)	**896**	891
Indirect (kt)[2]	**1,110**	1,127
NO_x nitrogen oxides (t)	**750**	750
Non-methane volatile organic compounds (NMVOCs) (t)	**570**	580
Dust (t)	**22**	20
Water		
Water use (thousand m^3)	**187,870**	197,500
Chemical oxygen demand (COD) (t)	**1,110**	980
Halogenated organic hydrocarbons (AOX) (t)	**2.6**	3.1
Waste		
Disposed of (t)	**24,090**	21,380
Recycled (t)	**114,250**	111,920
Hazardous (t)	**73,920**	71,950
Non-hazardous (t)	**64,420**	61,350

[1] CO_2 emissions are measured on the basis of the Greenhouse Gas Protocol (GHG Protocol: "A Corporate Accounting and Reporting Standard"), published by the World Resources Institute and World Business Council for Sustainable Development. Scope 1: direct CO_2 emissions. Scope 2: indirect emissions from the consumption of purchased energy (converted into CO_2 equivalents for purchased electricity, steam and heat). Conversion is based on emission factors of the International Energy Agency (electricity) and from the GEMIS database (steam and heat).

[2] The amount of electricity supplied by the affiliate Alzwerke GmbH is included in indirect CO_2 emissions in a climate-neutral manner – because it is not fed into the public grid.

Limited Assurance Report of the Independent Auditor regarding the Combined Separate Non-Financial Report

To the Executive Board of Wacker Chemie Aktiengesellschaft, Munich

We have performed an independent limited assurance engagement on the Combined Separate Non-Financial Report of Wacker Chemie Aktiengesellschaft and the Group (hereinafter "WACKER") as well as the sections "Group Business Fundamentals", "Further Information on R&D, Employees, Procurement, Production, and Sales and Marketing" and "Risk Management Report" of the Combined Management Report, which has been qualified as part of the Combined Separate Non-Financial Report (hereinafter "Report") by reference, according to Sections 315b and 315c in conjunction with 289c to 289e HGB (German Commercial Code) for the business year from January 1 to December 31, 2017.

Management's Responsibility

The legal representatives of the entity are responsible for the preparation of the Report in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion on the Report based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance of whether any matters have come to our attention that cause us to believe that the Report of the entity has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, provide a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel on the corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of WACKER
- A risk analysis, including a media search, to identify relevant information on WACKER's sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring of disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of the data
- Inquiries of personnel on the corporate level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documentation
- Analytical evaluation of data and trends of quantitative disclosures, which are submitted by all sites for consolidation on the group level
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data based on a sample at the site in Burghausen
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of WACKER, for the business year from January 1 to December 31, 2017, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of Use/Clause on General Engagement Terms

This assurance report is issued for the purposes of the Executive Board of Wacker Chemie Aktiengesellschaft, Munich, only. We assume no responsibility with regard to any third parties.

Our assignment for the Executive Board of Wacker Chemie Aktiengesellschaft, Munich, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of the provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, February 26, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hanshen **ppa. Hell**

Wirtschaftsprüfer
[German Public Auditor]

Multiyear Overview

€ million	2017	Change in %	2016[1]	2015	2014	2013
Sales	4,924.2	6.3	4,634.2	5,296.2	4,826.4	4,478.9
Income before taxes	335.0	36.0	246.4	406.7	365.2	31.0
Net income for the year	884.8	>100	189.3	241.8	195.4	6.3
EBITDA	1,014.1	6.1	955.5	1,048.8	1,042.3	678.7
EBIT	423.7	25.5	337.5	473.4	443.3	114.3
Fixed assets	4,209.4	–11.7	4,765.5	4,964.9	4,471.0	4,067.7
Intangible assets	41.5	–17.7	50.4	32.1	32.9	20.4
Property, plant and equipment	3,501.7	–23.8	4,596.4	4,800.6	4,312.8	3,785.6
Financial assets	666.2	>100	118.7	132.2	125.3	261.7
Current assets, incl. deferred taxes + prepaid expenses	2,626.3	–2.6	2,696.1	2,299.5	2,476.2	2,264.7
Liquidity	286.9	1.2	283.5	310.5	325.9	431.8
Equity	3,169.3	22.2	2,593.2	2,795.1	1,946.5	2,197.1
Subscribed capital	260.8	–	260.8	260.8	260.8	260.8
Capital reserves	157.4	–	157.4	157.4	157.4	157.4
Treasury shares	–45.1	–	–45.1	–45.1	–45.1	–45.1
Retained earnings, consolidated net income, and other equity items	2,746.1	36.9	2,006.3	2,195.1	1,549.3	1,805.7
Non-controlling interests	50.1	–76.6	213.8	226.9	24.1	18.3
Borrowed capital	3,666.4	–24.7	4,868.4	4,469.3	5,000.7	4,135.3
Provisions	2,042.8	–19.9	2,550.7	1,996.7	2,137.7	1,401.9
Liabilities, incl. deferred taxes + deferred income	1,623.6	–29.9	2,317.7	2,472.6	2,863.1	2,733.4
Net financial debt (–) Net financial receivables (+)	–454.4	–54.2	–992.5	–1,074.0	–1,080.6	–792.2
Total assets	6,835.7	–8.4	7,461.6	7,264.4	6,947.2	6,332.4
Employees (average for the year)	13,723	3.1	13,307	16,937	16,744	16,134
Employees (Dec. 31)	13,811	2.7	13,448	16,972	16,703	16,009
Employees (total)	13,811	2.7	13,448	16,972	16,703	16,009

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

€ million	2017	Change in %	2016[1]	2015	2014	2013
Key profitability figures						
Return on sales (EBIT) = EBIT/sales (%)	**8.6**	n.a.	7.3	8.9	9.2	2.6
Return on sales (EBITDA) = EBITDA/sales (%)	**20.6**	n.a.	20.6	19.8	21.6	15.2
Return on equity = net income for the year/equity (as of Dec. 31) (%)	**27.9**	n.a.	7.3	8.7	10.0	0.3
ROCE – return on capital employed = EBIT/capital employed (%)	**7.5**	n.a.	6.4	8.1	8.4	2.2
Key statement-of-financial-position figures						
Investment intensity of fixed assets = fixed assets/total assets (%)	**61.6**	n.a.	63.9	68.3	64.4	64.2
Equity ratio = equity/total assets (%)	**46.4**	n.a.	34.8	38.5	28.0	34.7
Capital structure = equity/borrowed capital (%)	**86.4**	n.a.	53.3	62.5	38.9	53.1
Cash flow and investments						
Cash flow from operating activities	**613.0**	–1.3	621.0	617.2	485.2	464.0
Cash flow from long-term investing activities – before securities	**–325.0**	–22.7	–420.3	–815.6	–497.3	–555.2
Cash flow from financing activities	**–333.1**	>100	–135.8	57.9	–88.6	227.6
Net cash flow = CF from operating activities + CF from investing activities – additions from finance leases	**358.1**	–0.8	361.1	22.5	215.7	109.7
Investments	**326.8**	–3.3	338.1	834.0	572.2	503.7
Share and valuation						
Consolidated net income	**884.8**	>100	189.3	241.8	195.4	6.3
Earnings per share (€) = consolidated net income/number of shares	**17.45**	>100	3.61	4.97	4.1	0.1
Market capitalization (total number of shares without treasury shares)	**8,057.8**	64.1	4,910.7	3,851.0	4,523.2	3,994.1
Number of shares	**49,677,983**	–	49,677,983	49,677,983	49,677,983	49,677,983
Price as of reporting date December 31	**162.2**	64.1	98.85	77.52	91.1	80.4
Dividend per share (€)	**4.50**	>100	2.00	2.00	1.50	0.50
Dividend yield (%)	**4.0**	n.a.	2.6	2.2	1.7	0.8
Capital employed	**5,138.3**	–3.1	5,300.4	5,875.4	5,260.7	5,238.2

[1] Adjusted in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

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Chemical Glossary

Biotechnology
Biotech processes use living cells or enzymes to transform and produce substances. Depending on the application, a distinction is made between red, green and white biotechnology. Red biotechnology: medical and pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

Chlorosilanes
Compounds of silicon, chlorine and, in some cases, hydrogen. The semiconductor industry mainly uses trichlorosilane to make polysilicon and for the epitaxial deposition of silicon.

Combined Heat and Power Plant
Combined heat and power (CHP) plants generate both electricity and useful heat. This system can be much more efficient at using the input energy (e.g. fuel oil or natural gas) than are conventional systems with separate facilities. Because primary energy is conserved, CHP plants emit significantly less carbon dioxide than conventional power plants.

Cyclodextrins
Cyclodextrins belong to the family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). They are able to encapsulate foreign substances such as fragrances and to release active ingredients at a controlled rate. WACKER BIOSOLUTIONS produces and markets cyclodextrins.

Cysteine
Cysteine is a sulfur-containing amino acid. It belongs to the non-essential amino acids, as it can be formed in the body. It is used, for example, as an additive in foods and cough mixtures. Cysteine and its derivatives are a business field at WACKER BIOSOLUTIONS.

Dispersible Polymer Powders
Created by drying dispersions in spray or disc dryers. VINNAPAS® polymer powders are recommended as binders in the construction industry, e.g. for tile adhesives, self-leveling compounds and repair mortars. The powders improve adhesion, cohesion, flexibility and flexural strength, as well as water-retention and processing properties.

Dispersions
Binary system in which one component is finely dispersed in another. VINNAPAS® dispersions are vinyl-acetate-based copolymers and terpolymers in liquid form. They are mainly used as binders in the construction industry, e.g. for grouts, plasters and primers.

Elastomers
Polymers that exhibit almost perfectly elastic behavior, i.e. they deform when acted upon by an external force and return to their exact original shape when the force is removed. While the duration of the force has no effect on perfectly elastic behavior, the temperature does.

Emission
Substance outputs, noise, vibrations, light, heat or radiation emitted into the environment by an industrial plant.

Ethylene
A colorless, slightly sweet-smelling gas that, under normal conditions, is lighter than air. It is needed as a chemical starting product for a great many synthetic materials, including polyethylene and polystyrene. It is used to make products for the household, agricultural and automotive sectors, among others.

Exterior Insulation and Finish Systems (EIFS), External Thermal Insulation Composite Systems (ETICS)
Systems for thermally insulating buildings and thus for increasing energy efficiency. These systems have a multilayer structure: adhesive mortar, thermal insulating panels, embedding mortar, glass fiber mesh and finishing coat. VINNAPAS® polymer powders from WACKER POLYMERS ensure that the insulation material bonds firmly to the mortar and finish coat. As a result, the insulating system offers greater durability and much more resistance to weathering and wear.

Immission
Substance inputs, noise, vibrations, light, heat or radiation that affect humans, animals, plants, soil, water, air, and cultural and other material assets.

Polymer
A polymer is a large molecule made up of smaller molecular units (monomers). It contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

Polymer Blends
The result of mixing different polymers is known as a polymer blend (polymer alloy). If these polymer blends are composed of biopolymers (biodegradable and/or renewable raw materials), the VINNEX® binder system may enhance compatibility and hence their properties.

Polysilicon
Hyperpure polycrystalline silicon from WACKER POLYSILICON is used for manufacturing wafers for the electronics and solar industries. To produce it, metallurgical-grade silicon is converted into liquid trichlorosilane, highly distilled and deposited in hyperpure form at 1,000 °C.

Primary Energy
Primary energy is obtained from naturally occurring sources such as coal, gas or wind. Secondary energy, in contrast, is derived from primary energy via a transformation process (which often involves energy losses); examples include electricity, heat and hydrogen.

Silanes
Silanes are used as monomers for the synthesis of siloxanes or sold directly as reagents or raw materials. Typical applications include surface treatment, agents (medically active substances) in pharmaceutical synthesis, and coupling agents for coatings.

Silica
Collective term for compounds with the general formula $SiO_2 \bullet nH_2O$. Synthetic silicas are obtained from sand. Based on their method of production, a distinction is made between precipitated silicas and pyrogenic silicas (such as HDK®).

Silica, Pyrogenic
White, synthetic, amorphous silicon dioxide (SiO_2) in powder form, made by flame hydrolysis of silicon compounds. Variously used as an additive for silicone rubber grades, sealants, surface coatings, pharmaceuticals and cosmetics.

Silicon
After oxygen, silicon is the most common element in the earth's crust. In nature, it occurs without exception in the form of compounds, chiefly silicon dioxide and silicates. Silicon is obtained through energy-intensive reaction of quartz sand with carbon and is the most important raw material in the electronics industry.

Silicones
General term used to describe compounds of organic molecules and silicon. According to their areas of application, silicones can be classified as fluids, resins or rubber grades. Silicones are characterized by a myriad of outstanding properties. Typical areas of application include construction, the electrical and electronics industries, shipping and transportation, textiles and paper coatings.

Siloxanes
Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied by hydrogen or organic groups. Siloxanes are the building blocks for the polymers (polysiloxane and polyorganosiloxane) that form silicones.

VINNAPAS®
VINNAPAS® is WACKER's brand name for dispersions, dispersible polymer powders, solid resins and their associated product solutions. VINNAPAS® dispersions and polymer powders are primarily used in the construction industry as polymeric binders, e.g. in tile adhesives, exterior insulation and finish systems (EIFS)/external thermal insulation composite systems (ETICS), self-leveling compounds, and plasters.

Volatile Organic Compounds (VOCs)
Volatile organic compounds (VOCs) are gaseous and vaporous substances of organic origin that are present in the air. They include hydrocarbons, alcohols, aldehydes and organic acids. Solvents, liquid fuels and synthetic substances can be VOCs, and so can organic compounds originating from biological processes. High VOC concentrations can be irritating to the eyes, nose and throat and may cause headaches, dizziness and tiredness.

Wacker Operating System (WOS)
The "Wacker Operating System" (WOS) program bundles, promotes and processes corporate projects for systematic process improvement. It is the basis for a groupwide improvement initiative by WACKER.

Financial Glossary

Business Value Contribution (BVC)

BVC is a financial performance measurement that determines the value created by the WACKER Group and its units once all capital costs have been deducted. BVC is the difference between profit (EBIT) and cost of capital (WACC x CE). BVC is a profit variable that is adjusted to allow for extraordinary effects (e.g. sale of parts of the company). This makes it an ideal tool for measuring business performance.

Capital Employed (CE)

Capital employed is the sum of average noncurrent fixed assets (less noncurrent securities and deferred tax assets) plus inventories and trade receivables less trade payables. It is a variable used in calculating the cost of capital.

Cash Flow

Cash flow represents the movement of cash and cash equivalents into or out of a business activity during a finite period. Net cash flow is the sum of cash flow from operating activities (excluding changes in advance payments received) and cash flow from long-term investing activities (before securities), including additions due to finance leases.

EBIT

Earnings before interest and taxes: EBIT is a good indicator for comparing companies' profitability, since it is widely used across the corporate world.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

Equity Ratio

The equity ratio is calculated from the ratio of equity to a company's total assets. It indicates the level of economic and financial stability at a company.

IFRS

The International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are compiled and published by the London-based International Accounting Standards Board (IASB). Since 2005, publicly listed EU-based companies have been required to use IFRS in accordance with IAS regulations.

ROCE

Return on capital employed is the profitability ratio relating to the capital employed. ROCE is defined as earnings before interest and taxes (EBIT) divided by capital employed. Investment income from Siltronic AG and the corresponding carrying amount in equity are not included when ROCE is calculated. ROCE clearly indicates how profitably the capital required for business operations is being employed. ROCE is influenced not only by profitability, but also by capital intensity with regard to noncurrent assets required for business operations and to working capital. ROCE is reviewed annually as part of our planning process and is a key criterion for managing our capital expenditure budget.

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Our Annual Report was published on March 13, 2018. It is available in English and German and you can access both versions online.
www.wacker.com/annual-report

This Annual Report contains forward-looking statements based on assumptions and estimates of WACKER's Executive Board. Although we assume the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services, and changes in corporate strategy. WACKER does not plan to update the forward-looking statements, nor does it assume the obligation to do so.

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