

Annual Report 2017

Growth

with wafers

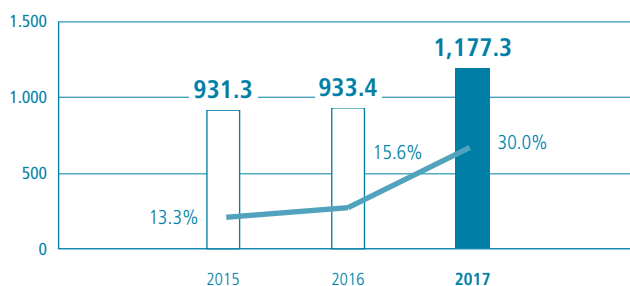
Siltronic Group key figures

In EUR million		2017	2016
Statement of profit or loss			
Sales		1,177.3	933.4
Gross profit		370.3	171.9
Gross margin	%	31.5	18.4
EBITDA		353.1	146.0
EBITDA margin	%	30.0	15.6
EBIT		235.7	27.0
EBIT margin	%	20.0	2.9
Financial result		-8.5	-11.1
Income taxes		-35.0	-7.2
Net result for the period		192.2	8.7
Earnings per share	EUR	6.18	0.40
ROCE	%	31.3	3.7
Capital expenditure and free cash flow			
Capital expenditure in property, plant and equipment, and intangible assets		-123.2	-88.8
Free cash flow		169.6	19.0
Net cash flow		124.8	39.6

In EUR million		Dec. 31, 2017	Dec. 31, 2016
Statement of financial position			
Total assets		1,252.4	1,056.8
Equity		637.9	425.3
Equity ratio	%	50.9	40.2
Net financial assets		342.1	175.0
Employees (excluding temporary employees)		3,730	3,757

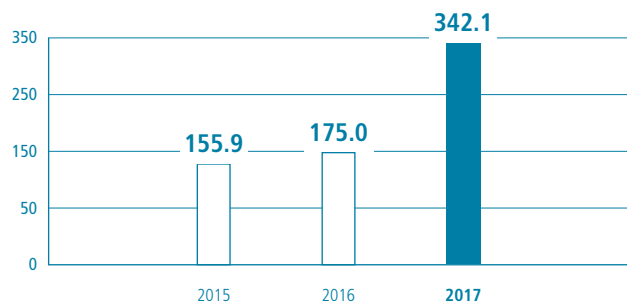
Sales and EBITDA margin

In EUR million



Net financial assets

In EUR million



Growth with wafers

Siltronic is one of the world's leading manufacturers of hyperpure silicon wafers with diameters up to 300mm and partner of many leading semiconductor companies. The Company has a network of state-of-the-art production sites in Asia, Europe and the USA. Silicon wafers are the basis of modern micro- and nanoelectronics and a key component in semiconductor chips in e.g. computers, smartphones, navigation systems and many other applications. Technology leadership and a consistent focus on improving efficiency form the bedrock for increasing the Company's value going forward.

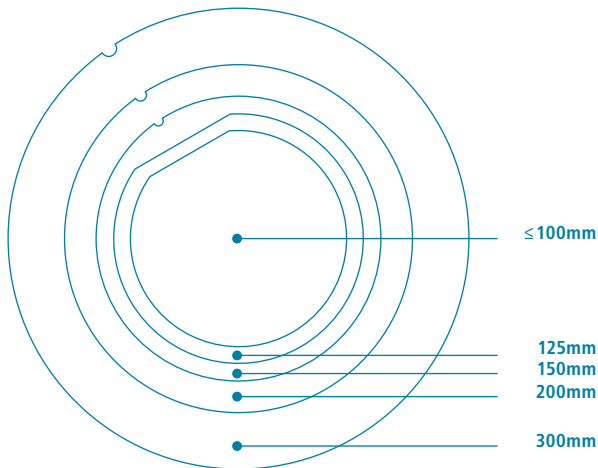
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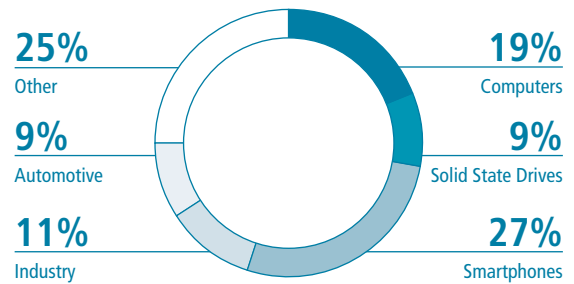
Facts and figures

A brief stroll through the world of Siltronic wafers:

Wafer sizes



End markets for semiconductor applications



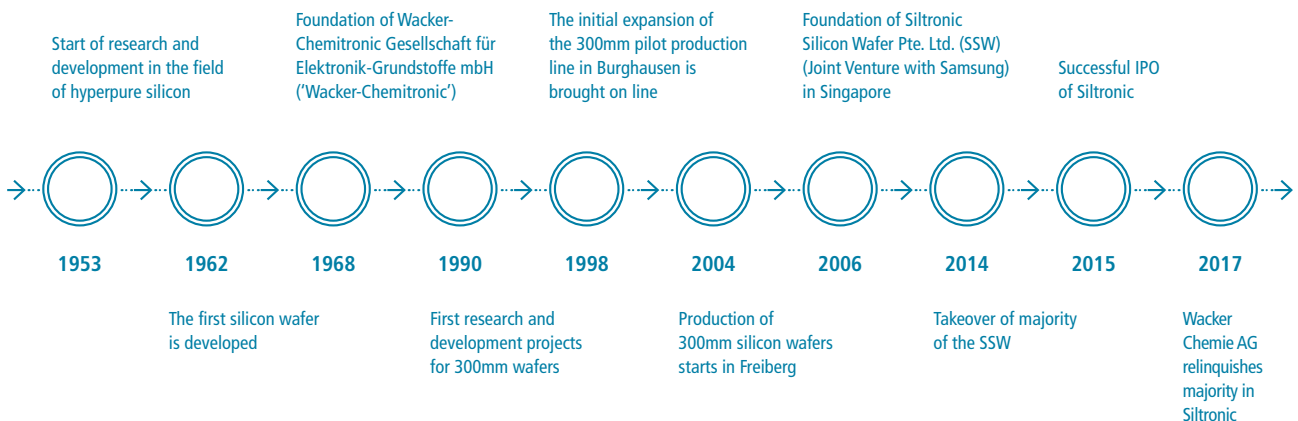
Source: IHS Markit Technology (Semiconductor Silicon Demand Forecast Tool, Q4 '17 Update)

Siltronic produces **2 sqm** of wafer area per minute.

2,000

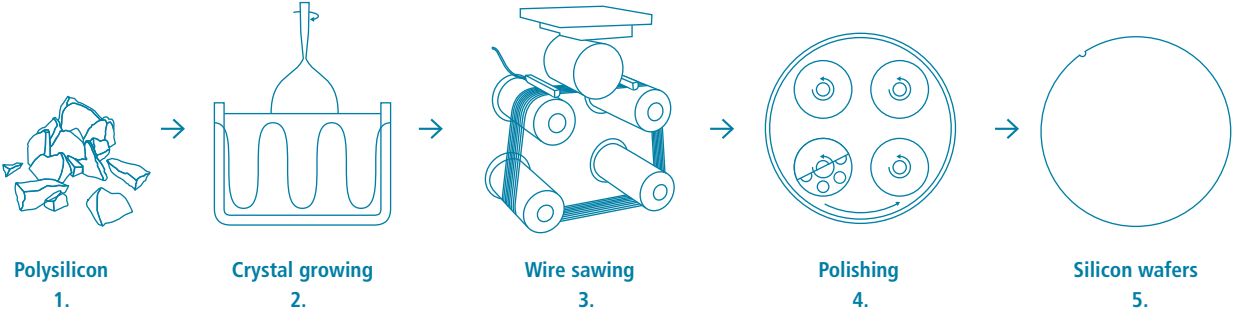
different customer specifications are served by Siltronic.

The road to success



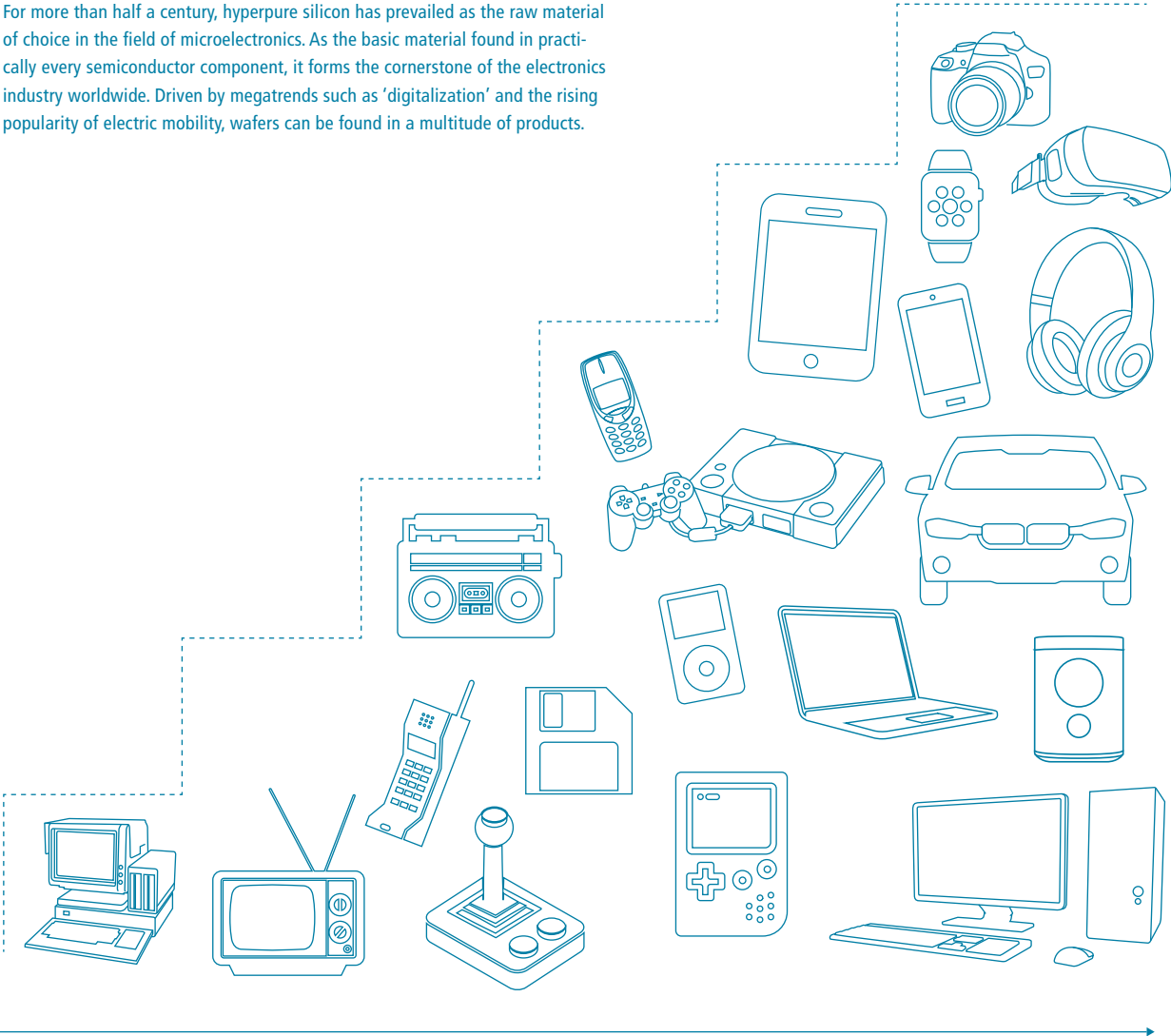
Wafer production

(simplified, more detailed presentation on [p 11](#))



Wafers are ever-present

For more than half a century, hyperpure silicon has prevailed as the raw material of choice in the field of microelectronics. As the basic material found in practically every semiconductor component, it forms the cornerstone of the electronics industry worldwide. Driven by megatrends such as 'digitalization' and the rising popularity of electric mobility, wafers can be found in a multitude of products.



In demand on dynamic markets

Megatrends such as digitalization, networking, connectivity and electric mobility are fueling the continued brisk demand for wafers. We know how to exploit the market dynamics and drive technological developments with innovative products – for further growth with wafers.

From overcapacity and pricing pressure to full utilization and price hikes – this is the path our industry has taken during the last decade. Meanwhile, demand for wafers continually exceeds supply, pushing prices on an upward trend. Between the end of 2016 and the end of 2017, the average price across the entire Siltronic product range rose by more than 30 percent. And there is another advantage, too: Among other things, we were able to reduce the variable manufacturing costs per wafer area produced by successfully adopting a number of efficiency measures, which also had a positive impact on our earnings.

More compact, faster, smarter – and no end in sight

What is behind this upward trend? Market diversification is a key factor. Twenty years ago, the computer industry still accounted for more than half of semiconductor unit sales. Today, however, the rapidly growing variety of new electronic devices and applications in a wide range of fields is driving the demand for chips ever upwards. The semiconductor industry's most important intermediate product is therefore in great demand – high-quality, high-performance silicon wafers.

A look at the biggest growth drivers leads us from global megatrends such as automation, miniaturization, and mobility to everyday technology in each individual household or vehicle. In the 'Internet of Things' (see fact box), processes are becoming more and more digitalized, while ever smaller machines are increasingly interacting with people, and entire plants are communicating directly with one another. All this is accompanied by a steep rise in the volume of data that needs to be transmitted, processed, and stored. Worldwide data traffic will continue to gain momentum in the coming years and, according to forecasts like the Cisco Visual Networking Index (VNI), is set to reach over three zettabytes by 2021. Calculated in bytes, this results in an impressive figure consisting of a 3 followed by 21 zeros. And one thing is indispensable for all this progress: silicon wafers.



300 millimeters –

our strategic focus is on producing wafers of this diameter.

Fact box

Internet of Things

The term describes the concept whereby (everyday) items are connected to the Internet. Connected with one another, they can communicate intelligently and coordinate processes. The dimensions range from household appliances such as a smart refrigerator that reorders groceries on its own, to autonomous driving, and even to the vision of a 'smart city' in which, for example, traffic, energy supplies, and buildings are all interconnected. On an industrial level, entire production plants and logistics processes can be automated and thereby made more efficient ('Industry 4.0').

Hidden cores of everyday technology

The probability of finding silicon wafers made by Siltronic in a smartphone is very high. Countless other technologies that surround us in our daily lives can only work with wafer-based components. A glance beneath the surface shows that our products are ever-present.

Silicon wafers form the basis for semiconductors and consequently for the digitalization of everyday life. As one of the world's leading manufacturers of wafers for the semiconductor industry, Siltronic products contribute significantly to this dynamic development. We notice them most clearly in the fields of automotive, energy, industry, information technology, and mobile electronics and this is where we also see the greatest potential for them in the coming years.

Smart energy future

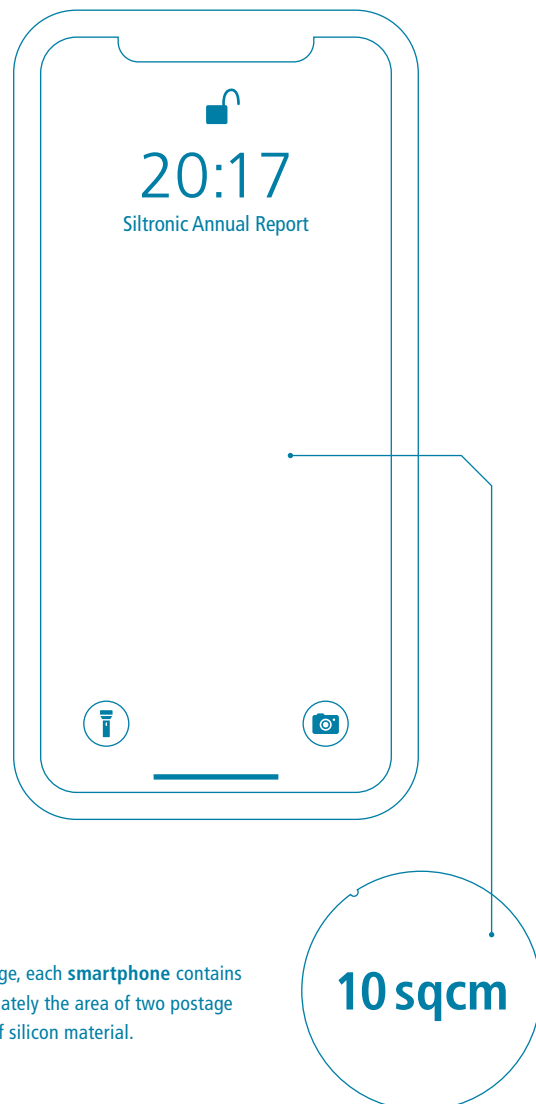
In order to make this potential more tangible, let's look at the subject of energy, for example. The basic calculation is simple: The growing number of increasingly powerful devices and systems is accompanied by greater energy requirements. And the more energy and output there is, the more silicon is needed.

In particular, the transformation of the energy system away from fossil fuels and towards renewable resources is closely linked to a growing need for silicon wafers. The number of decentralized generators, such as photovoltaic plants, is increasing rapidly. These need to be integrated in an intelligent overall system to form a stable network together with storage technologies.

It is only a small step from the energy transition to electric mobility, in which battery-driven vehicles link the energy and transport sectors – and themselves serve as mobile, decentralized energy storage facilities. The course has been set for the future of mobility based on this technology. Semiconductors also play a vital role in electric vehicles – from electric drivetrains and battery management through to a host of other electrically powered systems.

Wafer surface area covers over 180 football fields

For most people, the smartphone has long since become a daily companion in all aspects of their lives. Whether making phone calls, e-mailing, streaming videos, chatting, gathering information, organizing, shopping, booking, or navigating, an increasing number of features and apps are expanding the range of applications practically every day. Smartphones are a key growth market for Siltronic. Each device contains around 10 square centimeters of silicon surface area on average. Some 1.3 million square meters of wafer area go into their production per year – constituting around a quarter of the wafer surface area produced worldwide – an area equivalent to more than 180 football fields.

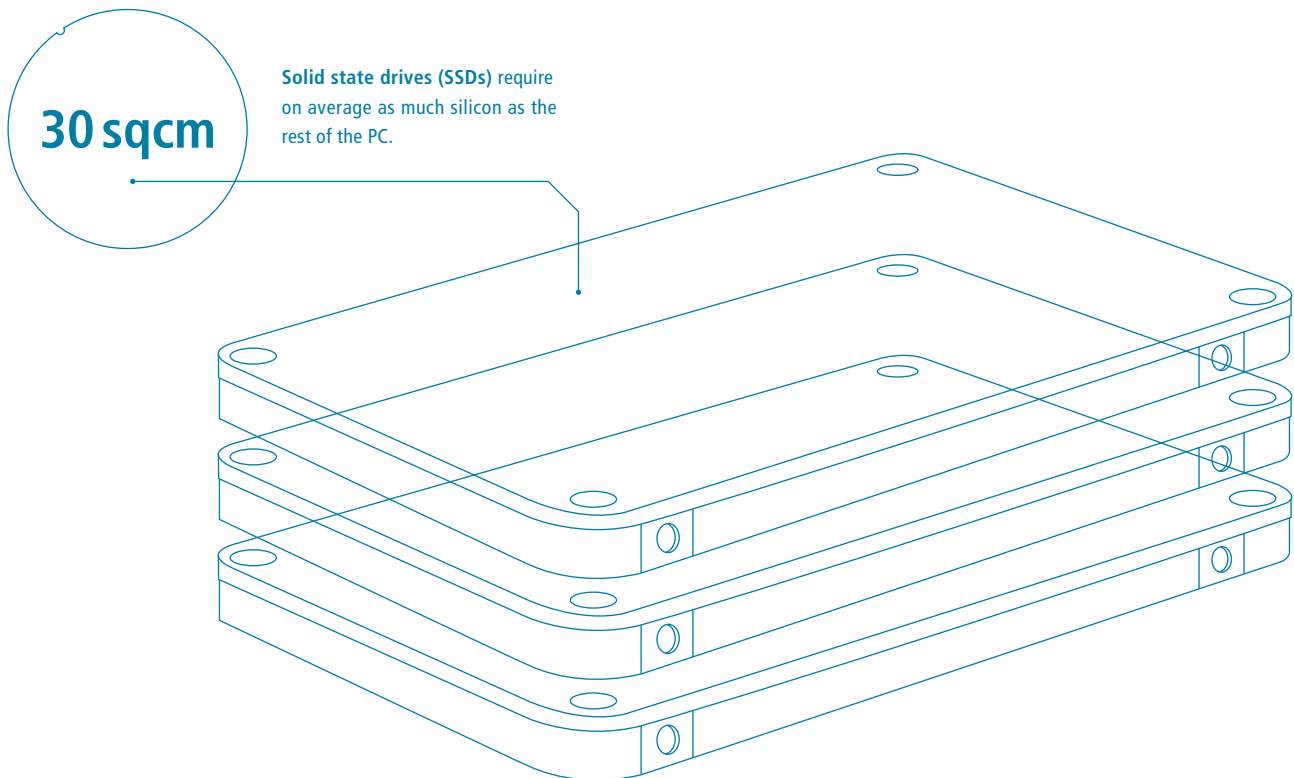


Turning point in hard drive technology

In the computer sector, we are benefiting from a trend that continues to fuel demand for silicon – solid state drives (SSDs) are increasingly taking the place of conventional hard disk drives (HDDs) as mass storage devices. According to the market research institute IHS Markit Technology, demand for SSDs increased by 20 percent year-on-year in 2017.

The difference lies in the way they work: Whereas HDDs consist of rotating magnetic disks and a read head, SSDs do not contain any mechanical parts. Data storage on so-called Flash memories works via semiconductors in a similar way to a USB stick, and requires an average of 30 square centimeters of silicon.

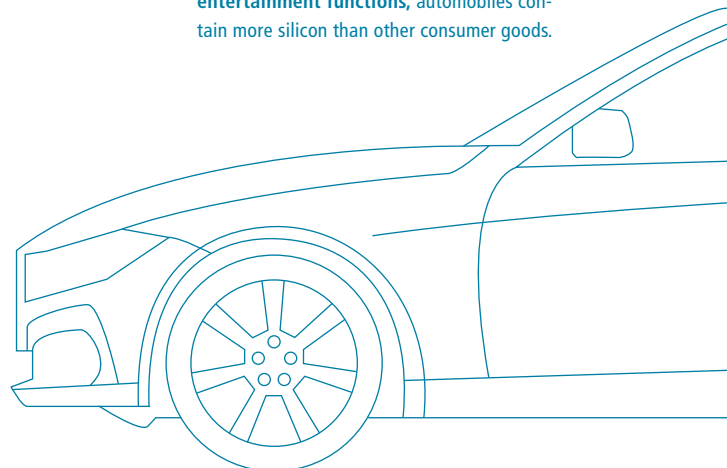
SSDs have several advantages over conventional hard disks: They are more robust, lighter, more efficient, quieter and, above all, significantly faster.



Wafer surface area in vehicles trending upwards

Anyone who first imagines taking a seat in an old VW Beetle and then in a state-of-the-art new car will clearly understand the meaning of the term 'technology leap'. Compared to the sparse emptiness of earlier cars, nowadays the vast majority of vehicle components are electronically powered or at least supported. Electro-mobility is advancing, while autonomous driving is no longer a distant vision of the future. This spells good prospects for silicon demand: Wafer area in automotive applications is set to grow by some seven percent by 2020 (source: IHS Markit Technology (Q1 '18 update)).

From control and safety technology to entertainment functions, automobiles contain more silicon than other consumer goods.



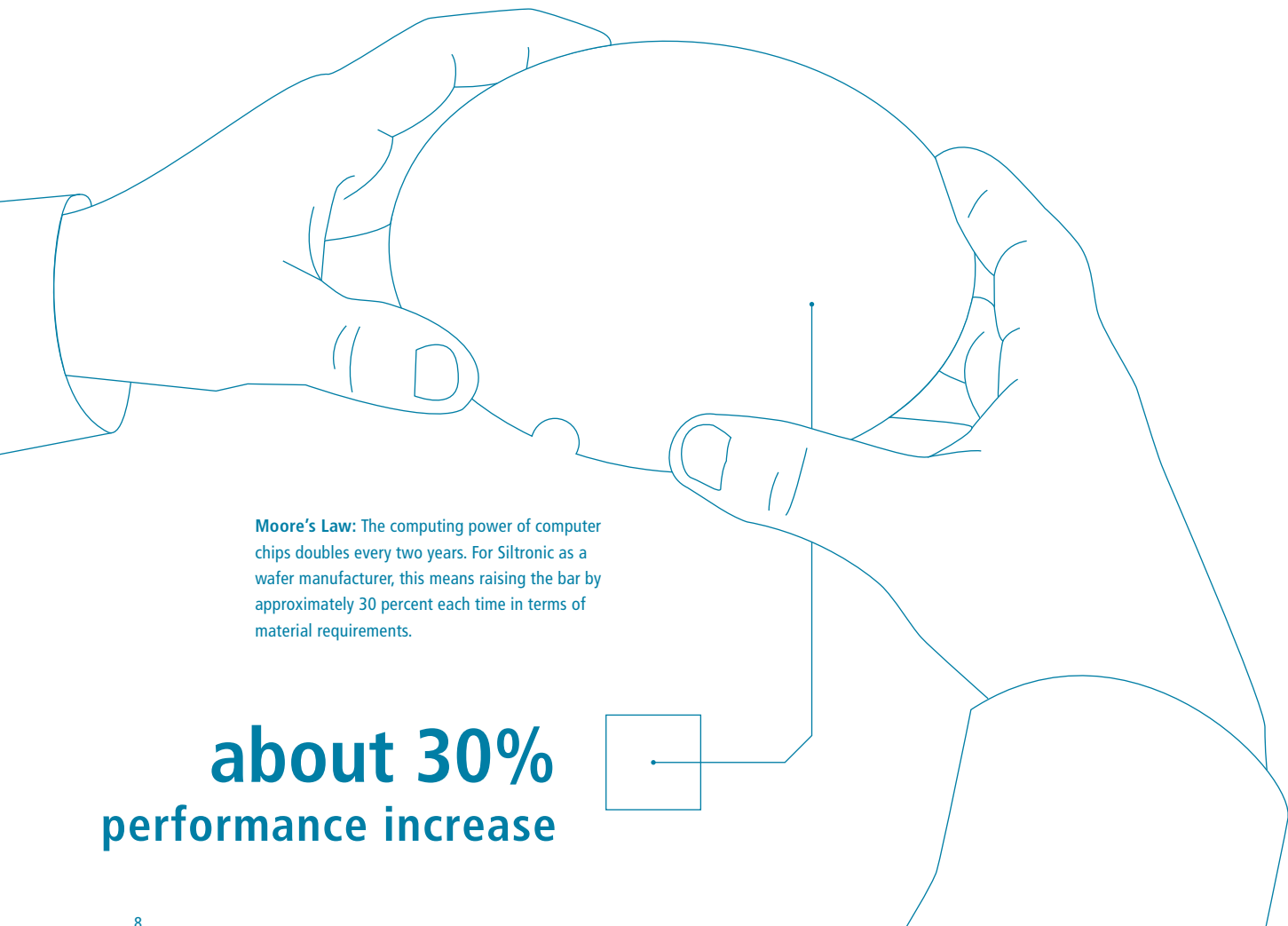
Pioneering technological progress

Wafer manufacturers such as Siltronic are key to making technological leaps at all possible. With our unique combination of innovative strength and precision, we create the conditions for devices and applications to become more powerful, more efficient, and faster.

Siltronic products are the result of 55 years of wafer-manufacturing expertise. We developed our first silicon wafer back in 1962. We recognized the potential of this technology at an early stage and invested strategically in it. Today, our product range covers a wide variety of different diameters and surface qualities, from unpolished and polished to epitaxial wafers with a diameter of up to 300 millimeters. A large number of different processes are available to achieve the optimum material properties for each application.

This diversity is a key factor in our competitiveness. Our ability to adapt flexibly to meet specific requirements is particularly appreciated by our demanding customers in the global semiconductor sector, including the industry's top 20. This is because the crystalline properties of the wafers are crucial for the respective function of each semiconductor component. Collaboration is correspondingly close in order to meet current challenges and jointly anticipate trends at an early stage or – even better – to be one step ahead of them.

Firstly, our innovative silicon wafers are the result of our own ambition to continuously improve both processes and products. Secondly, the fast-moving markets in which we operate are continuously setting new standards at short intervals. As a result of these design rules, the number of semiconductor circuits per wafer doubles every two years and the material requirements for the wafers increase by approximately 30 percent each time. Being among the leaders at this high rate of development demands fast, efficient processes that never allow compromises in terms of quality.



Moore's Law: The computing power of computer chips doubles every two years. For Siltronic as a wafer manufacturer, this means raising the bar by approximately 30 percent each time in terms of material requirements.

**about 30%
performance increase**



»20 nanometers of height on a wafer is approximately equivalent to one leaf floating on the surface of a very large lake.«

A generation ahead

Our objective is technological leadership in the development and production of highly specialized wafers made of hyperpure silicon. It is therefore our constant aim to be one generation ahead of our customers' technology roadmaps.

As we face intense market competition, innovation leadership means never standing still, and far more a permanent race to enhance quality as well as developing and deploying new materials, technologies, and processes. We retain our competitive edge through extensive research and development activities, state-of-the-art production facilities, a consistent zero-defect strategy and above all through our highly qualified employees.

More than 400 engineers in the fields of process technology, metrology, and plant engineering at our sites around the world keep the innovation level high. Over 1,700 patents granted to and registered by Siltronic are ample evidence of this fact. We were among the first suppliers to deliver 300-millimeter wafers and today we guarantee the traceability of every single 300-millimeter wafer we have ever produced.

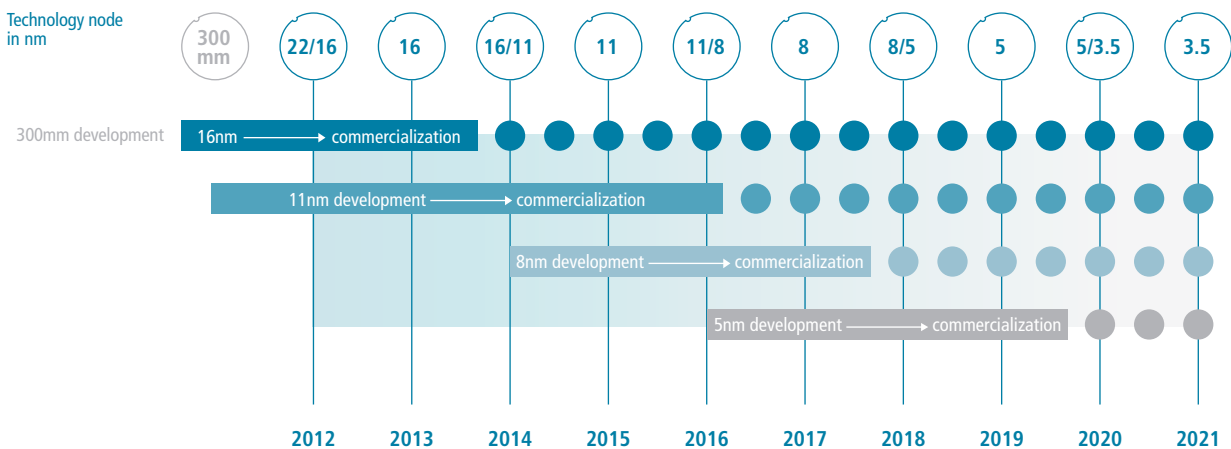
Pacesetter for wafer development

Design rules specify which parameters need to be fulfilled in order to produce the next generation of transistors on a computer chip. The widths of the smallest structures on the chips are specified, which also reflects the incredible speed of development. At the end of the 1980s, the design rule was 800 nm, we have meanwhile arrived at 8 nm – a factor 100 times more compact.

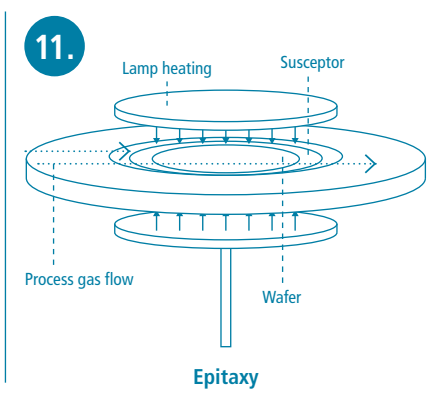
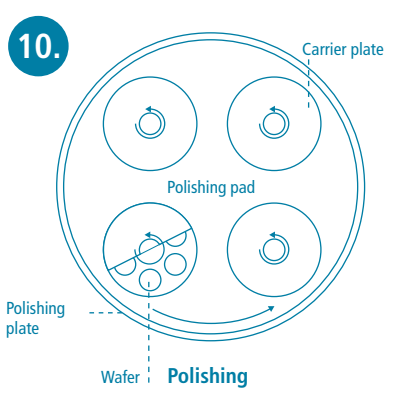
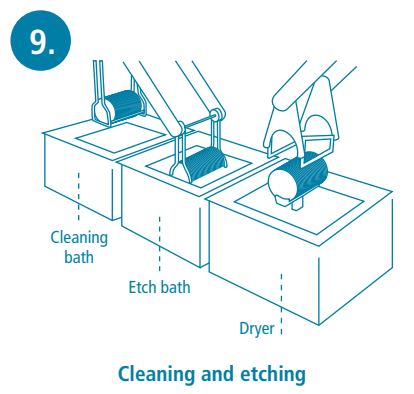
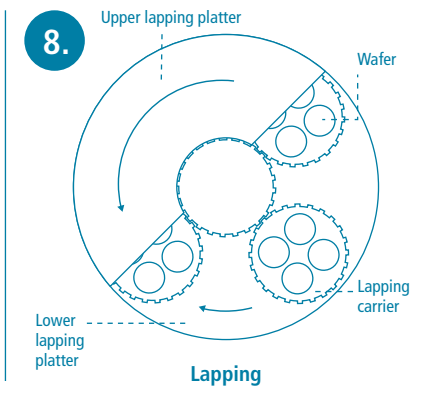
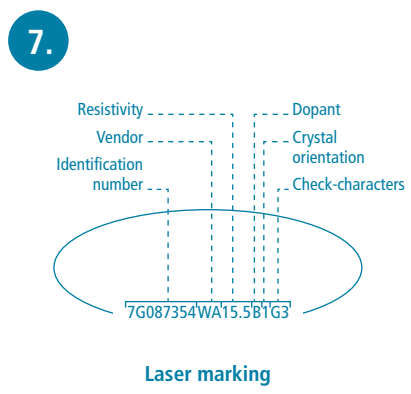
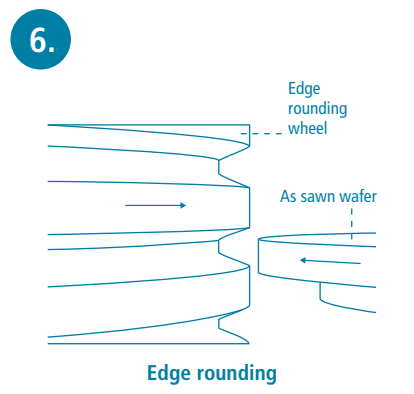
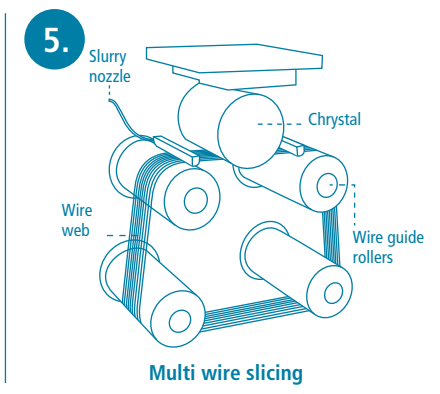
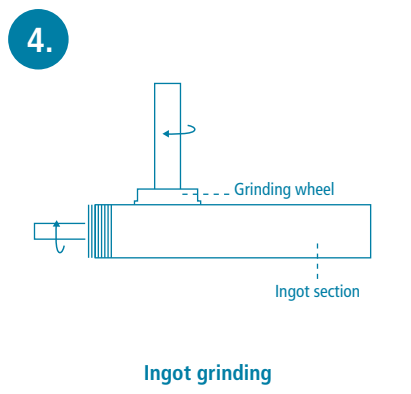
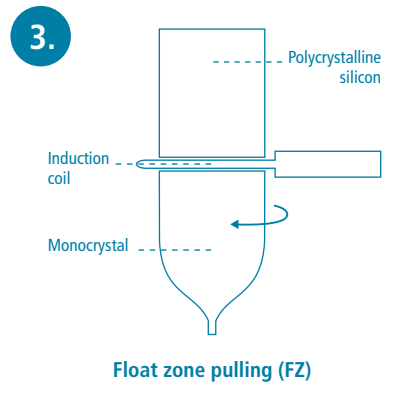
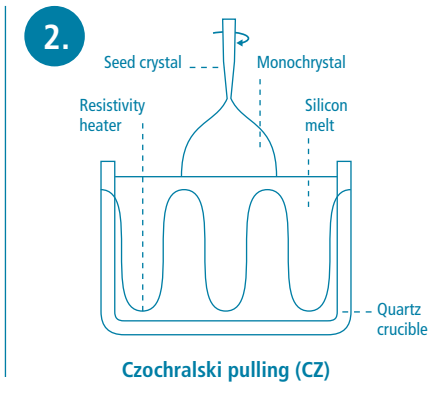
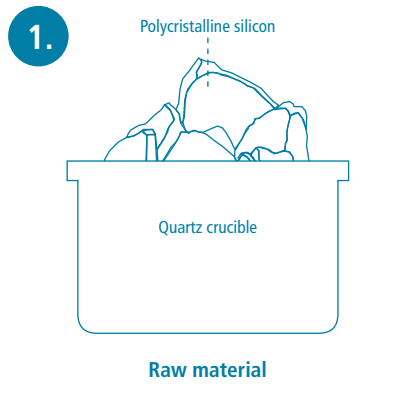
Our teams work tirelessly on implementing the design rules. In some cases, optimization processes run simultaneously on more than fifty wafer parameters. Particularly in terms of wafer geometry, we have been able to achieve further significant improvements in the last two years, enabling us to meet even the most demanding specifications as we move forward. For example, the maximum height variation on a wafer may not exceed 20 nanometers. A comparison of sizes shows how flat this is: 20 nanometres of height on a wafer is approximately equivalent to one leaf floating on the surface of a very large lake.

Today, each chip manufacturer determines the timeline for the introduction of a new design rule in its production processes, whereby suitable wafers are required for process development with a defined lead time. Apart from the technological specifications, scheduling is another crucial factor, as it sets the time frame for development activities at Siltronic. Typically, they begin more than three years prior to mass production. We are currently at the development stage for the design rule 5 nm, which will be ready for the market in 2020.

The pace of development does not diminish



How a silicon wafer is made



The term wafer refers to silicon slices about 1 millimeter thick, which are given an extremely even surface by means of highly sophisticated technical processes. The choice of crystallization method is determined by their subsequent application. After various production stages, customers are supplied with wafers produced according to their specifications in a special packaging, which allows the wafers to be used immediately on their production lines.

Efficiency a success factor

Cost-cutting programs have enabled us to save around EUR 200 million since 2013. What distinguishes us in this respect is consistency and sound judgment. We consider it important to increase the productivity of equipment and employees, make better use of raw materials, and cut purchasing costs.

The 'cost roadmaps', our long-term cost saving programs have already achieved the desired success at many levels of the company – and we continue to benefit from them. The idea of efficiency is and remains a solid pillar of all processes at Siltronic, regardless of whether it is about the use of technology, investment decisions, or sustainability.

- Since 2009, we have been able to increase both output and yield in 300-millimeter wafer production in Germany through selective investment in automation and new crystal-pullers and more than doubled employee productivity.
- We continuously optimize our processes in order to reduce the amount of raw and auxiliary materials used. As a result, we are able to record lower waste volumes as well as reduced energy and water consumption, among other benefits.
- In order to exploit cost-cutting potential in purchasing, we supplement our supplier list with alternatives and negotiate better conditions with existing suppliers.



We have reduced specific energy consumption per square centimeter of wafer area by

4%



The total emission of CO₂ equivalents has declined by

3%



The water consumption (including cooling water) has declined by

2%



The share of reusable packaging for the wafer shipment has gone up by

10%



Siltronic sets efficiency standards

Our state-of-the-art plants are highly automated, enabling standardized processes and an optimized production flow. In combination with our consistent quality assurance, we keep yields high and the rectification rate low. In addition, we take various measures to cut energy expenditure, increase the reuse of packaging, and benefit from competitive laboratory costs.

In Singapore, Siltronic operates the currently most advanced production facilities for 200 and 300 millimeter wafers. Mature processes with high availability, also when meeting the most demanding specifications, underscore our leading technology – and in terms of efficiency, the variable unit costs per 300-millimeter wafer stand around 15 percent below industry average.

Growth with wafers

For Siltronic, external and internal factors are currently well balanced. We have positioned ourselves both strategically and geographically to enable us to profit ideally from favorable market conditions.

Leading market position

By concentrating on cutting-edge technology, quality, innovation, uncompromising error prevention, and consistently focusing on efficiency, we have placed ourselves in an excellent market position – and therefore ideally for growth going forward. We are among the top five manufacturers of hyperpure silicon wafers and an established supplier to the main purchasers of wafers for the semiconductor industry.

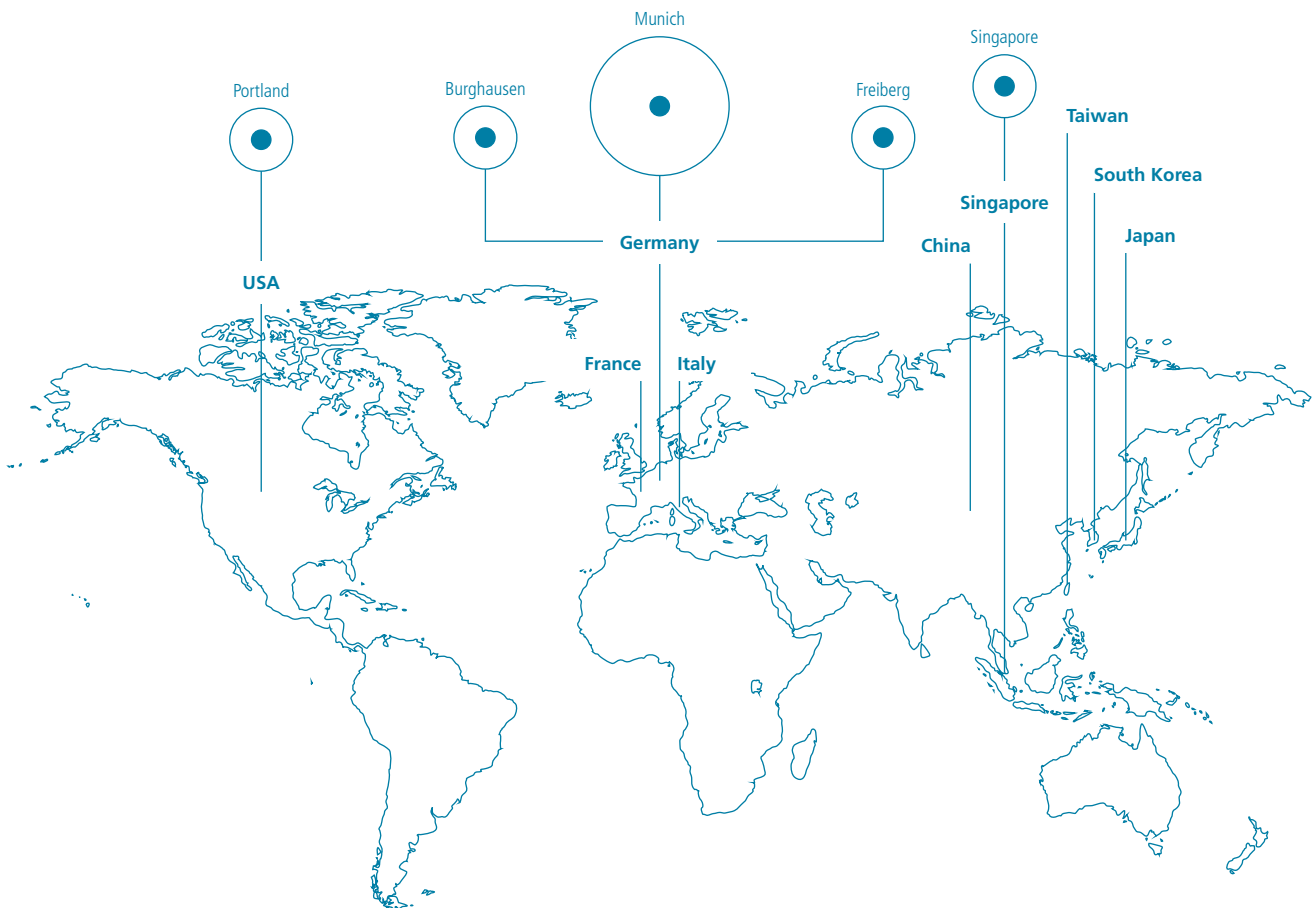
Worldwide network

Our global network includes sales offices and state-of-the-art production facilities in Germany, Asia, and the USA. This worldwide presence promotes close cooperation and coordination in both design and product development. At the same time, it enables us to respond swiftly to customer requirements and supply them directly.

Promising prospects

2017 showed how the current market situation is paying off for Siltronic. But even more important for us is that we do not see the growing demand for silicon area as a mere short-term phenomenon, but as a long-term trend. New materials, technologies, and applications are providing Siltronic with excellent prospects – some of them still far away on the horizon, others on the threshold of a market launch. Our experienced, highly innovative teams are closely monitoring these developments around the world and are keeping Siltronic constantly at the spearhead of progress.

Our global presence enables us to be close to our customers worldwide





Virtual Reality

Virtual Reality: Immersed in digital three-dimensional worlds, virtual reality technology is gaining momentum and offers promising perspectives in numerous application areas.

Technological developments will continue to drive wafer demand going forward

- The perception of reality in a completely virtual environment in real time – in a nutshell, that's **virtual reality (VR)**. This trend is currently making great progress. No longer regarded as a mere technical gimmick, VR is opening up new possibilities in fields such as communication, entertainment, training, and simulator applications. VR requires high-resolution, high-frame-rate screens, greater storage capacity, and a large number of sensors.
- Due to the constant growth in data volumes, demand for storage capacity is increasing rapidly. However, when it comes to established **storage technologies** the limits of scalability are already foreseeable. Development work on new concepts is therefore in full swing and further market launches are expected within the next few years. However, this is only a brief stopover and there is no end in sight for the increasing demand.
- In the field of **artificial intelligence, deep learning** is a major leap forward in terms of development. Inspired by the human brain, this special method of processing information is all about recognizing patterns on the basis of huge amounts of data, drawing conclusions, and linking what has been learned with new content. Whether image recognition, speech processing, or autonomous driving – artificial intelligence is already practicable and commercially usable in everyday life and likely to penetrate new areas of application in the future through on-going evolution.
- In **microsystems technology** (micro-electro-mechanical systems or **MEMS**) the possibilities of semiconductor materials are broadened to include mechanical functions. More and more of these components with minute dimensions are being deployed in areas where it is all about connecting electronics and sensors or actuators – for example in medicine, logistics, automotive applications, or safety technology.



Dr. Christoph von Plotho,
Chief Executive Officer

Rainer Irle,
Chief Financial Officer

Letter to the shareholders

Dear shareholders, customers, and business partners,

2017 was certainly an eventful year for Siltronic AG. We grew faster and our EBITDA margin improved at a stronger rate than anticipated at the beginning of the year. Due to the sale of further shares by Wacker Chemie AG, we are no longer consolidated in the Wacker Chemie Group with effect from March 2017. And we have decided to pursue a dividend policy that pays out approximately 40 percent of Group profit.

Siltronic performed very well in 2017. Momentum in the semiconductor industry remained positive and demand for wafers has exceeded our production capacity. The favorable market environment enabled us to increase the average selling price for our 200- and 300-mm wafers quite significantly. Due to the strong business performance, we repeatedly raised our outlook for the full fiscal year 2017 with the publication of not only Q1, but also Q2, and Q3 figures. At the end of the year, we even managed to surpass the last outlook, announced in October 2017. Sales rose to EUR 1,177.3 million, the EBITDA margin to 30.0 percent and our net cash flow to EUR 124.8 million.

Profit per share increased to EUR 6.18. This will also benefit our shareholders. At the Annual General Meeting, to be held on April 19, 2018, the Executive Board and the Supervisory Board will propose the payment of a dividend of EUR 2.50 per share.

Our experienced and highly committed employees are the solid cornerstones of this success and we wish to take this opportunity to thank you all for your tireless efforts. Siltronic AG is a global enterprise operating in an international market and a multicultural environment. We employ staff from a wide variety of nations, are proud of the diversity within our company, and see the differences between people as a great asset.

Increases in wafer prices have reached a level that enables us to invest in additional production capacities for 300-mm wafers. We have therefore decided to expand our capacity until mid-2019 by around 70,000 300-mm wafers per month. This increase will enable us to keep pace with market growth and maintain our market share. We plan to invest around EUR 140 million in expansion measures. In 2017 we placed orders for the required production equipment and have already made advance payments to suppliers of roughly EUR 30 million.

In total, our investments in 2018 will be approximately EUR 240 to 260 million. Apart from the above-mentioned investment in capacity expansion, the figure also includes investing in capabilities as well as in increased automation at the German sites and a new crystal-pulling hall in Singapore for possible further capacity additions.

One of the key factors in Siltronic's success is our technological expertise. We strive to support all our customers' new specifications and the latest design rule developments right from the start, in order to strengthen our position as one of the technology leaders in the wafer market. When it comes to the quality of our products and processes, we leave nothing to chance.

We also work continually to improve our cost position, particularly with respect to our Asian competitors, and have therefore been able to continuously reduce our variable manufacturing costs for 300-mm wafers over the last few years. We believe that our 300-mm plant in Singapore is among the most competitive in the market.

In March 2017, Wacker Chemie AG sold additional shares in Siltronic AG, reducing its shareholding to 30.8 percent. Wacker therefore remains the largest current shareholder in our company and at the same time a key supplier of polysilicon as well as a range of services, mainly at our Burghausen site. In recent years we have been highly successful in boosting our profitability and have significantly improved both our productivity and competitiveness. Some of

the credit is due to the positive collaboration with a strong parent company, which we greatly appreciate. Today we are very well positioned to take on future challenges as an independent group. We have a strong balance sheet with an equity ratio of 50.9 percent and net financial assets of EUR 342.1 million.

The Siltronic Group is well aware of its social responsibility and we have focused on sustainability and the prudent use of resources within our company for many years. For 2017, we are reporting on our Corporate Social Responsibility (CSR) measures for the first time outside of the Wacker Sustainability Report. You will find our non-financial report on [p. 84](#).

The combination of a favorable market environment and our positive business figures had a highly positive impact on our share price performance. In 2017, the Siltronic share price rose by 175.5 percent to EUR 121.30. Numerous conversations with investors at roadshows and capital market conferences have helped to increasingly sharpen the profile of the company in the capital market. Measured by market capitalization, we are currently among the 10 largest companies in the TecDAX.

You are familiar with our strategy – we want our market share to keep pace with market growth in the wafer sector and further bolster our technology leadership at the same time. The semiconductor market remains cyclical to a certain degree and we expect that the extremely high demand for wafers will normalize over the next few years. At the same time, both we and our competitors are working on establishing new 300-mm capacities by mid-2019. From today's perspective, however, the measures currently announced will not be sufficient to fully meet the growing demand. As no new 300-mm manufacturing capacities have been announced for 2018, the supply and demand situation is likely to remain tight. This positive market environment will lead to further price increases for wafers.

For 2018 we currently expect to generate sales of well over EUR 1.3 billion and achieve an EBITDA margin close to 40 percent. The current weakness of the US dollar to the euro means some headwind for Siltronic and has already been taken into account in this outlook. Our net cash flow will be significantly higher than the previous year, despite the investment in expanding production capacity.

Dear shareholders, we thank you for your continued support and the trust you have placed in us. You can rest assured that our targets will remain equally ambitious in the years to come.

We also wish to thank our business partners for the trustful cooperation.

Let us continue working together to make 2018 a successful year.

Kind regards,



Dr. Christoph von Plotho
CEO



Rainer Irl
CFO

Supervisory Board report

Dear shareholders,

We can look back on an extremely successful 2017 fiscal year. Exceptional capacity utilization enabled the Company to significantly improve both sales and earnings. Siltronic considerably surpassed the sales and earnings targets it set itself at the beginning of the year and benefited from an excellent market environment. In particular, the high demand for components used in storage applications further intensified the shortage on the wafer market, enabling Siltronic to achieve a higher price level.

Market signals point to a continuation of this positive development in the 2018 fiscal year. Major investments by our customers ensure that the semiconductor market will continue to grow significantly and the current high demand for wafers is not expected to slow down in the foreseeable future. It will be essential for the success of Siltronic to continue developing its technological expertise in order to meet increasingly complex customer specifications. At the same time, Siltronic needs to take the necessary steps for a cautious expansion of its capacities that allows Siltronic to grow according to its current market share.

Siltronic is celebrating its 50th anniversary this year. At this historic milestone, the Company is very well positioned and ideally prepared to maintain the successful performance of the past years. Nevertheless, we need to sustain our efforts in order to assert ourselves as a player in the highly dynamic semiconductor market in the long term. The increasingly stringent technological requirements of our customers for wafers utilized for progressively powerful and energy-efficient computer chips demand continuous further development and a high level of commitment.

Continuous dialogue with the Executive Board

The Supervisory Board performed its duties in accordance with the law, the Articles of Incorporation, and the rules of procedure with the utmost diligence throughout the 2017 fiscal year. The Executive Board and the Supervisory Board worked together in a spirit of trustworthy collaboration in the best interests of the Company. The Supervisory Board regularly advised the Executive Board in matters pertaining to the management of the Company, monitored its activities, and satisfied itself that the Company was managed in a lawful, expedient, and correct manner. The Executive Board informed the Supervisory Board and its committees promptly and in detail, both verbally and in writing, about the Company's performance, its economic position, and its strategic development as well as the risk situation, the activities of the internal audit department, and compliance topics. The Supervisory Board and its relevant committees were involved in all decisions of fundamental importance at an early stage. The Supervisory Board always had the opportunity to critically examine the reports and proposed



Dr. Tobias Ohler,
Chairman of the Supervisory Board, Siltronic AG

resolutions of the Executive Board. The Executive Board provided the Supervisory Board with detailed explanations if business performance deviated from its intended plans and targets. Furthermore, the Chairman of the Supervisory Board and the Chairman of the Audit Committee were in close contact with the Executive Board outside the regular meetings of the Supervisory Board and were informed about current developments and significant business transactions.

Main work of the Supervisory Board plenum

During the year under report, the Supervisory Board held four ordinary meetings – two in the first and two in the second half of the year. One Supervisory Board member was unable to attend a meeting of the Supervisory Board due to illness. Other than that, all members of the Supervisory Board attended every meeting of the full Supervisory Board plenum held during the 2017 fiscal year.

At the Supervisory Board's financial statements meeting held on March 1, 2017 – together with the auditors, who were present at the meeting – we discussed in great depth the single-entity and consolidated financial statements for the year ending December 31, 2016 as well as the relevant management reports and the dependency report and approved them.

Furthermore, based on the recommendation of the Executive

Committee and on the target achievement levels specified, the Supervisory Board determined the variable compensation of the Executive Board for the 2016 fiscal year and the variable compensation targets for the 2017 fiscal year.

We also approved the Supervisory Board's report to the Annual General Meeting and deliberated on the agenda for the Annual General Meeting to be held on May 9, 2017. In addition, the Executive Board reported on business performance during the 2016 fiscal year and the early stages of the 2017 fiscal year.

At its meeting held on June 1, 2017, the Supervisory Board discussed business performance as well as other matters. It also gave in-depth consideration to the Company's de-consolidation from the Wacker Chemie Group, as the former parent company reduced its shareholding in Siltronic to just under 31 percent in March 2017. At the same meeting, the Supervisory Board also discussed the attainment of targets for gender quotas set within the Company. The Supervisory Board decided to maintain the current quota of women on the Executive Board as a target up to June 30, 2020, as there is no plan in place to increase the size of the Executive Board.

In the Supervisory Board meeting held on September 14, 2017, we addressed the Executive Board's report on business performance and the Company's current financial position. We also discussed a dividend policy with the Executive Board and approved an increase in the investment budget. The Supervisory Board prematurely extended the term of office of Dr. von Plotho until December 31, 2021 rescinding the original group appointment by mutual agreement and reappointing him anew. In addition, at the recommendation of the Executive Committee, the Supervisory Board resolved to modify the Executive Board compensation system and Executive Board contracts of service in order to comply with the new recommendation of the German Corporate Governance Code, according to which variable compensation components should, in principle, have a multi-year, essentially future-oriented basis for assessment. The amount of Executive Board compensation was also reviewed and adjusted at the same meeting. For further details, please see the Compensation Report on [p. 74](#). The Supervisory Board revised the specific targets for its composition and resolved on a competence profile for the Supervisory Board as well as a diversity concept for both the Executive Board and the Supervisory Board. The Supervisory Board also reviewed the efficiency of its activities. Further items on the agenda were the German Corporate Governance Code and the submission of the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG) as well as the impact of the CSR Directive Implementation Act on the Company's reporting. At its meeting held on November 30, 2017, in addition to the

report of the Executive Board on business performance, the Supervisory Board discussed the budget of the Siltronic Group for the 2018 fiscal year and the medium-term planning for the fiscal years from 2018 to 2020. The 2018 budget presented by the Executive Board, including financial and investment planning, was given lengthy consideration and subsequently approved.

Supervisory Board committees

In order to perform its duties efficiently, the Supervisory Board has established a total of four committees: An Audit Committee, an Executive Committee, a Nomination Committee, and a Conciliation Committee, the latter of which was formed as a statutory requirement pursuant to section 27 (3) of the German Codetermination Act (MitbestG). The Chairman of the Supervisory Board chairs the committees, with the exception of the Audit Committee, which is chaired by Supervisory Board member Bernd Jonas. The committee chairpersons reported to the Supervisory Board regularly and comprehensively on their committee work. All committee meetings were attended by their members without exception during the period under report.

The **Executive Committee** met four times during the period under report. It discussed personnel matters relating to the Executive Board as well as its compensation, and in this context prepared the resolutions of the full Supervisory Board plenum on setting targets for variable compensation. During the fiscal year 2017, the Executive Committee of the Supervisory Board engaged an independent compensation consultant to review the compensation of the Executive Board in a horizontal market comparison. Based on this review, the Executive Committee recommended to the Supervisory Board that the Executive Board compensation system and Executive Board contracts of service be adjusted with retroactive effect from January 1, 2017 and that Executive Board compensation be adjusted with effect from October 1, 2017.

The **Audit Committee** held four meetings in the 2017 fiscal year and passed one written resolution. In the presence of the auditor, the Audit Committee deliberated on the single-entity and consolidated annual financial statements, the corresponding management reports, and the dependency report. It also discussed the quarterly reports and – in the presence of the auditor – the half-year report as well as the auditor's review thereof. The Audit Committee recommended that the Supervisory Board propose KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, as auditor at the Annual General Meeting 2017. The Audit Committee issued an audit engagement letter to the auditor for the 2017 fiscal year, defined the key audit areas and determined the auditor's fee. The Committee also monitored the selection, independence,

qualification, rotation, and efficiency of the auditor. In particular, it addressed the treatment of non-audit services. Furthermore, the Audit Committee gave detailed consideration to the financial reporting process, the Company's risk management system, the effectiveness and findings of the internal audit and the compliance system, and received regular reports on compliance topics and tax audits. The Audit Committee was also informed about the development of a tax compliance system. Finally, the Audit Committee deliberated on the implementation of modified IFRS accounting standards, the consequences of the CSR Directive Implementation Act, and the impact of the European audit reform on the audit and the auditor's report.

The **Nomination Committee** and the **Conciliation Committee** did not convene in the 2017 fiscal year.

Audit of annual and consolidated financial statements

The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Siltronic AG for the 2017 fiscal year, the consolidated financial statement of the Siltronic Group and the combined management report relating to the annual and consolidated financial statements (as of December 31, 2017) prepared by the Executive Board and issued an unqualified audit opinion thereon.

The annual financial statements of Siltronic AG and the combined management report for the Siltronic Group were prepared in accordance with German statutory accounting regulations. Siltronic's consolidated financial statements was prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union, and the supplementary provisions of German law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Executive Board's proposal for the use of Siltronic AG's unappropriated profit, the various financial statements, the combined management report and the auditor's reports were made available to all members of the Supervisory Board in a timely manner and was initially discussed in a draft version at the Audit Committee meeting on February 21, 2018. At the Supervisory Board's financial statements meeting held on March 1, 2018 – in the presence of the auditor (represented by Volker Specht and Damir Ratkovic, KPMG, who signed the auditors' report) – the Supervisory Board discussed and examined the financial statements in its final version in great detail. The Audit Committee dealt in particular with the key audit matters described in the auditors' opinion, including the audit procedures performed. The auditor reported on the scope, the priorities, and the main results of their audit, focusing in particular on the key audit matters and the audit procedures

performed. The auditor were available to answer questions and provide supplementary information to the Audit Committee and the full Supervisory Board. The auditor also examined the early warning system for risks pursuant to section 91 of the German Stock Corporation Act (AktG) and determined that the system complies with legal requirements. No risks were identified that could jeopardize the going-concern status of the Company.

Furthermore, at its meeting held on March 1, 2018 and taking into account the recommendation of the Audit Committee, the Supervisory Board adopted the resolution proposal to be made to the Annual General Meeting 2018 regarding the selection of the auditor. This was based on the declaration of the Audit Committee that its recommendation was not improperly influenced by third parties and that no clause restricting selection had been imposed upon it within the meaning of article 16 (6) of the EU Auditors' Regulation.

The Supervisory Board concurs with the results of the audit. Based on the final result reached by the Audit Committee and our own examination, there are no objections to the annual financial statements of Siltronic AG, the consolidated financial statements for the Siltronic Group, the combined management report, and the auditor's reports. We therefore approve the separate financial statements of Siltronic AG prepared by the Executive Board and the consolidated financial statements for the year ending December 31, 2017. The annual financial statements of Siltronic AG are therefore adopted. The Executive Board proposes the use of Siltronic AG's unappropriated profit to pay a dividend of EUR 2.50 per share entitled to receive a dividend and to carry forward the remainder. The Supervisory Board concurs with this proposal.

Dependency report

Until March 15, 2017, Wacker Chemie AG directly and indirectly held more than 50 percent of the shares in Siltronic AG, before Wacker Chemie AG reduced its stake in Siltronic AG to just under 31 percent. Since no control and/or profit and loss transfer agreement was concluded between these companies, the Executive Board of Siltronic AG is required to submit the report on the Company's relationship to affiliated companies (dependency report) to the Supervisory Board pursuant to section 312 of the German Stock Corporation Act (AktG) for the period prior to the reduction of the shareholding. The dependency report was audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, and issued with the following auditor's opinion:

“Based on our audit and assessment in accordance with professional standards, we confirm that:

1. the information contained in the report is factually correct,
2. the payments made by the Company in respect of the legal transactions listed in the report were not unreasonably high,
3. there are no grounds for a materially different assessment of the measures listed in the report than that given by the Executive Board.”

The auditors also sent the audit report to the members of the Supervisory Board in a timely manner.

The dependency report and the auditor’s report thereon were first discussed by the Audit Committee at its meeting held on February 21, 2018 and finally by the full Supervisory Board at its meeting held on March 1, 2018 and examined for completeness and accuracy. The Executive Board explained the dependency report in detail and was available to answer questions and provide further information. The auditor attending both meetings (represented by Volker Specht and Damir Ratkovic of KPMG, who signed the audit opinion) reported on the audit, in particular on the key audit priorities and findings. The Audit Committee and the Supervisory Board plenum acknowledged, critically assessed, and discussed the audit report and the auditor’s report together with the auditor. The Audit Committee and the Supervisory Board were thus able to ascertain the correctness and completeness of the dependency report, the audit, and the audit report. There are no indications of objections to either the dependency report or the audit report.

The Audit Committee accordingly recommended that the Supervisory Board approve the results of the audit undertaken by the auditor and, since in its opinion there are no objections to the Executive Board’s dependency report, reach a corresponding conclusion.

The Supervisory Board agreed with the recommendation and decided that, following the final result of its own examination, there are no objections to be raised against the declaration made by the Executive Board at the end of the report regarding relationships with affiliated companies. Furthermore, the Supervisory Board had no objections to the results of the auditor and approved the auditors’ report.

Separate non-financial report

As a result of the law enacted to support the non-financial reporting of companies (CSR Directive Implementation Act), in the 2017 fiscal year, Siltronic AG was required for the first time to report separately on non-financial aspects of its activities. In accordance with the options provided by law, Siltronic AG has decided to

prepare a separate combined non-financial (group) report separate from the combined management report, which is part of the annual report.

At its meeting on September 14, 2017, the Supervisory Board also commissioned the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, to audit limited collateral requirements for the combined non-financial (Group) report. KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified opinion, stating that no facts have become known on the basis of the audit procedures and the audit evidence obtained, which would lead it to believe that the combined non-financial (consolidated) report of Siltronic AG for the reporting period was in all material matters not in accordance with sections 315b, 315c in conjunction with 289c to 289e HGB. The summarized non-financial (consolidated) report and the audit opinion of KPMG AG Wirtschaftsprüfungsgesellschaft were forwarded to the members of the Supervisory Board in good time. The Audit Committee at its meeting on 21 February 2018 and the Supervisory Board at its meeting on 1 March 2018 discussed, examined and approved the combined non-financial (Group) report in detail. There are no indications of any objections to the combined non-financial (Group) report or the assessment of the audit result by KPMG AG Wirtschaftsprüfungsgesellschaft.

Changes to the Executive Board and Supervisory Board

At the Supervisory Board meeting held on September 14, 2017, Dr. von Plotho’s mandate as member and Chairman of the Executive Board was extended prematurely until December 31, 2021, rescinding the original group appointment by mutual agreement and reappointing him anew. The original appointment of Dr. von Plotho would have expired in September 2018. In view of the resolution required to be made on the 2018 budget at the November meeting, the Supervisory Board considered that there were special circumstances which required Dr. von Plotho to be reappointed one year prior to the end of his term of office.

No changes were made to the composition of the Supervisory Board during the 2017 fiscal year.

The Supervisory Board would like to thank the employees of Siltronic AG and the Group’s companies for their hard work and resolute commitment. You made an outstanding contribution to a highly successful year for Siltronic.

Munich, March 1, 2018

The Supervisory Board



Dr. Tobias Ohler

Chairman of the Supervisory Board of Siltronic AG

Siltronic on the stock exchange

Stock markets on upward trend in 2017

At the beginning of the year, the stock markets were still characterized by uncertainty fueled by political concerns about the US, Japan, and the UK. Eventually, however, these proved to be largely unfounded and the improved political environment was additionally backed up by strong fundamentals. Despite interest rate hikes initiated by the Fed and the scaling down of the Quantitative Easing (QE) program by both the Fed and the ECB, stock market volatility has generally fallen to new lows.

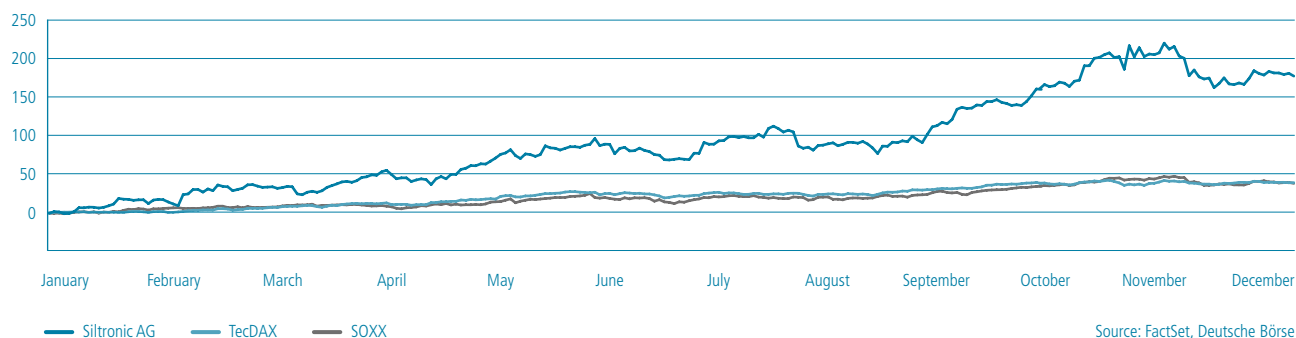
Siltronic share performance very positive

The positive expectations regarding the development of the semiconductor industry led to a sustained rise in the value of the Siltronic share. After closing at EUR 44.03 in Xetra trading on December 30, 2016, the Siltronic share price rose continuously in the course of 2017 to finish at EUR 121.30 on December 29, 2017, an increase of 175.5 percent compared with the closing price one year earlier. Based on the Xetra closing price, the market capitalization stood at EUR 3.6 billion.

The Philadelphia Semiconductor Sector Index rose during the same period by 38.4 percent, the TecDAX by 39.6 percent.

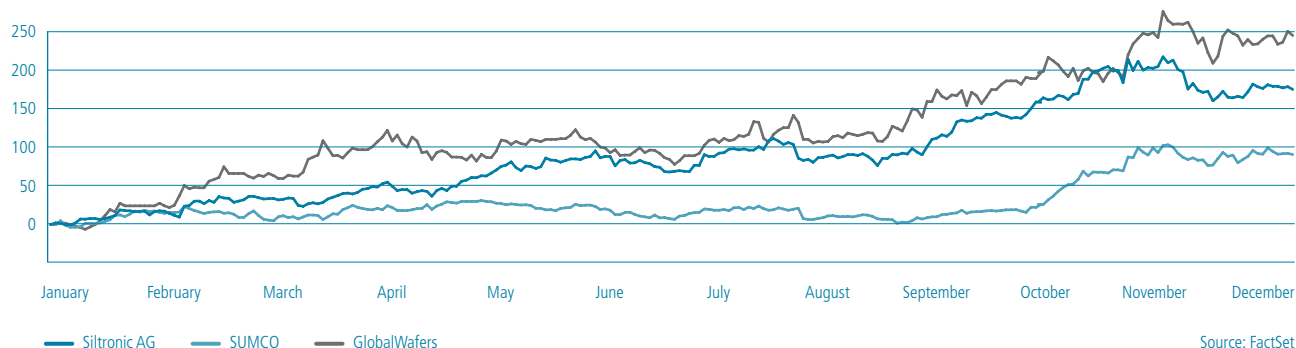
Performance of Siltronic shares vs. indices 2017

in %



Performance of Siltronic shares vs. competitors 2017

in %

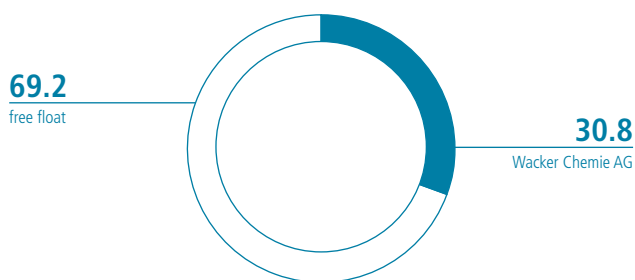


Regionally diversified shareholder structure

Wacker Chemie AG sold additional Siltronic shares in March 2017 and currently holds 30.8 percent. Wacker continues to be Siltronic's largest shareholder. According to voting rights notifications that we have received, the largest institutional investors as of December 31, 2017 were the State of Norway with 5.30 percent and BlackRock with 3.02 percent. As of January 2018, 29 percent of the free float was held by institutional investors in the USA, followed by the United Kingdom with 26 percent and Germany with 20 percent.

Shareholder structure of Siltronic AG

in %



The shareholding of the Executive Board and Supervisory Board was less than 1 percent as of December 31, 2017.

Ongoing investor relations activities

Since the IPO in 2015 our investor relations work helped to raise the profile of Siltronic AG worldwide. We want to further improve the perception of Siltronic shares as an attractive investment. We want to strengthen investors' confidence in the shares and ensure that the shares are priced realistically and fairly by communicating openly and reliably on Siltronic's performance and strategy on an ongoing basis.

In 2017, the Executive Board and the investor relations team have organized various roadshows in financial hubs in Europe, the USA and Asia and attended investor conferences in Germany, the USA and Asia. There were also numerous one-on-one meetings and conference calls during which information was provided on the current course of business and market trends.

As at December 31, 2017 five analysts from various banks reported on Siltronic, four of whom recommended the shares as a 'buy' as of December 29, 2017. One analyst advised 'holding' the shares. There were no 'sell' recommendations. The average target price for the banks was EUR 140.00 at the end of December.

Up-to-date data and further information is published on Siltronic's website www.siltronic.com under Investor Relations.

Key share data

First trading day	June 11, 2015
Stock exchange	Frankfurt
Market segment	Regulated Market
Transparency standard	Prime Standard
Index	TecDAX
ISIN	DE000WAF3001
Ticker symbol	WAF300
Free float in %	69.2
Number of shares	30,000,000
High of 2017 ¹⁾	EUR 140.10
Low of 2017 ¹⁾	EUR 43.84
2017 closing price ¹⁾	EUR 121.30
Market capitalization as of December 29, 2017	EUR 3.6 bn

¹⁾ Xetra closing price

Report and declaration on corporate governance

In accordance with article 3.10 of the German Corporate Governance Code and section 289f of the German Commercial Code (HGB), the Executive Board reports below on corporate governance, also on behalf of the Supervisory Board. Retaining the trust and confidence of our customers, business partners, and investors is an essential factor in achieving sustained growth in corporate value. A vital element in this endeavor is good corporate governance, accomplished through transparent and responsible company management and supervision.

Declaration on corporate governance pursuant to section 289f of the German Commercial Code (HGB)

Declaration of Conformity issued by the Executive Board and the Supervisory Board of Siltronic AG pursuant to section 161 of the Stock Corporation Act (AktG)

Throughout the 2017 fiscal year, the Executive Board and the Supervisory Board dealt intensively with the Company's corporate governance and the recommendations contained in the version of the German Corporate Governance Code dated February 7, 2017. On September 14, 2017, the Executive Board and the Supervisory Board issued the following Declaration of Conformity, which is permanently available to the public on the Siltronic website <https://www.siltronic.com/en/investors/corporate-governance.html>.

The Executive Board and the Supervisory Board of Siltronic AG declare the following with regard to the recommendations of the 'Commission German Corporate Governance Code' (the 'Code'):

1. Future-related Declaration

Siltronic AG will comply with the recommendations of the Code in the version of 7 February 2017, as published in the Federal Gazette on 24 April 2017, subject to the deviations set out and explained below:

a. D&O Insurance Deductible for the Supervisory Board Members (Article 3.8 para. 3 of the Code)

The Code recommends that if the company takes out a D&O insurance policy for the Supervisory Board, a deductible similar to the statutory deductible for the Executive Board of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation shall be agreed upon. The German law and the company's Articles of Association set clear limits for the Supervisory Board's capacity to exert influence on the business activities of a stock corporation. Pursuant to

Section 76 para. 1 of the German Stock Corporation Act, the Executive Board is responsible for independently managing the company. The Supervisory Board determines the main principles of corporate strategy. However, beyond this contribution, the Supervisory Board has limited scope of influence on the implementation of the corporate strategy or on business operations. The same applies to measures to prevent or mitigate harm or damage to the company. Since the Supervisory Board members receive a relatively low fixed compensation when compared to the Executive Board members' compensation which consists of fixed and variable components, we consider the agreement of a deductible for members of the Supervisory Board as not reasonable.

b. Maximum Limits for the Remuneration of Executive Board Members (Article 4.2.3 para. 2 sentence 6 of the Code) and Determination of a Targeted Pension Level (Article 4.2.3 para. 3 of the Code)

Pursuant to the Code, the remuneration of Executive Board members shall be capped, both in the aggregate and for individual remuneration components. The contracts of Executive Board members foresee maximum amounts for fixed and variable remuneration components. Therefore, the recommendation of the Code is fulfilled with regard to the major part of the remuneration. Regarding the pension benefits, on 14 September 2017 the Supervisory Board has resolved on the new remuneration system pursuant to which the gross amount of the monthly pension payments (Pension Cap) payable after the pension becomes due is capped to an amount equal to 50% of the employer-funded share of the monthly rate paid by the company based on the annual base salary. However, as before, the overall cap for the pension scheme will not be limited to an amount as especially the annual base salary might be adapted in the future. As a result, no maximum amount can be fixed for the overall remuneration of the Executive Board. For that same reason, as a precaution, a deviation from the recommendation that the Supervisory Board shall establish a target level of pension benefits is declared.

c. Exclusion of subsequent Amendments to the Performance Targets or Comparison Parameters (Article 4.2.3 para. 2 sentence 8)

In its meeting on 14 September 2017, the Supervisory Board has resolved to change the remuneration system of the Executive Board retroactively effective 1 January 2017 in order to comply with the recommendation of the Code in Article 4.2.3 para. 2 sentence 3, pursuant to which variable remuneration components shall have a multiple-year assessment basis that shall have essentially forward-looking characteristics. In order

to implement the recommendation, the multiple-year share-oriented remuneration component, which will be granted in the future in virtual stock (Phantom Stocks), was increased to 51% of the variable remuneration (Bonus) and the retrospective period for the assessment basis of the Bonus was shortened. Due to the retroactive change of the remuneration system for the Executive Board, we will temporarily deviate from the recommendation of Article 4.2.3 para. 2 sentence 8 of the Code in fiscal year 2017, pursuant to which a retroactive change of the performance targets or the comparison parameters should be excluded.

d. Announcement of Proposed Candidates for the Chair of the Supervisory Board to the Shareholders (Article 5.4.3 of the Code)

According to this recommendation, proposed candidates for the Supervisory Board chair shall be announced to the shareholders, 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, which is also not provided for under German law. For these reasons, we do not comply with this recommendation.

2. Past-related Declaration

Since the last declaration of conformity dated 30 November 2016, Siltronic AG has complied with the recommendations of the Code in the version of 5 May 2015 with the exceptions mentioned and explained above under section 1 a), b) and d).

Relevant information on corporate governance practices

The company complies with the legal requirements for corporate governance. It follows, with the exceptions stated in the Declaration of Conformity, all the recommendations of the German Corporate Governance Code.

Principles of the compliance management system

Compliance with legal requirements, laws and in-house policies as well as their observance within the Group are among the management and supervision responsibilities at Siltronic. The Supervisory Board, in particular the Audit Committee, regularly addresses compliance issues and reviews the compliance management system.

The Group's compliance management system is designed to prevent, identify, and sanction violations within the Company. It is examined and improved on a regular basis, under the responsibility of Siltronic's compliance organization. The Company has appointed

compliance officers in Germany, the USA, Japan, Singapore, and Taiwan. They coordinate compliance activities within the Group, provide advice on the issue of compliance, and can be contacted regarding any queries as well as for training.

Employees who have contact to business partners are required to complete an e-learning course on compliance. Furthermore, all employees in sales and marketing are required to undergo online training courses on antitrust law.

Employees are required to report any violations they observe to their managers, compliance officers, the works council, or those responsible in the personnel department. Siltronic investigates every reasonable suspicion, examines the case and defines measures to remedy any vulnerabilities identified. It also takes any disciplinary measures deemed necessary. The compliance organization reports to the Executive Board of Siltronic AG on a monthly basis and as the need arises.

As a protected reporting channel, Siltronic also appointed an external ombudsman for the first time in the 2017 fiscal year to whom both our employees and third parties can anonymously report any violations of statutory regulations. The ombudsman's contact details are published on our website. Another key focus of the compliance work during the year under report was the drawing up of a new Code of Conduct in dialog with the various corporate units, which came into force in November 2017, replacing the Code of Conduct developed by Wacker Chemie AG.

Codes of Conduct

Our Code of Conduct provides a binding framework for the legal and responsible conduct of our employees in their daily work and is applicable for all member companies of the Siltronic Group worldwide. The Code of Conduct is intended to raise awareness among our employees regarding legal risks and provide them with support in questions of ethics. The Code of Conduct sets out rules of behavior that apply throughout the Group for combatting corruption and protecting free competition. Furthermore, our Code of Conduct emphasizes the significance of focusing on quality, customer benefit, safety, health, and environmental protection. With this Code of Conduct, Siltronic also affirms its commitment to responsible corporate governance and sustainable activity. The Code of Conduct is available in the Company's inhouse intranet as well as on its website (<https://www.siltronic.com/en/our-company/compliance.html>).

Furthermore, as a supplier to the electronics industry, Siltronic observes the Code of Conduct set out by the Responsible Business Alliance (formerly known as the Electronic Industry Citizenship Coalition), by which leading companies in the electronics industry want to promote social and ecological responsibility as well as

ethical business practices on a worldwide basis. More information on the initiative and its Code of Conduct is available online at <http://www.responsiblebusiness.org>.

Siltronic also implements the ten principles of the United Nations 'Global Compact' initiative for the protection of human rights, social and environmental standards, and the fight against corruption. The ten principles of the UN Global Compact can be viewed online at www.unglobalcompact.org.

Moreover, Siltronic adheres to the principles of the Responsible Care® initiative of the chemical industry (<https://www.vci.de/nachhaltigkeit/responsible-care/uebersichtsseite.jsp>).

In addition, in 2017 Siltronic became signatory to the 'Diversity Charter'. As a signatory, Siltronic undertakes to actively implement and promote equal opportunity and diversity. Information on the Charter is available online at <https://www.charta-der-vielfalt.de/en/diversity-charter/>.

Information on the working methods of the Executive Board and Supervisory Board and on the composition and working methods of the Supervisory Board's committees

As required by the German Stock Corporation Act (AktG), Siltronic AG has a dual governance structure. It consists of the Executive Board, which manages the business, and the Supervisory Board, which monitors and advises the executive management. The two bodies are strictly segregated in terms of both membership and their powers.

Executive Board

The Executive Board currently comprises two members. The Executive Board conducts the Company's business in accordance with the law, the Articles of Association and its rules of procedure. The Executive Board manages the Company independently and represents Siltronic AG in all business transactions with third parties. Its actions and decisions are determined by the interests of the Company and are geared towards creating sustainable growth in corporate value. To this end, it determines the Siltronic Group's corporate strategy and then manages and supervises it by allocating financial and other resources and assigning capacities as well as by supporting and supervising the operating business units. The Executive Board ensures compliance with legal provisions and the maintenance of an appropriate system of risk management and risk control.

The members of the Executive Board bear joint responsibility for the executive management of the Company and are also independently responsible for managing the internal areas assigned to them. The Executive Board holds regular meetings, which are

convened and chaired by the CEO. Executive Board meetings must take place whenever the well-being of the Company calls for it. The Executive Board generally passes its resolutions by a simple majority. As long as the Executive Board consists of only two persons, resolutions can only be passed unanimously; the Chairman of the Executive Board does not have a casting vote.

Close cooperation between Executive Board and Supervisory Board

The Executive Board and the Supervisory Board collaborate closely to ensure the Company's long-term and sustainable success. Their mutual goal is the sustainable development of the Company and its value. The Executive Board reports regularly, promptly and comprehensively to the Supervisory Board on all matters of strategy, planning, business performance, risk position, risk management, and compliance that are relevant to the Company. The Chairman of the Supervisory Board also keeps in touch with the Executive Board between meetings, in particular with the Chairman of the Executive Board, and consults on issues of importance. The Executive Board provides the Supervisory Board with explanations if business performance deviates from its intended plans and targets.

Certain transactions specified in the rules of procedure for Siltronic AG's Executive Board require the approval of the Supervisory Board. These include the approval of the annual budget, including financial and investment planning, the acquisition or disposal of equity investments, the raising of new and the discontinuation of existing production and lines of business, and the raising of major long-term loans.

Supervisory Board

The Articles of Association specify that the Supervisory Board must comprise twelve members. In accordance with the German Codetermination Act (MitbestG), it is composed of equal numbers of shareholder representatives and employee representatives. Members generally hold office for a period of five years. They can be re-elected. An overview of the members of the Supervisory Board in office during the reporting period and their other mandates on supervisory boards or comparable bodies required to be formed by law is available on [p. 156](#). The regular term of office of the current Supervisory Board members will expire at the end of the Annual General Meeting in 2018. The Supervisory Board appoints, monitors, and advises the Executive Board and is directly involved in decisions of material importance to the Company. Fundamental decisions regarding the further development of the Company require the approval of the Supervisory Board. The Supervisory Board has established its own rules of procedure that comply with the requirements of the German Corporate Governance Code.

If necessary, the Supervisory Board convenes without the Executive

Board.

Objectives for the composition of the Supervisory Board and competence profile of the Supervisory Board

On September 14, 2017, the Supervisory Board passed a new resolution on the objectives for its composition, including a competence profile for the entire Supervisory Board:

‘The Supervisory Board is to be composed in such a way that its members in their entirety have the necessary knowledge, skills, and professional experience to perform their duties in a proper manner. Against the background of the recommendations of the German Corporate Governance Code, the Supervisory Board has decided on the following specific objectives for its composition and the following competence profile for the Supervisory Board as a whole:

I. Objectives for the composition

1. International expertise

In view of the Company’s international strategy, at least one member of the Supervisory Board should have relevant experience.

2. Independence and potential conflicts of interest

At least three shareholder representatives should be independent within the meaning of article 5.4.2 of the German Corporate Governance Code. The rules of procedure set out by the Supervisory Board for dealing with conflicts of interest must be observed. Major non-temporary conflicts of interest such as those involving board functions or advisory tasks at major competitors of the Company must be avoided.

3. Age limit for members of the Supervisory Board and standard length of service

The age limit regulations set out by the Supervisory Board in the rules of procedure must be observed. The term of membership of the Supervisory Board may not exceed 15 years or three terms of office. The special rules of the co-determination laws must be observed for elected employee representatives.

4. Diversity

With regard to diversity, the Supervisory Board strives to ensure that its composition takes into account a variety of professional experience, educational backgrounds and, in particular, the appropriate participation of both genders. Pursuant to section 96 (2) of the German Stock Corporation Act, the Supervisory Board must be composed of at least 30 percent women and at least 30 percent men. The shareholder and employee representatives on the Supervisory Board objected to the complete

fulfillment of the gender quota. For this reason, the Supervisory Board of the Company must be composed of at least two women and two men on both the shareholder and the employee side.

II. Competence profile

In view of Siltronic’s sphere of activity, the Supervisory Board as a whole must be competent in all areas of significance. These include, in particular, in-depth experience and knowledge of:

- Management roles at listed companies
- Management roles at international companies
- Technological fields relevant to the Company
- Strategy and corporate development
- Production, sales, and markets in which Siltronic operates
- Finance, in particular financial reporting, taxation, and controlling
- Risk management and compliance
- Human resources and co-determination

Furthermore, pursuant to Section 100 (5) of the German Stock Corporation Act (AktG), at least one member of the Supervisory Board must have expertise in financial controlling or auditing and the Supervisory Board in its entirety must be familiar with the semiconductor industry.’

Status of implementation of the objectives for the composition and the competence profile; independent members of the Supervisory Board

In its own view, the Supervisory Board meets all of the above-mentioned objectives with regard to composition and covers the competence profile in its current composition. The Supervisory Board members have all the qualifications deemed necessary. All members of the Supervisory Board are familiar with the sector in which the Company operates, i.e. the semiconductor industry, and have the skills, experience, and knowledge relevant to Siltronic’s activities. Several members of the Supervisory Board have relevant experience with regard to the international strategy of the Company. The age limit rule as well as the limit of three full terms (15 years) for membership of the Supervisory Board are made allowance for. Diversity is appropriately taken into account by the Supervisory Board. In the 2017 fiscal year, the Supervisory Board had four female members, two of whom were shareholder representatives and two were employee representatives. The statutory minimum quota is therefore fulfilled. In the opinion of the Supervisory Board, at least three shareholder representatives are currently independent within the meaning of article 5.4.2 of the German Corporate Governance Code, namely Dr. Hermann Gerlinger, Bernd Jonas, and Dr. Franz Richter.

Committees enhance Supervisory Board efficiency

In order to perform its duties in an efficient manner, the Supervisory Board has established four professionally qualified committees. The work of these committees is regularly reported on in meetings of the full Supervisory Board.

Executive Committee

Chair:

Dr. Tobias Ohler

Members:

Dr. Hermann Gerlinger
Johann Hautz

Responsibilities:

The Executive Committee consists of three members. The Chairman of the Executive Committee is the Chairman of the Supervisory Board; the Deputy Chairman of the Supervisory Board is also a member. The third member is elected by the Supervisory Board. The Executive Committee prepares personnel decisions for the Supervisory Board, in particular those concerning the appointment and removal of members of the Executive Board and the appointment of the CEO. It also deals with Executive Board contracts of service and the system of Executive Board compensation, on the basis of which the Supervisory Board determines the compensation of Executive Board members.

Nomination Committee

Chair:

Dr. Tobias Ohler

Member:

Dr. Hermann Gerlinger

Responsibilities:

The Nomination Committee consists of two members. Unless otherwise determined by the Supervisory Board, it is composed of the shareholder representatives who are also members of the Executive Committee. The Nomination Committee is charged with the task of proposing suitable candidates as shareholder representatives for potential election to the Supervisory Board at the Annual General Meeting. In doing so, it takes into account the objectives for the composition of the Supervisory Board, including the defined competence profile.

Audit Committee

Chair:

Bernd Jonas

Members:

Dr. Tobias Ohler
Harald Sikorski

Responsibilities:

The Audit Committee consists of three members. The Audit Committee must include at least one member of the Supervisory Board with expertise in the fields of financial reporting or auditing and internal control procedures; all members must be familiar with the sector in which the company operates. The Audit Committee prepares the Supervisory Board's decisions on the adoption of the annual financial statements and the approval of the consolidated financial statements, as well as the proposal for a resolution by the Executive Board on the appropriation of profit. To this end, it is responsible for a preliminary review of the annual financial statements, the consolidated financial statements, the management reports, and the combined management report as well as the proposal for the appropriation of profit. It also examines the half-yearly interim consolidated financial statements and discusses the quarterly reports as well as issues concerning risk management and compliance. In particular, it monitors financial reporting processes, compliance, and the effectiveness of the internal control, risk management, and audit systems. The Audit Committee also monitors the external auditing of the financial statements. It takes suitable action to establish and monitor the independence of the external auditors and the additional services provided by the auditors. Together with the auditors, the Audit Committee discusses the risks to the auditors' independence and the protective measures taken to mitigate these risks. Contracts may only be awarded to the auditors or companies with which they are associated legally, financially or in terms of personnel if these are not prohibited non-audit services, and require the prior approval of the Audit Committee, which duly assesses the risk to independence and the protective measures applied. The Audit Committee prepares a recommendation for the Supervisory Board's proposal to the Annual General Meeting on the selection of the auditors. Before submitting the nomination proposal, the Audit Committee obtains a declaration from the intended auditor that the statutory independence requirements are being met. After the resolution of the Annual General Meeting has been passed, it issues an audit engagement letter to the auditors. In compliance with statutory requirements regarding audit fees, the Audit Committee agrees the fee with the auditors and determines the main points of the audit. The Chairman of the Audit Committee has specialized knowledge and experience in the areas of financial reporting and auditing.

Conciliation Committee

Chair:

Dr. Tobias Ohler

Members:

Gebhard Fraunhofer

Johann Hautz

Angela Wörl

Responsibilities:

The Conciliation Committee established pursuant to section 27 (3) of the German Co-determination Act (MitbestG) consists of the Chairman of the Supervisory Board, his deputy, and two further members, one of whom is elected by the Supervisory Board members representing the employees and one by those representing the shareholders with a majority of the votes cast. It has the legally assigned task of proposing the appointment or removal of members of the Executive Board if the required majority of two thirds of the votes of the Supervisory Board members is not attained in the first round of voting.

Targets for the proportion of women on the Executive Board and at the first two management levels below the Executive Board; information on compliance with minimum quotas in the composition of the Supervisory Board

Siltronic AG is legally required to set targets for the proportion of women on the Executive Board and at the two management levels below the Executive Board. In the 2015 fiscal year, targets were established to be met by June 30, 2017 and the achievement of these targets is reported below. At the same time, new targets to be achieved by June 30, 2020 were set in the 2017 fiscal year:

The target for the first management level below the Executive Board was not achieved by June 30, 2017 because a female divisional manager left the company at her own request and the vacant position could not be filled by a woman. Moreover, a male employee moved up to the first management level to fill a newly created position. The target for the second management level was exceeded.

In accordance with statutory requirements, the Supervisory Board of Siltronic AG must be composed of at least 30 percent women and at least 30 percent men. The Supervisory Board of Siltronic AG consists of four female members – two on the shareholder and two on the employee side – and eight male members. The shareholder representatives and the employee representatives objected to the complete fulfillment of the gender quota. With a proportion of 33.3 percent women and 67.7 percent men, the Supervisory Board meets the statutory minimum requirements in its current composition.

Definition of the diversity concept, its objectives and implementation

At its meeting held on September 14, 2017, the Supervisory Board adopted the following diversity concept for the Executive Board and the Supervisory Board.

1. Executive Board (authorized body)

The Executive Board of Siltronic AG currently consists of two people.

a. Gender

At its meeting held on June 1, 2017, the Supervisory Board decided to determine the current status of 0/2 (equivalent to 0%) women on Siltronic AG's Executive Board as a target to be achieved by June 30, 2020, since an enlargement of the Executive Board is not currently planned.

	Target to be met by June 30, 2017	Target met as at June 30, 2017	New target to be met by June 30, 2020
Supervisory Board	Statutory 30% quota, therefore no objective required		
Executive Board	0% (0/2)	0% (0/2)	0% (0/2)
1st management level	min. 18.75% (3/16)	11.76% (2/17)	min. 17.64% (3/17)
2nd management level	min. 2.94% (1/34)	5.56% (2/36)	min. 8.33% (3/36)

b. Professional experience and educational background

The Executive Board should:

- Include at least one member with professional experience predominantly in production and sales and have a scientific or technical educational background, in view of the technological focus of the Company;
- Include at least one member with professional experience in the field of finance, particularly in the areas of controlling, financial reporting, taxation, and risk reporting, and also have acquired economic expertise in the course of their training in order to adequately tackle the challenges of a listed company with international operations.

The expertise required to manage the Company can have been acquired through professional experience and thus render a respective educational background unnecessary.

c. Age

In its rules of procedure, the Supervisory Board has set an age limit for members of the Executive Board. Beyond this stipulation, the Supervisory Board does not pursue a specific age structure for the Executive Board.

2. Supervisory Board

In accordance with statutory requirements, the Supervisory Board consists of 12 members.

a. Gender

As specified in its composition targets, the Supervisory Board strives for the appropriate participation of both genders. Pursuant to section 96 (2) of the German Stock Corporation Act, the Supervisory Board must be composed of at least 30 percent women and at least 30 percent men. The shareholder and employee representatives on the Supervisory Board objected to the complete fulfillment of the gender quota. For this reason, the Supervisory Board of the Company must be composed of at least two women and two men on both the shareholder and the employee side.

b. Professional experience and educational background

In its composition, the Supervisory Board will consider a variety of professional experience and educational backgrounds that are relevant for the effective consultation and supervision of the Executive Board. In accordance with the competence profile agreed upon by the Supervisory Board for its composition, this includes, in particular, in-depth experience and expertise in the following:

- Management roles at listed companies
- Management roles at international companies
- Technological fields relevant to the Company
- Strategy and corporate development
- Production, sales, and markets in which Siltronic operates
- Finance, in particular financial reporting, taxation, and controlling
- Risk management and compliance
- Human resources and co-determination.

In addition, pursuant to Section 100 (5) of the German Stock Corporation Act (AktG), at least one member of the Supervisory Board must have expertise in financial reporting or auditing and the entire Supervisory Board must be familiar with the semiconductor industry.

c. Age

The age limit regulations set out by the Supervisory Board in the rules of procedure must be observed. Beyond this stipulation, the Supervisory Board does not pursue a specific age structure for its composition.

3. Objectives

The diversity concept, which is based on the objectives for its composition and the competence profile for the Supervisory Board, aims at management and control of Siltronic AG geared to long-term success, as well as targeted and efficient cooperation between the Executive Board and the Supervisory Board.

4. Method of implementation

The Supervisory Board's Executive Committee and/or Nomination Committee will duly consider the diversity concept when preparing for the appointment of members of the Executive Board or when proposing suitable candidates for the Supervisory Board's election proposals for shareholder representatives to the Annual General Meeting.'

Further information on Corporate Governance

Transparent information for shareholders and the general public

Siltronic strives to provide all of its target groups, whether shareholders, shareholder representatives, analysts, the media, or the general public, with information in an equitable and timely manner. Dates important for Siltronic AG are regularly announced in a financial calendar, which is published on our website. Capital market participants are in close contact with our investor relations team. We hold telephone conferences at each quarterly report to inform investors and analysts about current and future business developments. We regularly attend roadshows and investor conferences. Once a year we hold an analysts' conference. In line with legal requirements, we publish information in the form of ad hoc announcements. For this purpose, we have established an ad hoc committee in which both members of the Executive Board, the Head of Legal & Compliance, and the Head of Investor Relations & Communications are represented to examine the facts for their ad hoc relevance. We therefore ensure that any insider information is handled in accordance with the law.

Key presentations can be viewed and downloaded online without restriction. The Siltronic website provides all of its press releases and ad hoc announcements in both German and English as well as the annual report, interim reports and quarterly reports. For further information, please go to <https://www.siltronic.com/en/>.

Annual General Meeting

Shareholders exercise their rights at the Annual General Meeting. Among other matters, the Annual General Meeting passes resolutions on the appropriation of profit, ratifies the actions of the members of the Executive Board and the Supervisory Board, and appoints the external auditors. Amendments to the Articles of Association and measures involving changes in capital are decided upon by the Annual General Meeting and implemented by the Executive Board. The Annual General Meeting also serves to provide all shareholders with information on the business position of the Company in an efficient and comprehensive manner. Prior to the Annual General Meeting, shareholders are provided with key information on the past fiscal year in the annual report. The items on the agenda and the conditions of participation are explained in the invitation to the Annual General Meeting. The convening of the meeting, together with all legally required reports and documents, including the annual report (which includes the consolidated financial statements and the combined management report), as well as Siltronic AG's annual financial statements, are also available on the website. Following the Annual General Meeting, we publish the attendance and voting results online. Siltronic facilitates the personal exercising of its shareholders' rights as well as proxy voting. Authorized proxies are available to exercise shareholders' voting rights in accordance with their instructions.

Reportable managers' transactions

Pursuant to article 19 of the EU Market Abuse Regulation (MAR) No. 596/2014, the members of Siltronic AG's Executive Board and Supervisory Board, as well as persons closely associated with them, are required to report to Siltronic AG and the German Federal Financial Supervisory Authority (BaFin) any transactions they undertake in shares or debt instruments issued by Siltronic AG, or any derivatives or other financial instruments associated with it. In 2017, Siltronic AG was not notified of any transactions to be reported in accordance with article 19 of the MAR. Any transactions reported are published on Siltronic AG's website.

Information on share-based incentive schemes

51 percent of the performance-related bonus of the members of the Executive Board is granted as a share-based, long-term incentive (LTI) in the form of virtual shares, also known as phantom stocks. The virtual shares are held for a period of two years from the end of the compensation year. The LTI is settled in cash. The amount of the cash settlement is calculated according to the average weighted market price of the Siltronic share on the last 30 trading days of the second financial year following the compensation year. Details are available in the compensation report on [p. 74](#). Siltronic does not currently operate any other securities-based incentive systems, such as for the benefit of employees.

Responsible approach to opportunities and risks

The responsible handling of risks by the Company is a key component of good corporate governance. Siltronic uses a systematic opportunity and risk management approach to identify and monitor significant risks and opportunities on a regular basis. The aim is to identify risks at an early stage and mitigate them through rigorous risk management. The Executive Board regularly informs the Supervisory Board on existing risks and their development. The Audit Committee regularly addresses the financial reporting process and the effectiveness of the internal control, risk management, and audit system. The opportunity and risk management system is continuously enhanced and adjusted in line with changing circumstances. Details are available in the Risk and Opportunity Report on [p. 61](#).

Financial reporting and auditing of financial statements

Siltronic's consolidated financial statements for the year ended December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union. Siltronic AG's annual financial statements for 2017 have been prepared in accordance with the provisions of the German Commercial Code (HGB). The financial accounting for 2017 has been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board has agreed with the auditors that the Chairman of the Supervisory Board will be informed without delay of any grounds for exclusion or partiality arising during the audit. Furthermore, the auditors also

report immediately on any significant findings or circumstances that affect the responsibilities of the Supervisory Board. Should the auditors identify any facts during the audit of the financial statements that indicate an inaccuracy in the Declaration of Conformity with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG) issued by the Executive Board and the Supervisory Board, the auditors will inform the Supervisory Board accordingly and note the finding in the audit report.

D&O insurance and criminal law insurance coverage

A pecuniary damage liability insurance policy is in place that covers the activities of the members of the Executive Board and the Supervisory Board (D&O insurance). The insurance policy provides for the statutory deductible for the members of the Executive Board. For reasons explained in the Declaration of Conformity, no deductible is provided for members of the Supervisory Board. Furthermore, the members of the executive bodies are also covered by the criminal law insurance policy that Siltronic has taken out for its employees and members of its executive bodies. The insurance covers any lawyers' and court costs that may be incurred for defense in criminal or misdemeanor proceedings.

Conflicts of interest

The members of the Executive Board and the Supervisory Board are solely committed to working in the interests of the Company. In making their decisions, they may not pursue personal interests or exploit business opportunities to which the Company is entitled. The rules of procedure for both the Executive Board and the Supervisory Board stipulate that any conflicts of interest must be disclosed without delay. In the event of material and non-temporary conflicts of interest, the relevant Supervisory Board member is required to resign from office. Any transactions between the Company on the one side and a member of the Executive Board or a relative of that member on the other side must be conducted on an arm's-length basis. Such transactions require the approval of the Supervisory Board if the value of the individual transaction exceeds EUR 5,000.

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Business and economic conditions

Group structure and business activities

Leading international supplier of hyperpure silicon wafers

We are a global market and technology leader for hyperpure silicon wafers for the semiconductor industry. We have production facilities at four locations in Germany, the USA, and Asia, where we manufacture silicon wafers with diameters of up to 300mm. Our customers include the top 20 consumers of silicon wafers in the semiconductor industry, and we maintain usually long-term business relationships with our customers.

Siltronic is known in the market for its long-standing expertise, customer-specific solutions, and global product availability, as well as assured quality and delivery reliability. Our worldwide presence enables us to respond to inquiries from customers within 24 hours. This combination is the basis for our high level of customer satisfaction and is the foundation for the sustained success of our business. Our aim is to supply high-quality wafers with specifications that fulfill our customers' requirements.

Silicon wafers are the basis for modern microelectronics and nanoelectronics and are therefore a key component of countless everyday objects, such as computers, smartphones, flat screens, and navigation systems.

We strive to be a driving force for innovation in silicon wafers for the semiconductor industry.

Legal structure of the Group

Siltronic has had the legal form of a stock corporation (Aktien-gesellschaft) subject to German law since 1996, although at that time it was called Wacker Siltronic Gesellschaft für Halbleiter-materialien AG. In 2004, the Company was renamed Siltronic AG. It is headquartered in Munich, Germany. At the end of 2017, the Company had direct or indirect equity investments in six companies.

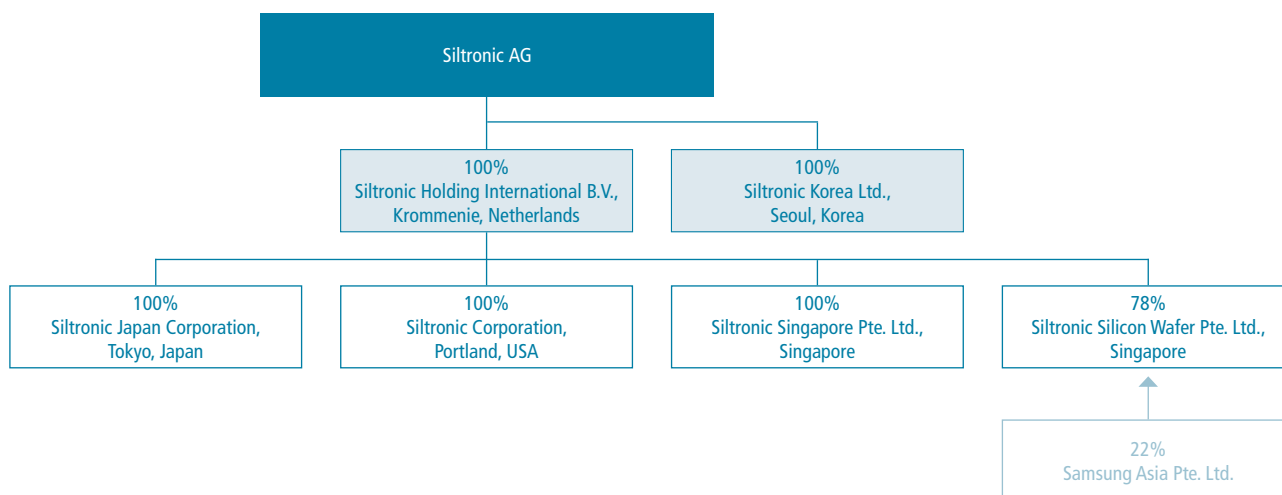
Management and control

As required by the German Stock Corporation Act (AktG), Siltronic AG has a two-tier governance structure consisting of the Executive Board and Supervisory Board. The Executive Board has two members; its composition did not change in fiscal year 2017. The Supervisory Board consists of twelve members. Information on the Executive Board and Supervisory Board and how their responsibilities are allocated can be found in the corporate governance report on [p. 25](#).

Allocation of responsibilities on the Executive Board

Dr. Christoph von Platho	Rainer Irlle
<ul style="list-style-type: none"> • Chief Executive Officer • Application Technology • Corporate Development • Engineering • Investor Relations & Communications • Legal & Compliance • Production • Quality Management & Sustainability • Sales & Marketing • Site Management, Burghausen & Freiberg • Supply Chain Management • Technology • Siltronic Japan • Siltronic Singapore 	<ul style="list-style-type: none"> • Chief Financial Officer • Labor director • Controlling & Finance • Accounting & Tax • Human Resources • IT • Procurement • Risk Management & Audit • Siltronic USA

Structure of the Siltronic Group



Active strategic management holding company, decentralized structure, and proximity to customers

The parent company of the Siltronic Group, Siltronic AG, acts as the Group's holding company under company law and as its operational holding company. As parent company, Siltronic AG is in charge of the corporate strategy and strategic management as well as communications with the Company's important stakeholders, particularly the capital markets and shareholders. The operational subsidiaries are managed by local management. The Siltronic AG Executive Board is represented on the executive boards of the subsidiaries. An extended team of senior group managers at Siltronic AG have their performance measured in accordance with agreed targets. Specific targets are defined at groupwide, regional, and operational level and are reviewed on an ongoing basis.

Remuneration of the Executive Board and Supervisory Board

The Executive Board's remuneration consists of fixed and variable elements. The main features of the remuneration system for the Executive Board and Supervisory Board are described in the remuneration report on [p. 74](#) of the combined management report.

Declaration on corporate governance

The declaration on corporate governance, which is required by section 289f of the German Commercial Code (HGB), is contained in the corporate governance report on [p. 25](#). It includes information on the work of the Executive Board and Supervisory Board, the declaration of conformity pursuant to section 161 AktG, and details on significant corporate management practices.

The declaration of conformity has been made permanently accessible to the public on the website <https://www.siltronic.com/en/investors/corporate-governance.html>.

Important products, business processes, and markets

Our experience, technological expertise, and innovative strength provide added value

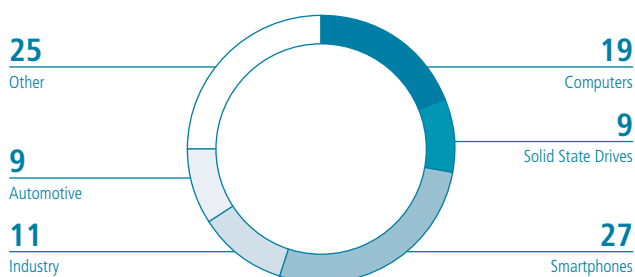
Silicon is the basis for nearly all semiconductor components and thus essentially underpins the entire global electronics industry. The wafers are used for increasingly small structures, known as design rules, which nowadays are just a few nanometers in size. This makes it possible to manufacture ever more powerful and energy-efficient generations of semiconductor chips. Our silicon wafers, with diameters of up to 300mm, support these developments and form the basis for highly complex semiconductor components, such as high-voltage applications, low-resistivity circuit boards for automotive engineering and telecommunications, and highly integrated microprocessors and memory modules for information processing.

We act as a strategic development partner for our industrial customers, to whom we supply solutions tailored specifically to their requirements. In doing so, we draw on our technical expertise and deep understanding of what our customers need. Our four production facilities and nine sales offices in Europe, the USA, and Asia serve our customers worldwide. In 2017, our five largest customers were (in alphabetical order) Infineon Technologies, Intel, Micron Technology, Samsung Electronics and Taiwan Semiconductor Manufacturing Company (TSMC). Our local sales approach enables us to offer high-quality customer service.

By working closely with our customers, we help them to continuously improve and update their products and solutions. We manufacture specified polished and epitaxial wafers in accordance with the latest design rules.

End markets for semiconductor applications

in %



Source: IHS Markit Technology
(Semiconductor Silicon Demand Forecast Tool, Q4 '17 Update)

Competitive situation

There is a great deal of global competitive pressure in the market for silicon wafers for the semiconductor industry which is characterized by a high concentration of wafer suppliers. Market studies show that Siltronic is one of the largest manufacturers of silicon wafers for the semiconductor industry with a market share of approximately 15 percent.

Our main competitors are the two Japanese manufacturers Shin-Etsu Handotai and SUMCO Corporation plus GlobalWafers from Taiwan and LG Siltron from Korea.

Together, the five largest manufacturers meet roughly 90 percent of global demand. Customers are working increasingly closely with manufacturers on the development of new wafers. We expect to be able to benefit even more from this trend in the future due to our excellent access to customers.

Economic and legal influences

We sell our wafers to customers in the semiconductor industry worldwide. This means we are subject to the cyclical fluctuations that are typical for this industry. However, this volatility varies significantly in terms of when it occurs and to what extent. We take account of expected developments in our business planning at an early stage using selected leading indicators, such as commodity prices, customers' ordering behavior, our capacity utilization, and production and unit sales forecasts for the semiconductor industry.

Exchange rate volatility caused by trade relationships between currency areas has an operational impact on our sales and earnings because we generate around two-thirds of our sales in US dollars but incur the bulk of our costs in euros. We are trying to reduce the currency effect of changes in foreign exchange rates by increasing the production in Singapore which shows correlation to the US dollar and pursuing a proactive hedging policy.

Siltronic's costs are affected by wage and salary increases and by changes in the cost of materials. Our main raw material is polysilicon, most of which we obtain from Wacker Chemie AG on the basis of long-term supply agreements. We use a large number of supplies, e.g. slurries and sawing wire, in our manufacturing processes. As far as possible, we try to procure our materials from multiple suppliers.

We increase our profitability by taking steps within the Company, such as optimizing processes in all functional units. Back in 2010, we launched cost roadmaps, an ongoing cost-reduction program, in order to proactively identify and unlock potential for improvement.

In regular Steering Committee meetings new ideas are prioritized and their implementation is monitored.

Because we do business worldwide, various legal and tax requirements apply to us that we have to take into account in our operations. These include product liability legislation, employment regulations, foreign trade laws and patent laws.

Risks for our business arising from the economic and legal situation are presented in the risk report on [p. 61](#).

Corporate strategy and corporate management

Our short- and long-term strategic objective is to expand our business activities in order to strengthen our position as one of the leading manufacturers of semiconductor wafers. To achieve this objective, we want to further develop our technology leadership, retain our leading quality position, and continue with our program for operational excellence and cost reductions. We also focus on a high level of profitability and a stable cash flow. In case needed, we adjust our strategy and our operating activities to the respective market conditions. It was not necessary to significantly change Siltronic's strategic focus compared to the previous year.

Megatrends creating a sustained increase in the use of our high-quality hyperpure silicon wafers

Customer requirements in the semiconductor industry are changing all the time, driven primarily by global megatrends such as mobility, connectivity, miniaturization, and cost efficiency. Because of the Internet of Things (IoT), for example, the devices that come on to the market will be increasingly intelligent, and everyday objects will be fitted with processors, sensors and networking capabilities. The technology will range from app-controlled wearables to smart factories. Continuous improvements to functionality and energy efficiency, for example of smartphones, driver assistance systems in motor vehicles, and industrial automation, are based on semiconductor manufacturers constantly enhancing the components needed for these applications. Typically, these developments mean that raw materials have to meet ever more demanding requirements. For example, smaller design rules for components are only possible if the silicon wafers have the necessary uniformity.

We therefore expect that demand for highly developed wafers will continue to rise. We want to take advantage of these growth opportunities by focusing on innovative solutions that add value, thereby proactively helping to meet our customers' new requirements.

Synergies from best-in-class production processes

We have many years of experience of manufacturing 300mm wafers and have built state-of-the-art production facilities at our German sites in Freiberg (Saxony) and Burghausen as well as in Singapore that are designed for the volume production of these wafers. Our production facilities in Singapore for 200mm and 300mm wafers are among the biggest and most modern in the world. Standardized processes and largely identical machinery ensure knowledge transfer between our production sites. This enables us to improve processes quickly and easily, to simplify the qualification process by our customers.

Our success factors: a global presence and innovative strength

We want to offer solutions with enhanced product capabilities or quality that our customers can use in their current and future applications.

The products required in our target markets are highly sophisticated. Examples of applications for silicon wafers are computers, tablets, smartphones, solid-state drives, assistance and control systems in the automotive industry, or wearables. We provide our customers worldwide with specified, high-quality products. Apart from the Czochralski process we use the float zone technology for growing ingots to produce wafers with a diameter of up to 200mm (see the chapter on production on [p. 58](#)). We continuously improve our innovative strength and attach a high priority to research and development (R&D).

Ongoing optimization of our production processes and cost structures

Our strategic objectives are to improve profitability and strengthen cash flow. We support and steer our efforts to achieve these objectives in a variety of ways. These include cost discipline and continuous improvement of processes in all functions and regions. That way, in 2017 we cut our costs by approximately EUR 15 million compared to 2016.

Constant monitoring of selected financial and non-financial key performance indicators

The Group's management team predominantly uses financial key performance indicators (KPIs) to manage Siltronic.

The most important financial KPIs in 2017 were the EBITDA margin, free cash flow and ROCE (return on capital employed).

A high level of profitability is an important target and metric for the Group's management team. The measurement basis we use is EBITDA, which enables us to compare ourselves with our competitors. EBITDA is defined as earnings before interest, taxes, and depreciation/amortization including impairment losses and reversals thereof. We use this comparison, along with historical trends and planning information, to calculate an EBITDA margin target.

Another important metric is free cash flow. By focusing on this KPI, we are ensuring that Siltronic remains financially solid going forward.

Free cash flow shows whether the required investments in property, plant and equipment, and intangible assets can be financed from the Company's own operating activities (cash flow from operating activities). Our goal is to achieve a positive cash flow each year. The main influences on this KPI, besides profitability, are effective management of net working capital and the level of capital expenditure. Net working capital is defined as the sum of inventories and trade receivables less trade payables.

From 2018, the net cash flow will replace the free cash flow as the key performance indicator. This is due to the fact that the inflow and repayment of customer prepayments lead to time shifts in the free cash flow which, due to their size, impair the informative value of the free cash flow. The net cash flow represents the free cash flow without the time shifts.

ROCE is defined as EBIT (earnings before interest and taxes) divided by capital employed. Capital employed is calculated from non-current assets and working capital, using the average of the respective items at the beginning and end of the reporting period.

Targets for all financial KPIs are set and monitored company-wide. Each month, we measure the discrepancies between the target and actual figures at Group level and in all local companies. KPIs are analyzed monthly and quarterly. We also review the detailed business planning on the basis of the available monthly and quarterly results and draw up a specific forecast for business performance.

The abovementioned KPIs are supplemented by additional financial indicators, including particularly sales, capital expenditure and net financial assets.

Non-financial key performance indicators relate primarily to the efficient use of silicon and energy, the use of returnable packaging in outgoing packaging, the number of accidents at work, and accidents involving chemicals. Furthermore, there are also indicators relating to product quality and innovation. We do not use any of these indicators consistently to manage the Company. For further information, please refer to the non-financial report (see [84](#)).

Business report

Macroeconomic situation and industry trends

According to the International Monetary Fund (IMF), the global economic recovery has accelerated. According to the latest forecast from January 2018, global gross domestic product rose by 3.7 percent in 2017 (2016: +3.2 percent).

At 2.4 percent, growth in the eurozone was also stronger than in the previous year (2016: +1.8 percent). Despite the continued moderate oil price and the loose monetary policy of the European Central Bank, the development of the entire economic area is still burdened by the slowly declining unemployment and the debt crisis in some countries. The exchange rate of the euro against other currencies such as the US dollar rose during the course of the year. While the exchange rate in the first half of the year was still close to the previous year's level, the US currency depreciated noticeably against the euro in the second half of the year.

The German economy also continued to follow a moderate upward trend in 2017. The Federal Statistical Office published growth of 2.2 percent for the full year (2016: +1.9 percent).

Economic growth in the United States in 2017 was much stronger than in the previous year at 2.3 percent (2016: +1.5 percent). The US is benefiting – as has Japan – from persistently low unemployment.

The economy in Japan continued to develop modestly in 2017, with growth of 1.8 percent, but significantly better than in the previous year (2016: +0.9 percent). The gross domestic product of 2017 in China grew by 6.8 percent – slightly more than expected after the stated goal of a slowly declining growth rate (2016: +6.7 percent).

The market for silicon wafers for the semiconductor industry grew by 10 percent in 2017 in terms of global sales. Demand was very high throughout the year and did not show any pronounced seasonal slowdown at the end of the year.

Significant events affecting our business performance

There were no significant events which affected our business performance in 2017.

Comparison of actual and forecast business performance

The business development in 2017 was positive in all four quarters. Due to the full loading of our 200mm and 300mm production since Q3 2016 we were able to gradually increase average selling prices (ASP). Based on the improving price levels, we were able to increase our forecast regarding sales and EBITDA margin for the full year 2017 with each quarterly reporting.

With sales of EUR 1,177.3 million, we are successfully closing the 2017 financial year. We clearly exceeded the original sales forecast of March 2017 and slightly exceeded our adjusted sales forecast of October. At 30.0 percent, the operating EBITDA margin was significantly above the forecast of March (at least 20.0 percent) and in line with the expectations of the adjusted forecast of October (at least 29 percent).

As forecasted, ROCE was significantly higher than the previous year at 31.3 percent and well above the cost of capital.

As forecasted, free cash flow was in line with expectations at EUR 169.6 million and well above the 2016 level.

In 2017, we continued to strengthen our technology leadership by investing in our capabilities. During 2017, we increased our forecast for capex from EUR 100 million to EUR 120 million. The increase in the third quarter 2017 was due to prepayments to our suppliers for the capacity increase in 2019.

Sources:
IMF (World Economic Outlook, January 2018, Release January 22nd, 2018)
Statistisches Bundesamt (Release no 11, 2018)
SEMI SMG 2018 (Press release)

Comparison of actual and forecast business performance

	2016 actual	Forecast Annual Report 2016 (March 2017)	Forecast Q1 2017 interim statement (April 2017)	Forecast Q2 2017 interim report (July 2017)	Forecast Q3 2017 interim statement (October 2017)	2017 actual
Sales (EUR million)	933.4	at least 1,000	at least 1,060	at least 1,120	at least 1,160	1,177.3
EBITDA margin in %	15.6	at least 20%	at least 23%	at least 27%	at least 29%	30.0
ROCE in %	3.7	substantially higher than 2016; approx. at WACC	substantially higher than 2016; considerably higher than WACC	substantially higher than 2016; considerably higher than WACC	substantially higher than 2016; considerably higher than WACC	31.3
Free cash flow in EUR million	19.0	clearly positive; by far above 2016	clearly positive; by far above 2016	clearly positive; by far above 2016	clearly positive; by far above 2016	169.6
R&D ratio in %	7.1	about 7% of sales	about 7% of sales	about 7% of sales	about 6% of sales	5.8
Cost items in EUR million	30	Savings potential of about EUR 20 million up to EUR 25 million	Savings potential of approximately EUR 15 million up to EUR 20 million	Savings potential of approximately EUR 15 million up to EUR 20 million	Savings potential of approximately EUR 15 million up to EUR 20 million	15
Expenditure from measures for Currency hedging in EUR million	20.9	Around EUR 10 million	Around EUR 10 million	Around EUR 10 million	Under EUR 10 million	3.0
Depreciation in EUR million	118.0	At the level of 2016	At the level of 2016	At the level of 2016	At the level of 2016	117.4
Tax rate in %	45	20% to 25%	20% or slightly below	20% or slightly below	Under 20%	15
Financial result in EUR million	11.1	About EUR 10 million interest expense	About EUR 10 million interest expense	About EUR 10 million interest expense	About EUR 10 million interest expense	8.5
Investments in EUR million	88.8	Around EUR 100 million	Around EUR 100 million	Around EUR 100 million	Around EUR 120 million	123.2
Earnings per share in EUR	0.40	Significant increase compared to 2016	Significant increase compared to 2016	Significant increase compared to 2016	Significant increase compared to 2016	6.18

Overall statement by the Executive Board on business performance and the economic position

The 2017 financial year exceeded the Executive Board's expectations. The high demand for silicon wafers led to significant price increases of 200mm and 300mm wafers. The ASP (average selling price) development was above our expectations.

Sales in the 2017 financial year developed very positively at EUR 1,177.3 million. This is mainly due to the higher price level.

Our investments were above the budgeted level as we decided to expand our 300mm capacity by 70,000 wafers per month by mid-2019 due to the favorable price trend. Already at the end of 2017, we provided around EUR 30 million in advance payments for necessary equipment.

The number of employees (without temporary workers) decreased slightly. Personnel costs increased mainly due to success sharing in Germany.

R&D expenditure came in on budget.

Total assets grew slightly year on year. The equity ratio increased to 50.9 percent.

Overall, the Executive Board is very satisfied with the performance of the business in 2017.

The Executive Board considers Siltronic's economic position to be stable. This assessment is based on the results in the 2017 consolidated financial statements and separate financial statements and takes account of the course of business up to the time of preparing the 2017 combined management report. At the time of preparing this annual report, business performance at the start of 2018 has been in line with the Executive Board's expectations.

Financial position and financial performance

Sales and financial performance

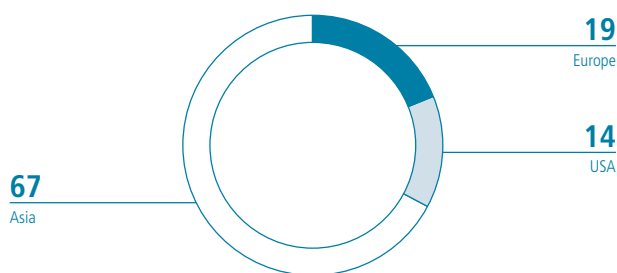
Sales increase driven by significant price increases and very high wafer area

With consolidated sales of EUR 1,177.3 million, we successfully completed the 2017 financial year, which is EUR 243.9 million, or 26.1 percent, above the previous year's level of EUR 933.4 million. The increase is mainly due to significant price increases, but also the wafer area sold has increased slightly. The ASP, expressed in euros, has risen significantly in comparison to the previous year and has risen every quarter compared to the previous quarter during the year.

Siltronic generates sales predominantly in US dollars. The US dollar stood at 1.13 on average between January and December 2017 and 1.11 in the same period of the previous year. Although the development of the euro exchange rate against the US dollar rose in the fourth quarter compared to the third quarter, it had no significant effect on the development of sales in a year-on-year comparison.

The regional distribution of sales shows that the percentage of revenue distribution in the three major regions of Europe, Asia and the USA has remained unchanged compared to the previous year. As in the previous year, Asia as the largest region accounted for 67 percent of sales, followed by Europe with 19 percent. US accounted again for 14 percent.

Sales by region
in %



In 2017, revenue increased quarter-on-quarter: first-quarter revenue was EUR 258.0 million, followed by EUR 283.1 million in the second and EUR 308.1 million in the third quarter. In the final fourth quarter, Siltronic realized EUR 328.1 million. Also in the previous year, each quarterly sales exceeded the previous quarter.

Sales

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
Sales	328.1	246.3	81.8	33.2	1,177.3	933.4	243.9	26.1

Cost of sales compared to sales clearly developed underproportionately

The absolute increase in production costs by EUR 45.5 million compared to the previous year resulted primarily from a larger wafer area sold, success sharing and one-time expenses. Neglecting one-off expenses, the production costs per wafer area decreased.

The improvement in manufacturing costs per wafer area was driven by a higher capacity utilization of our facilities and successful cost reduction measures. There were no significant exchange rate effects on production costs; about 60 percent of production costs are Euro-based.

Cost of sales

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
Cost of sales	206.1	192.6	13.5	7.0	807.0	761.5	45.5	6.0
Gross profit	122.0	53.7	68.3	> 100	370.3	171.9	198.4	> 100
Gross margin in %	37.2	21.8			31.5	18.4		

Gross margin improved significantly, mainly due to increased ASP

The gross profit improved by EUR 198.4 million to EUR 370.3 million. This corresponds to an increase of 115.4 percent. The gross margin increased from 18.4 percent in the previous year to 31.5 percent in 2017.

The main reason for the strong increase in gross margin is the increase in ASP. The improved capacity utilization and measures to reduce production costs per wafer area supported the positive development of the gross margin. The gross margin improved from quarter to quarter. It was 23.0 percent in the first quarter, followed by 27.8 percent in the second quarter and 35.8 percent in the third quarter. In the fourth quarter, the gross margin reached 37.2 percent.

Selling, R&D and general administration expenses in relation to sales declined

The total selling, research & development (R&D) and general administration expenses increased compared to the previous year mainly due to higher success sharing and increased wafer area sold.

In relation to sales, the percentage of selling, R&D and administration expenses were 11.1 percent and thus lower than in the previous year (12.9 percent).

Selling, R&D and administrative expenses

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
Selling expenses	9.8	8.4	1.4	16.7	37.1	33.2	3.9	11.7
Research & development expenses (R&D expenses)	17.7	16.4	1.3	7.9	68.3	66.4	1.9	2.9
General administration expenses	7.4	4.5	2.9	64.4	25.6	20.6	5.0	24.3
Total	34.9	29.3	5.6	19.1	131.0	120.2	10.8	9.0
as a percentage of sales	10.6	11.9			11.1	12.9		

Other operating income and expenses dominated by currency hedges

In 2017, the balance of other operating income and expenses of EUR –3.6 million was significantly lower than in the previous year (EUR –24.7 million). As in 2016, the balance of other operating income and expenses largely reflects exchange rate gains and losses, in particular currency hedging measures. The currency hedges relate to the US dollar and the Japanese yen.

As of December 31, 2017, equity included EUR 11.2 million of unrealized gains from hedges (previous year: loss of EUR 4.6 million).

Other operating income and expenses

In EUR million	Q4 2017	Q4 2016	Change		Q1–Q4 2017	Q1–Q4 2016	Change	
			Amount	%			Amount	%
Other operating income	12.2	17.7	–5.5	–31.1	59.7	52.5	7.2	13.7
Other operating expenses	–8.2	–22.1	13.9	–62.9	–63.3	–77.2	13.9	–18.0
Other operating income and expenses, net	4.0	–4.4	8.4	>100	–3.6	–24.7	21.1	–85.4
<i>of which exchange rate effects</i>	<i>1.6</i>	<i>–1.5</i>	<i>3.1</i>	<i>–</i>	<i>–3.0</i>	<i>–20.9</i>	<i>17.9</i>	<i>–</i>

EBITDA increased as a result of improved gross profit

EBITDA amounted to EUR 353.1 million in 2017 and was thus EUR 207.1 million or 142 percent above the previous year's level (EUR 146.0 million). The driver for this development was the gross profit, which increased by EUR 198.4 million.

The EBITDA margin in the reporting year was 30.0 percent (previous year: 15.6 percent). As with sales and gross margin, the EBITDA margin continued to improve. In the first quarter of 2017, we achieved an EBITDA margin of 20.5 percent, 25.7 percent in

the second quarter, 34.6 percent in the third quarter and 36.8 percent in the fourth quarter. The most important reasons for the very positive development were the increasing ASP and the higher wafer area sold along with a pleasing cost development.

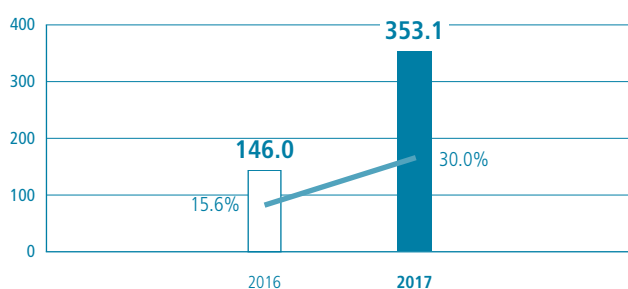
EBIT of EUR 235.7 million in 2017 was EUR 208.7 million higher than in the previous year. As with EBITDA, the increase was driven by the improvement in gross profit.

Changes in EBITDA

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
EBIT	91.1	20.0	71.1	> 100	235.7	27.0	208.7	> 100
EBIT margin in %	27.8	8.1			20.0	2.9		
Depreciation, amortization and impairment less reversals thereof	29.8	30.5	-0.7	-2.3	117.4	119.0	-1.6	-1,3
EBITDA	120.9	50.5	70.4	> 100	353.1	146.0	207.1	> 100
EBITDA margin in %	36.8	20.5			30.0	15.6		

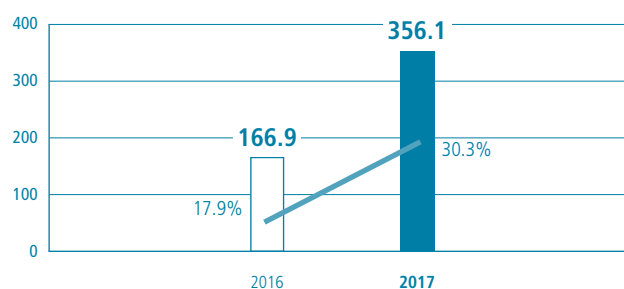
EBITDA and EBITDA margin

In EUR million



EBITDA and EBITDA margin (without exchange rate effect)¹⁾

In EUR million



¹⁾ Excluding the exchange rate effects in the amount of EUR –3.0 million (previous year: EUR - 20.9 million), included in the other operating income and expenses, which were mainly attributable to hedging transactions.

Financial result characterized by interest expenses for pensions

The financial result in 2017 was EUR –8.5 million (previous year: EUR –11.1 million). The highest expense is attributable to interest expenses of pension provisions, which is included in other financial result. In 2017, this amounted to EUR 8.1 million (previous year: EUR 8.5 million).

Financial result

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
Interest income	0.5	0.3	0.2	66.7	1.9	1.3	0.6	46.2
Interest expenses	-0.2	-0.4	0.2	-50.0	-1.2	-3.3	2.1	-63.6
Other financial result, net	-2.3	-2.3	0.0	-0.0	-9.2	-9.1	-0.1	1.1
Financial result	-2.0	-2.4	0.4	-16.7	-8.5	-11.1	2.6	-23.4

Taxes

In 2017, income taxes amounted to EUR 35.0 million (previous year: EUR 7.2 million). Income tax expense was largely attributable to effective taxes. These were incurred in Singapore, Germany, the USA and the Netherlands. During the reporting period, deferred tax assets of only EUR 2.5 million were recognized as income.

In 2017, the group tax rate, i.e. income taxes in relation to earnings before taxes was about 15 percent. Due to a special accounting principle (Note 03) potential future tax benefits for Siltronic AG may not be recognized. Therefore, the Group tax rate is only of limited significance. This applies in particular to the previous year.

Income tax expense

In EUR million	Q4 2017	Q4 2016	Change		Q1 – Q4 2017	Q1 – Q4 2016	Change	
			Amount	%			Amount	%
Result before income tax	89.1	17.6	71.5	> 100	227.2	15.9	211.3	> 100
Expense of income taxes	-15.2	-2.1	-13.1	> 100	-35.0	-7.2	-27.8	> 100
Net income for the period	73.9	15.5	58.4	> 100	192.2	8.7	183.5	> 100
Tax rate	17.1	11.9			15.4	45.3		

Net profit for the period strongly improved

We improved our profit for the period from EUR 8.7 million in 2016 to EUR 192.2 million in 2017. EUR 185.3 million (previous year: EUR 12.0 million) are attributable to Siltronic shareholders.

Earnings per share improved to EUR 6.18

Earnings per share amounted to EUR 6.18 after EUR 0.40 in the previous year.

Assets and liabilities

The balance sheet total of the Group increased from EUR 1,056.8 million at the previous year's reporting date to EUR 1,252.4 million as at 31 December 2017.

In EUR million	Dec. 31, 2017	Dec. 31, 2016	Change
Intangible assets	24.0	26.4	-2.4
Property, plant and equipment	513.3	519.8	-6.5
Other assets	9.3	7.9	1.4
Non-current assets	546.6	554.1	-7.5

Non-current assets decreased due to exchange rate effects

Non-current assets amounted to EUR 546.6 million at the end of 2017, corresponding to around 44 percent (previous year: 52 percent) of the balance sheet total. Compared to the end of 2016 (EUR 554.1 million), they decreased by EUR 7.5 million, which is mainly due to a weaker Singapore dollar compared to December 31, 2016.

Planned depreciation and amortization amounted to EUR 117.4 million (previous year: EUR 119.0 million). Capital expenditure (additions to property, plant and equipment, and non-current intangible assets) amounted to EUR 123.2 million (previous year: EUR 88.8 million) and mainly related to the replacement of crystal pullers in Freiberg, down payments for crystal pulling equipment and further automation of production.

Capital expenditure serves to meet customer demand for increasingly challenging, technical specifications and to meet the growing demand.

Intangible assets as of December 31, 2017 include, in particular, the goodwill arising from the gradual acquisition of SSW. The goodwill of EUR 20.5 million is not affected by any amortization. In addition, the intangible assets include the customer base of EUR 2.3 million allocated as part of the majority takeover of SSW, which is amortized on a straight-line basis. Other assets include deferred taxes of EUR 6.5 million.

In EUR million	Dec. 31, 2017	Dec. 31, 2016	Change
Inventories	149.9	140.9	9.0
Trade receivables	159.9	118.2	41.7
Other assets	53.9	28.2	25.7
Cash and cash equivalents and fixed-term deposits	342.1	215.4	126.7
Current assets	705.8	502.7	203.1

Current assets increased due to positive free cash flow and higher trade receivables

Current assets amounted to EUR 705.8 million as at 31 December 2017, EUR 203.1 million higher than in the previous year (EUR 502.7 million). The share of total assets was around 56 percent (previous year: 48 percent).

As of 31 December 2017, other current assets include fixed-term deposits of EUR 116.3 million (previous year: EUR 79.0 million) and cash and cash equivalents of EUR 225.8 million (previous year: EUR 136.4 million). The total of fixed-term deposits, cash and cash equivalents increased by EUR 126.7 million.

Increase in net working capital

Net working capital, consisting of inventories, trade receivables less trade payables, increased from EUR 177.5 million to EUR 242.7 million. The increase of EUR 65.2 million is primarily attributable to higher trade receivables, as a result of higher sales compared to the relevant period of the previous year.

In EUR million	Dec 31, 2017	Dec 31, 2016	Change
Equity	637.9	425.3	212.6
Pension provision	367.2	395.1	-27.9
Financial liabilities	-	40.4	-40.4
Other provision and liabilities	95.1	44.4	50.7
Non-current liabilities	462.3	479.9	-17.6
Trade liabilities	67.1	81.6	-14.5
Other provision and liabilities	85.1	70.0	15.1
Current liabilities	152.2	151.6	0.6

Net profit increases equity

Equity as at December 31, 2017 was EUR 637.9 million (previous year: EUR 425.3 million). The equity ratio was 50.9 percent compared to 40.2 percent as of December 31, 2016.

The increase in equity by EUR 212.6 million is mainly attributable to the net income of EUR 192.2 million and, at EUR 22.4 million, to actuarial gains in the calculation of pension provisions, which were mainly due to the increase in Interest rates in Germany.

Interest-related decline in pension provisions reduces non-current liabilities

Non-current liabilities amounted to EUR 462.3 million as of December 31, 2017 (previous year: EUR 479.9 million) and thus accounted for around 37 percent (previous year: 45 percent) of the balance sheet total. The main reason for the reduction was a decline in pension provisions of EUR 27.9 million mainly due to higher interest rates in Germany. The decline of EUR 40.4 million in financial liabilities due to the full repayment of a loan from SSW's minority shareholder was entirely offset by the increase in (long-term) prepayments received from customers.

The pension provision in Germany was discounted at 2.10 percent at the end of December 2017, compared with 1.95 percent at the end of December 2016. In the USA, the interest rate on pensions decreased from 3.92 percent at the end of 2016 to 3.45 percent at the end of 2017.

As at December 31, 2017, other non-current provisions and liabilities include the above-mentioned long-term prepayments received from customers and non-current personnel-related obligations, in particular provisions for early retirement and anniversaries.

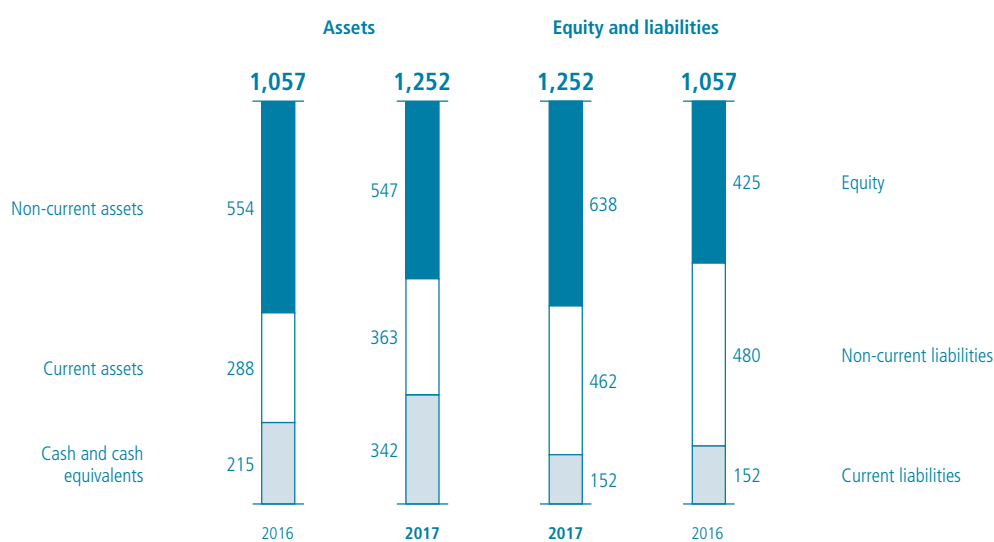
Current liabilities about stable

Current liabilities amounted to EUR 152.2 million as of December 31, 2017. They were EUR 0.6 million higher than in the previous year (December 31, 2016: EUR 151.6 million). Current liabilities account for around 12 percent (previous year: 14 percent) of the balance sheet total.

Other current liabilities relate to short-term personnel liabilities, in particular holidays, overtime and performance-based compensation, negative fair values of currency derivatives and prepayments received from customers.

Structure of assets and equity and liabilities

EUR million



Influence of exchange rate fluctuations and acquisitions on balance sheet items

The change in the carrying amounts of the assets and liabilities from December 31, 2016 to December 31, 2017 is only affected to a negligible extent by exchange rate fluctuations. Since no acquisition of a company or business took place, no changes have occurred in this regard.

Unrecognized intangible assets

We consider the confidence of our customers in the quality of existing products as well as in the ability of Siltronic to adapt existing products to the continuously increasing technical requirements of customers as an important factor for a successful business. In order to be able to identify and properly assess the future technical requirements of our customers at an early stage, we rely primarily on our own worldwide sales network, which maintains mature customer relationships.

Furthermore, we see our long-standing knowledge in research & development as a competitive advantage.

Free cash flow

In EUR million	Q1 – Q4 2017	Q1 – Q4 2016	Change
Cash flow from operating activities	298.9	115.6	183.3
Proceeds/payments for items of property, plant and equipment, and intangible assets	-129.3	-96.6	-32.7
Free cash flow	169.6	19.0	150.6
Increase/decrease of prepayments received (customer prepayments)	44.8	-20.6	65.4
Net cash flow	124.8	39.6	85.2
Proceeds/payments for capital expenditure including tangible assets	-129.3	-96.6	-32.7
Proceeds/payments from fixed-term deposits	-42.3	-38.9	-3.4
Cash flow from investing activities	-171.6	-135.5	-36.1

Cash flow from operating activities more than doubled

In 2017, we generated a cash inflow from operating activities of EUR 298.9 million compared to EUR 115.6 million in the previous year. The cash flow from operating activities was influenced by prepayments from customers. Prepayments of EUR 68.7 million were received in 2017 (previous year: EUR 0 million) and EUR 24.0 million were repaid (previous year: EUR 20.6 million). Excluding the impact of customer prepayments, net cash flow amounted to EUR 124.8 million after EUR 39.6 million in the previous year.

Cash outflows from investing activities increased

In 2017, we reported a cash outflow from investing activities of EUR 171.6 million after EUR 135.5 million in the previous year. On the one hand, cash flow comprises cash outflows for capital expenditure and, on the other hand, cash outflows for investments in fixed-term deposits.

Cash outflows for capital expenditure increased from EUR 96.6 million in 2016 to EUR 129.3 million in 2017. Payments have been made to support increasingly demanding technical specifications of our customers. In addition, we made approximately EUR 30 million in prepayments for capacity expansion.

The net payments for investments in fixed-term deposits in 2017 amounted to EUR 42.3 million after EUR 38.9 million in the previous year.

Free cash flow clearly positive

The management of Siltronic uses free cash flow as an internal control parameter for its operating business. This cash flow was able to meet our expectations and was very favorable in 2017 at EUR 169.6 million, despite high payments for investments in property, plant and equipment. Thus, in 2017 we were able to finance the investments in capital expenditure from the cash flow from operating activities without any problems.

Net cash flow

The free cash flow helps to assess the extent to which a company can finance its investments in capital expenditure through the 'operating business'.

In 2017, Siltronic received a significant number of prepayments from customers, and further payments will be received in 2018 on a substantial basis due to concluded contracts. The inflow and repayment of customer prepayments lead to time shifts in free cash flow, which, due to their size, impair the meaningfulness of the free cash flow. Therefore, we introduced the key figure 'net cash flow'. Net cash flow represents free cash flow without the timing differences resulting from the inflow and repayment of customer prepayments.

Net cash flow reached EUR 124.8 million in the reporting year (previous year: EUR 39.6 million).

Financing activity involves the complete repayment of a loan

In 2017, we prematurely repaid a long-term loan granted a few years ago by the minority shareholder of SSW. In 2016, no financing activities took place.

Financial management

Principles and objectives

The aim of financial management at Siltronic is to optimize cash flows and ensure that currency effects are hedged in accordance with our policy. Derivatives are used exclusively to hedge cash inflows and outflows resulting from receivables and liabilities. As of December 31, 2017, 51 percent of assets were financed from equity and 49 percent from liabilities.

As the Group's parent company, Siltronic AG is significantly involved in the financing of its subsidiaries. Financing is managed from the Group perspective.

Off-balance sheet financial instruments

Siltronic's use of off-balance sheet financial instruments is negligible.

Net financial assets reach EUR 342.1 million

Net financial assets increased again due to the positive free cash flow of EUR 169.6 million achieved in 2017. Siltronic had net financial assets of EUR 342.1 million as at December 31, 2017 (December 31, 2016: EUR 175.0 million).

The fixed-term deposits have a term of up to 2018.

Net financial assets

In EUR million	Dec. 31, 2017	Dec. 31, 2016	Change
Financial liabilities	–	–40.4	40.4
Cash and cash equivalents	225.8	136.4	89.4
Fixed-term deposits	116.3	79.0	37.3
Net financial assets	342.1	175.0	167.1

ROCE of 31.3 percent

ROCE 2017 is based on an EBIT of EUR 235.7 million (previous year: EUR 27.0 million). Capital employed in the previous year amounted to EUR 733.7 million and in 2017 increased by EUR 18.2 million to EUR 751.9 million, mainly due to higher trade receivables. Major reason for the improvement in ROCE, which rose from 3.7 percent to 31.3 percent, was the significant improvement in EBIT.

Liquidity management

Our aim is to pool Group companies' surplus liquidity and, ensuring solvency at all times, to optimally allocate this money within the Group or invest it externally. For this purpose, we use a treasury management system that provides us with an overview of each subsidiary's cash status at all times.

Summary of financial position

In 2017, we continued to improve our financial position thanks to the clearly positive free cash flow. Net financial assets of EUR 342.1 million provide a solid foundation for our short- and medium-term growth strategy.

Limitation of financial risk

We reduce our financial risk by pursuing a hedging strategy in which we use forward transactions, swaps and options to limit Siltronic's currency risk. The hedging costs are recognized in accordance with the IFRS rules on hedge accounting.

The core components of our policy for limiting financial risk are the clear definition of process responsibility, multi-level approval processes, and risk assessments.

Analysis of capital expenditure

The funds from operating cash flow are mainly invested in existing plants in order to automate or optimize production and increase yields. In 2017, we invested mainly in the exchange of crystal pulling equipment in Freiberg, down payments for crystal pulling equipment and the further automation of production.

Siltronic AG

In addition to the information on the Siltronic Group, we report on the performance of Siltronic AG. The annual financial statements of Siltronic AG are prepared in accordance with the provisions of the German Commercial Code (HGB). The complete set of statements is published separately.

As the parent company of the Siltronic Group, Siltronic AG is in charge of generic strategic management as well as allocation of resources, funding, and communications with the capital markets and shareholders.

Siltronic AG is an operating company; it has production facilities in Burghausen and Freiberg, and it also has a permanent establishment in Taiwan. Wafers and semi-finished goods are manufactured at the production facilities. The semi-finished goods are sold to subsidiaries and the wafers to end customers, provided the latter are almost all located in Europe or Taiwan. In other countries, the wafers are sold through international subsidiaries.

Results of operations of Siltronic AG in accordance with the HGB

In EUR million	2017	2016	Change	
			Amount	in %
Sales	866.8	667.5	199.3	29.9
Changes in inventories and other own work capitalized	3.5	-0.6	4.1	> 100
Total operating output	870.3	666.9	203.4	30.5
Cost of materials	-359.6	-305.5	-54.1	17.7
Labor costs	-212.1	-209.3	-2.8	1.3
Depreciation, amortization, and impairment	-50.4	-49.2	-1.2	2.4
Other net operating expenses and income	-137.4	-121.5	-15.9	13.1
EBIT	110.8	-18.6	129.4	> 100
EBITDA	161.2	30.6	130.6	> 100
Interest income/expenses	-11.1	-3.7	-7.4	> 100
Investment income	50.0	-	50.0	> 100
Result before income taxes	149.7	-22.3	172.0	> 100
Income taxes	-11.6	-0.4	-11.2	> 100
Net gain/loss for the year	138.1	-22.7	161.8	> 100
Withdrawal from capital reserves	-	22.7	-22.7	> 100
Retained earnings	138.1	-	138.1	100

The increase in sales by EUR 199.3 million in 2017 is due to higher sales prices and higher volumes. Sales are broken down by region as follows: Asia 60 percent (previous year: 58 percent), Europe 24 percent (previous year: 25 percent), America 14 percent (previous year: 15 percent), the rest of the world 2 percent (previous year: 2 percent).

The cost of materials ratio, that is the ratio of cost of materials to total output was 41.5 percent in 2017 after 45.8 percent in the previous year. The improvement in the ratio was mainly due to higher selling prices.

Personnel expenses increased by EUR 2.8 million or 1.3 percent compared to the previous year. A positive effect was the reduction of the average number of employees by about 5 percent. This was mainly offset by the strong increase in performance-based compensation.

There were no significant write-downs either in 2017 or in the previous year.

The increase in other operating income and expenses (net) of EUR 15.9 million is primarily due to higher expenses for temporary employees.

The investment result is the result of a dividend paid by Siltronic Holding International B.V, Netherlands (SHI).

Net assets of Siltronic AG in accordance with HGB

Assets, in EUR million	Dec. 31, 2017	Dec. 31, 2016	Change	
			Amount	in %
Fixed assets				
Intangible assets	1.4	1.1	0.3	18.2
Property, plant and equipment	283.3	241.6	41.7	17.3
Financial assets	129.4	129.3	0.1	0.2
	414.1	372.0	42.1	11.3
Current assets				
Inventories	94.8	94.3	0.5	0.5
Trade receivables from third parties	64.1	41.1	23.0	56.0
Receivables from affiliated companies	213.7	251.9	-38.2	15.2
Other assets, excluding time deposits	29.7	18.0	11.7	65.0
Cash and cash equivalents, including time deposits	257.0	46.7	210.3	> 100
	659.3	452.0	207.3	45.9
Total assets	1,073.4	824.0	249.4	30.3

As investments in property, plant and equipment, and intangible assets exceeded depreciation, the book value increased by EUR 42.0 million.

The financial assets relate almost exclusively to the investment in the Dutch subsidiary SHI.

Trade receivables from third parties increased by EUR 23.0 million, as sales rose significantly in the relevant period compared to

the previous year. Trade accounts receivable from affiliated companies also increased by EUR 28.5 million. Receivables from affiliated companies were adversely affected because loans granted to subsidiaries declined by EUR 66.7 million.

Cash and fixed-term deposits increased by EUR 210.3 million as a result of positive EBIT, lower loans to subsidiaries, the dividend of the subsidiary SHI and prepayments received from customers.

Financial position of Siltronic AG in accordance with HGB

Equity and liabilities, in EUR million	Dec. 31, 2017	Dec. 31, 2016	Change	
			Amount	in %
Equity	641.1	503.0	138.1	27.5
Provisions				
Pension provisions	121.2	109.8	11.4	10.4
Other provisions	107.8	92.7	15.1	16.2
	229.0	202.5	26.5	13.1
Liabilities				
– Trade payables to third parties	22.1	22.5	–0.4	–1.8
– To affiliated companies	109.7	84.5	25.2	29.8
Other liabilities	71.5	11.5	60.0	> 100
	203.3	118.5	84.8	71.6
Total equity and liabilities	1,073.4	824.0	249.4	30.2

The assets are financed as of the balance sheet date by 60 percent equity and 40 percent debt.

The main reason for the EUR 25.2 million increase in liabilities to affiliated companies is that the balance of subsidiaries' financial clearing accounts increased overall.

The increase of EUR 60.0 million in other liabilities is almost entirely attributable to prepayments received by Siltronic AG from non-Group customers and related to future shipments of wafers.

Net financial assets amounted to EUR 282.1 million as of 31 December 2017, following EUR 154.9 million in the previous year. This corresponds to an increase of EUR 127.2 million.

The cash flow from operating activities at Siltronic AG amounted to EUR 227.7 million in the past year, following EUR 20.6 million in the previous year. Payments for capital expenditure amounted to EUR 99.4 million in 2017, following EUR 73.3 million in 2016. Payments for capital expenditure led to free cash flow of EUR 128.3 million in 2017 (previous year: EUR –52.8 million).

Chances and risks

The business development of Siltronic AG is essentially subject to the same risks and opportunities as those of the Siltronic Group. Siltronic AG generally participates in the risks of its subsidiaries and subsidiaries in accordance with their respective shareholding. The valuation of the investments depends in particular on the risks presented in the risk report. Siltronic AG, the parent company of the Siltronic Group, is integrated into the Group-wide risk management system.

Outlook

The expectation for the further business development of Siltronic AG in the coming year is essentially identical to the outlook of Siltronic Group, which is described in detail in the forecast report of the Group.

Non-financial performance indicators

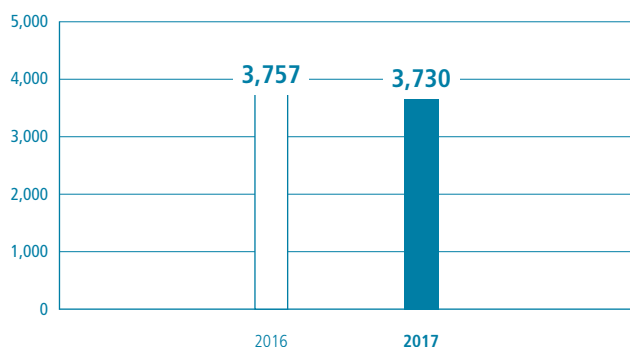
Employees

The work of our employees, who use their skills and passion for silicon wafers daily, is the foundation of our business success.

As of December 31, 2017, Siltronic had 3,730 employees. The number of employees thus fell by 27 employees or 1 percent compared to the previous year (3,757 employees). In addition, there were 709 temporary employees worldwide as of December 31, 2017 (previous year: 534).

As a manufacturing company we have a high ratio of direct staff. In 2017, this was around 67 percent.

Number of employees (excluding temporary employees) as of December 31, 2017



Global personnel strategy and decentralized organization of personnel management

Our human resources management is decentralized in order to meet the diverse needs of employees at each location and in the regions. The cross-location framework is formed by the guidelines of our global personnel strategy, such as executive development and talent management, the performance-based structure of our pay system and the internationally oriented organization. In general, the strategic corporate guidelines and in particular the compliance guidelines must be observed.

Diversity is an important topic

One focus of our efforts is to harness the existing diversity of modern society. In Germany and at Siltronic AG, respectively, the following examples show our commitment to diversity.

All employees at the German locations are required to familiarize themselves with the General Equal Treatment Act (AGG) through e-learning training. The training is binding for all hierarchical levels, from the board to the tariff employee. Every new employee must also complete this training.

We support and promote disabled people. Supervisors, employees, human resources, disability representatives and health services work closely together to help employees with disabilities stay at work or move to a suitable job. As a result, we can retain skilled workers and valuable, long-term knowledge remains with Siltronic. In Germany, an average of 216 severely disabled and equivalent people worked in 2017 (2016: 225), which corresponds to an employment rate of around 9 percent.

Since June 1, 2017, we employ a full-time representative for disabled employees for this highly responsible task.

We support disabled people who are not employed in the general job market. For this we work together with workshops for the disabled. At the Burghausen site, for example, Siltronic obtains packaging from the 'Ruperti' workshops.

Family is an important issue for us. For employees in Freiberg a quota of nursery places is available. In Munich, an external family service provides childcare places in kindergartens and crèches. At all locations in Germany there is a service for family emergencies. In the event of illness or long-term care, even of relatives, employees can seek the advice of the family service. We also offer family time in the form of paid leave to support employees in child care. In 2017, for the first time in Burghausen, a one-week childcare during the summer holidays was offered.

Employee development has high priority

To ensure the sustainability of our success, we launched the talent management process as early as 2013. In an annual talent management cycle, all non-tariff employees and senior executives are discussed according to consistent criteria in in-field and cross-departmental conferences. In the annual employee appraisal, supervisors and employees then define development measures on this basis. We want to occupy demanding positions in the medium and long term with internal candidates.

Graduate program for the promotion of young professionals with main topics digitalization and automation

In 2017, our 3rd Graduate Program was initiated. For this we were able to attract talented graduates mainly from engineering disciplines for the topics of digitalization and automation and offer them the opportunity to qualify for future management tasks. In addition to on-the-job training, the program includes seminars on management topics, communication skills and teamwork. Participants will be guided by mentors during the 18-month program.

Our own personnel marketing concept

Since 2017, we have been represented at traineeship and university fairs under our own branding in order to present Siltronic as an employer brand and to promote available jobs. As part of the modernization of the website, the careers page has been adapted to bundle all important information for applicants.

Training towards securing sustainable skilled labor in Germany

Due to the effects of demographic change, since 2016 we have initiated a vocational training program in cooperation with the vocational training center of Wacker Chemie AG. For the 2018 apprenticeship year, new apprentices were also selected in both Burghausen and Freiberg in various occupations, who received training contracts from Siltronic.

Health management offers employees various services in Germany

In order to remain innovative and competitive, our employees have the opportunity to make use of various services through our health

management system. We want to prevent back and cardiovascular diseases in our workforce, strengthen mental resilience, enable age-appropriate work and provide suitable workplaces for employees with limited health care. All employees at the German locations have the opportunity to take part in preventive check-ups at regular intervals.

In cooperation with Deutsche Rentenversicherung (German pension insurance), Siltronic employees have been participating in the 'Fit on shift' project since 2013. In the health program, which is specially tailored to shift workers or heavily loaded workplaces, participants learn behavior patterns that enable them to better compensate for these burdens in the long term.

Research & development

Innovation is key to success

The main driving forces in the semiconductor industry are miniaturization, cost savings, and efficiency increases. This is expressed in greater processing power and memory capacity and in lower specific electricity consumption, as well as in steadily declining costs per function. Demand for customized wafer solutions is also being driven by exceptionally strong growth in specialist applications such as power electronics, sensors, and communications electronics. To achieve the goals mentioned above, our customers demand the highest possible technological expertise as well as speed in the further development of silicon wafers, which are the most important basic material for the semiconductor industry.

Key figures for R&D

	2017	2016	2015	2014
R&D expenditure (EUR million)	68.3	66.4	64.4	64.3
R&D expenditure as a percentage of sales	5.8	7.1	6.9	7.6
R&D grants and subsidies received (EUR million)	0.8	0.6	0.6	0.8

Intensive development activities are therefore essential in order to keep pace with the rapid rate of development in the semiconductor market and to maintain our position as a technology leader. Worldwide, we employ more than 400 engineers in process engineering, metrology, IP and innovations. They are based at all of

our sites. The Burghausen site is Siltronic's central development center. Tasks range from product quality assurance and testing and assessment of new technologies and equipment modifications to continuous improvements, line integration, and the qualification of wafers for our customers' latest technologies.

Intellectual property including around 1,700 registered patents and patent applications in around 300 patent families underlines our great innovative strength and secures our leading technological position in the global market.

Our expenses for research and development (R&D) amounted to EUR 68.3 million in 2017 (2016: EUR 66.4 million). Funding for R&D was not significant in these years.

Strategic cooperation with customers and research institutions

A large number of our projects require close and continuous cooperation with our customers. To this end, we work with our technology-leading clients on joint development program (JDA) projects, looking to cover a broad range of semiconductor end-uses overall. We also work with research institutions and universities. At national and European level, we make use of public funding opportunities where appropriate.

Production and supply chain management

Production

Our production plants are strategically located close to our customers and provide us with good access to highly skilled workers. We make best use of the strengths of our various sites. In Germany we take advantage of the innovation strength of best-in-class scientists and engineers and in Asia of favorable labor costs.

We make silicon crystals using the Czochralski process and turn them into polished wafers. An additional layer known as an epitaxy is added to some wafers.

Siltronic also makes wafers from crystals produced using the float zone technology. These wafers, which are mainly used in power electronics, come with a range of surface properties and have diameters of up to 200mm.

We use standardized processes in all our production sites to deliver our wafers to our customers. We implement process improvements quickly and efficiently by knowledge transfer between our production sites. This enables us to simplify the qualification process by our customers. In addition, we operate our 300mm wafer lines at our German sites in Freiberg and Burghausen as a tightly integrated ‘virtual fab’ with a single cross-site management team.

We optimize our production processes and thus our process capabilities and cost structure on an ongoing basis. Changes are tested, evaluated and implemented by a change management process. A major focus is to secure the quality of our products and the profitability of our lines. State-of-the-art technology is part of our production. This enables us to accommodate our customers’ requirements in a flexible way.

Projects in 2017

In 2017, we completed the projects that we started in 2015. In some places 2017 further steps have joined.

Freiberg, Germany	New crystal pullers; Automation of the 300mm wafer line
Burghausen, Germany	Automation of the 300mm wafer line
Singapore	New crystal pullers

Supply Chain Management

Thanks to our fully integrated logistics processes, we offer added value to our customers in the form of rapid reaction times and a high level of delivery reliability. Our electronically supported supply chain ensures every process – from initial contact to manufacturing to delivery – is transparent and can be monitored.

We are working continuously to reduce delivery times and optimize our supply chain in terms of cost, speed, and quality. By reusing and recycling, we try to minimize the impact on the environment, particularly with regard to primary packaging for wafers and secondary packaging used for transportation.

Requirements relating to wafer specifications, volumes, and destinations for our exports, both to our customers and to Siltronic sites, are subject to constant changes that we analyze regularly and coordinate with our capacities. Global planning of raw materials, semi-finished products, finished wafers, and their shipping to customers takes place in real time using customized systems. We thus offer our customers quality and security of supply.

We use extensive e-business solutions to integrate our external partners into our processes so that we can unlock the full potential of these partnerships. One such solution is a collaboration platform (extranet) that enables us to exchange information with individual partners and thus operate lean and integrated administrative processes.

For optimal electronic data exchange with our external partners, we mainly use the internationally recognized 'RosettaNet' standard. Or we rely on other service providers - so-called third party providers - to receive or make available, for example, EDI formats. With many customers, we have built fast B2B connections that streamline collaboration, from electronic inventory management and demand planning in vendor managed inventory processes to electronic invoicing. In addition, the electronic connection of external logistics providers will be further promoted to ensure complete tracking of the supply chain to the customer.

Purchasing and supplier management

We aim to optimize our procurement costs, delivery times, and supplier quality and to quickly harness additional supply potential. Specialist teams manage purchasing processes, including raw materials and auxiliaries for our products, gas and electricity to power our sites around the world, technical materials, and specific services. In 2017, we worked continuously on competitively extending our supplier base in procurement markets worldwide. This included identifying and developing new suppliers in our key product areas and gradually ramping them up to supply for full production. We are thus ensuring that we can obtain materials at internationally competitive costs.

Systematic risk observation is an important tool for Siltronic in the proper assessment of supply relationships. This involves using analyses from rating agencies, our own supplier evaluations and, increasingly, direct contact with our partners. Our technical procurement team assessed the risk of 85 and the performance of over 100 suppliers last year.

Due to higher capacity utilization, the order volume of EUR 571 million in 2017 was higher than in the previous year (2016: around EUR 500 million). The agreed delivery qualities, quantities and dates were realized by our suppliers at a very high level. Worldwide, Siltronic placed more than 58,000 purchase orders. In the area of procurement and logistics, 6 percent of our suppliers account for around 90 percent of our procurement volume.

E-procurement is very important to us. We can look at the entire purchasing process, from sending an inquiry to a supplier to paying the invoice. A key metric is the number of purchase orders created automatically. More than 99,900 different purchase order items were requested worldwide in 2017 (2016: around 95,400 items). At our German sites, around 71 percent of the total number for 2017 were created automatically and thereof around 36 percent via eCatalog.

Variation in material price movements

Price movements relating to our most important materials and raw materials declined again slightly in 2017. In the area of specific input materials further reductions could be achieved. Currency effects also had a slightly positive impact on procurement in 2017.

Security from long-term agreements

We have secured our supply of polysilicon for the German sites from Wacker Chemie AG with a long-term supply agreement that runs until 2020. A specific agreement between Wacker and SSW ensures Siltronic Singapore has a stable supply of polysilicon until 2021. We buy more than 90 percent of our polysilicon from Wacker. On an annual basis the polysilicon price is renegotiated between Siltronic and Wacker within a determined price corridor on the basis of the prior year's price. As part of our multiple supplier strategy, we can also use alternative sources of supply.

Suppliers play an important role for Siltronic

We highly value direct contact with suppliers and long-term, constructive working relationships. At the same time, it is important that we are not dependent on individual suppliers. Our supplier management plays a key role. Specialist product group teams with different areas of responsibility manage the Company's purchasing processes. These teams tap into new potential in the market and the latest innovations at existing suppliers and then incorporate this expertise into our processes. We can thus safeguard the quality of our products, productivity, and competitiveness for the long term.

We have more than 3,450 suppliers worldwide (2016: 3,400). The share of Asian suppliers has increased further. They now account for more than 21 percent.

Our suppliers make a substantial contribution to ensuring that Siltronic can manufacture wafers in the quality required by customers on the basis of improved processes and a high level of innovation. In 2017, eight suppliers who had rendered special services in the previous year were awarded the 'Siltronic Supplier Award 2016' in the categories 'Excellent Customer Service & Delivery Performance' (CMM Ultra Pure Chemicals), 'Outstanding Technology & Customer Orientation' (Wacker Chemie AG), 'Excellent Service in Engineering and Maintenance' (AEK Kreutzpointner), 'Outstanding Quality & Customer Orientation' (SEP Shin-Etsu Polymer), 'Excellence in Innovation and Technology' (Fujimi), 'Exceptional Long Term Global Partnership' (Nitta Haas), 'Outstanding Quality & Customer Orientation' (Südpack) and 'Best Equipment & Maintenance Service' (Caverion).

Sales and marketing

We strive for close and long-term collaboration with our customers. Overall, we supply customers in more than 40 countries. We also run joint development projects with many of our customers, details of which can be found in the chapter on R&D starting on [57](#).

Experts in sales and application technology in the six defined sales regions USA, Europe, Japan, Greater China (Taiwan and China), Korea and the rest of Asia-Pacific ensure we can serve our customers promptly and locally. From a marketing perspective, we are present in the USA, France, Italy, Germany, South Korea, Japan, China, Taiwan, and Singapore, and we almost exclusively sell our wafers to our customers directly.

Key account teams, composed of employees from sales & marketing, application technology, process engineering, quality management, and logistics, maintain close relationships with our key customers. This enables us to respond quickly to changing customer requirements and to manufacture silicon wafers that fulfill these requirements.

The contracts with our customers have different terms, ranging from around three months to more than one year. In 2017, we signed several multi-year contracts with customers for 300mm wafer delivery. Siltronic in Singapore (SSW) has a long-term agreement with Samsung on the purchase of silicon wafers.

We continually evaluate market information. The greater transparency that this provides enables us to sharpen our focus on our customers and their requirements, deploy our resources optimally, and counter any risks in good time.

With the majority of our customers, a trusting and cooperative partnership has existed for many years. This is also reflected by the awards which we have received from our customers.

Corporate social responsibility (CSR)

We believe one of our core responsibilities is to bring the impact of our business activities into line with the expectations and needs of society. That is why we are guided in our decision making by principles of responsible corporate governance and sustainable business practice. Further information on CSR are stipulated in our non-financial report, which follows the Sustainability Reporting Standards of the Global Reporting Initiative (GRI).

Risk and opportunity report

Risk strategy and risk policy

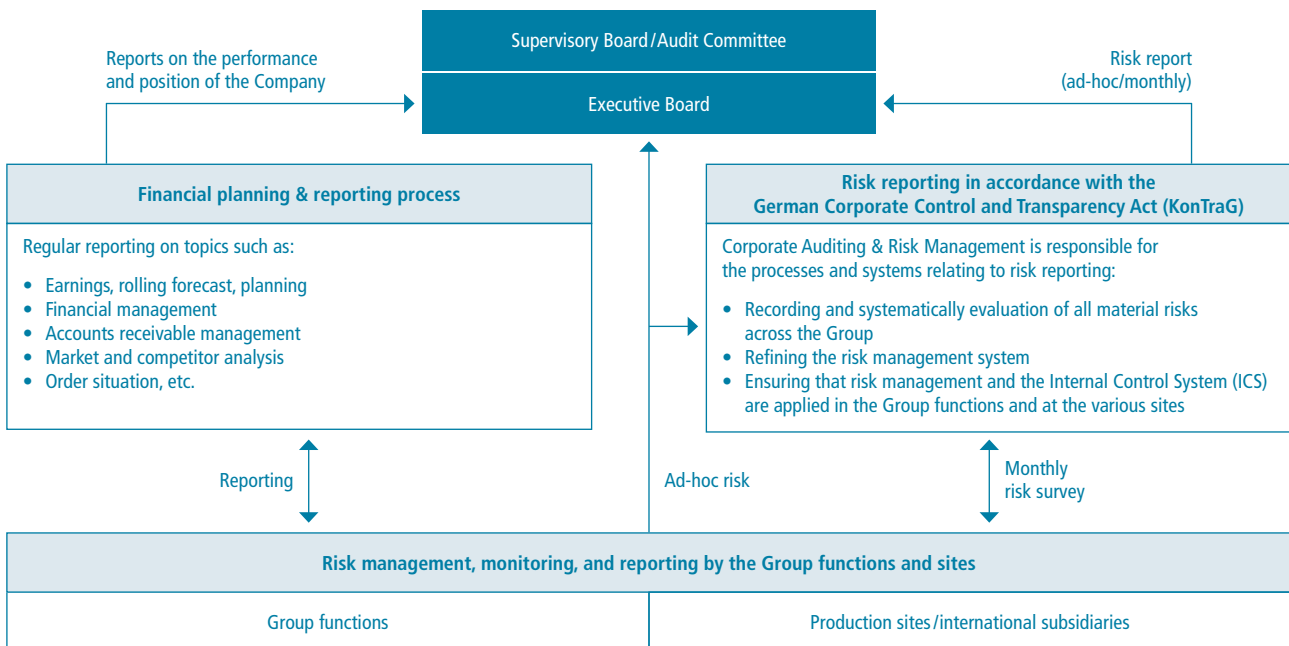
Siltronic is exposed to various risks in connection with its business activities. That is why we believe effective opportunity and risk management is an important element of corporate governance for us as a global company. It is also part of our wider process of opportunity and risk management aimed at unlocking existing and future potential for success. We define risks as internal and external events that have a negative impact on the achievement of our targets and forecasts. Based on the acceptable aggregate risk, the Executive Board decides which risks we will take in order to seize opportunities available to the Company. Our aim is to detect risks as early as possible, assess them appropriately, and take suitable steps to mitigate or avoid them. The Executive Board regularly reviews and updates the risk strategy, which covers all areas of the Company.

Risk management system

From an organizational perspective, the risk management system is integrated into the existing decentralized organizational and reporting structure. It is complemented by a multi-stage process, whose mandatory procedures and criteria for identifying, assessing,

managing, and reporting risks and for monitoring the system as a whole are defined in a Group manual. The risk management system encompasses all entities. The legally independent Group companies and the Group functions oversee day-to-day risk management in their own areas. Each month, the designated risk managers are requested to report to head office with regard to risks at their site or in the Group function for which they are responsible. In addition, material risks must be reported immediately using an ad-hoc reporting process. Corporate Auditing & Risk Management, which reports directly to the Executive Board, is responsible for the processes and systems related to the group-wide early-warning system for risks. This head-office department also coordinates the groupwide recording of all material risks, analyzes the overall situation at Group level, and communicates risks. The Executive Board and the Supervisory Board's Audit Committee are kept informed about the current risk situation in the Group. There is no formal system for recording opportunities within the risk management process. The Executive Board and other senior managers receive monthly reports from the central Financial Planning & Reporting department on current and expected business performance. On the basis of this data, risks and opportunities are discussed regularly in management, evaluated and weighed against each other.

Risk reporting



The designated risk managers in our Group functions and at the main sites, along with the Group risk manager, regularly examine processes, procedures, and developments for any risks that might exist. Risks are identified and assessed using standardized risk matrices. We assess the relevant risks for probability of occurrence and the degree of impact on our business activities, financial position, financial performance, and cash flow. We use the following specific terms to describe the probability that the risks that we have identified will occur.

- Unlikely: less than 25 percent
- Possible: 25 percent to 75 percent
- Likely: greater than 75 percent.

The effects on the development on the assets, liabilities and financial position of the Group correspond to the following bandwidths:

- Low: up to EUR 5 million
- Moderate: EUR 5 million up to EUR 25 million
- High: more than EUR 25 million

Suitable measures are taken to avoid, reduce the probability of, and lessen the possible financial impact of the risks that are recorded each month or on an ad-hoc basis. These risk containment measures and any relevant early warning indicators are regularly updated and documented centrally, as are the identified residual risks.

Internal control system in the consolidated accounting process

The internal control system (ICS) comprises checks that serve to control risk and thus ensure that business activities can proceed properly. These checks are integrated into the operating processes and incorporate adequate separation of functions, verification by a second person, access and approval procedures, and other steps. The internal control system helps us to achieve the objectives of our business policy by ensuring the correct functioning and efficiency of business processes, compliance with laws and regulations, and the protection of our assets.

With regard to the accounting process, our aim with the internal control system is to apply the accounting rules in the International Financial Reporting Standards (IFRS) consistently and to comply with other applicable statutory accounting requirements. This prevents misstatements in the consolidated accounts and in external reporting. The control system is designed so that all transactions are consistently and correctly accounted for at the due time and so that reliable data on the Group's financial position and financial performance is always available. To this end, we have drawn up one central interpretation of the IFRS standards and an accounting manual, which is supplemented by more detailed information on important individual issues. Organizational responsibility and the processes for accounting-related tasks are specified in internal written procedures. The Group's Accounting function monitors compliance with reporting obligations centrally. Once approved by the local management team, the reporting packages of the individual companies are posted to a centralized consolidation system. This data is automatically validated by the system and checked using reports and analyses, thereby ensuring the integrity of the data and adherence to the reporting logic. System-based checks are also built into the consolidation process. Finally, we analyze the Group's statement of profit or loss and statement of financial position in order to identify trends and anomalies. We keep abreast of changes to financial reporting standards and train the employees who work in this area. For particularly complex aspects of accounting, such as pensions, we bring in external specialists. Our financial systems are protected against misuse by suitable authorization concepts, approval concepts, and access restrictions. We minimize the risk of data loss and of the failure of accounting-relevant IT systems by performing regular system backups and maintenance.

We ensure the effectiveness of the checks by monitoring key performance indicators on an ongoing basis as part of the monthly management reporting. Regular reviews and external audits by the independent auditor also take place for each reporting quarter and at the end of the financial year. Each quarter, the management teams of the subsidiaries confirm that all information relevant to the quarterly and annual financial statements has been reported. Internal Audit, acting on behalf of the Executive Board, audits the processes and, in particular, the internal control systems, in the main areas of the Company. In consultation with the Audit Committee, the Executive Board decides on the topics to be audited, following a risk-oriented approach. If necessary, due to a change in circumstances, these topics can be flexibly amended during the year.

The Supervisory Board is also involved in the control system through the Audit Committee. The main aspects monitored by the Audit Committee are the accounting process, the effectiveness of the control system and risk management system, and the audit of the financial statements. It also reviews the documents pertaining to the separate financial statements of Siltronic AG, the consolidated financial statements, and the combined management report relating to these financial statements before discussing them with the Executive Board and the auditor. The auditor assesses the early-warning system for risks during the audit of the annual financial statements.

Material risks

The following summary contains our assessment of the probability of occurrence of material risks. The statements refer mainly to the period covered by the outlook, i.e. the whole of the 2018 financial year. The evaluation of the risks in the overview is based on the so-called net principle, i.e. taking into account the control and safeguarding measures.

Overall environment

Global economic downturn

Our business is heavily dependent on the performance of the global economy. An unexpected slowdown of economic growth, whether globally or in the regions significant to the electronics industry, may mean that our sales do not reach the level we anticipated. Demand for our silicon wafers could decline due to a lack of demand in the market, or we might be forced to lower our prices because of increased competitive pressure. If production capacity utilization falls, specific manufacturing costs may rise and our earnings would additionally be adversely affected.

We monitor the economic performance of our main sales markets on an ongoing basis. When economic growth weakens, we make preparations early on in order to flexibly adjust our production capacities, resources, and inventories in line with customer demand.

External risk

Siltronic is a global company with production facilities in Germany, the USA, and Singapore. Possible natural disasters, political crises, and other disruptions in individual countries or regions in which we operate pose a potential risk for our business and production processes, the sales of our products and our fixed assets.

We have drawn up plans and measures for minimizing the impact of external events on the health of our employees and on our business processes. The production sites are located in relatively stable and secure regions. Our prevention plans, as well as our global production sites, help limit the impact of local or regional events on our business operations. The financial impact of damage to our production facilities is partly covered by insurance.

Industry and market risks

Fierce competition, demand controlled by customers, threat of substitute products, cyclical nature of the wafer market

The wafer industry is characterized by phases of imbalance between supply and demand. Such phases regularly have an effect on prices. Forecasts for unit sales and prices are subject to great uncertainty owing to frequent fluctuations in demand. We may be forced to reduce our unit sales and prices without being able to make any corresponding reduction in our costs. This trend may continue. Our top ten customers account for more than two-thirds of our total sales and we expect their share in sales to further increase. If key customers were to significantly reduce their orders from us, or even terminate them, this may have a considerable impact on our financial position and financial performance.

We lower the risks by increasing flexibility in production and by managing costs rigorously. We adjust our capacities to market conditions and are continuously improving the efficiency of manufacturing and business processes in order to reduce the cost base. We have entered into long-term purchase agreements with various customers with a term of several years, set minimum purchase quantities and prices, and in some cases have secured pre-payments.

Adaptation of our production facilities to customer requirements and demand

Changes in customer demand and/or to the original assumptions about the market might not be reflected in our capital expenditure quickly enough or may lead to poor investments. Increased investments lead to greater outflows of funds and, in the future, to higher depreciation charges recognized in profit or loss from operations. Delays to production start-up or capital expenditure projects may mean we are unable to fulfill supply agreements, our sales and earnings may fall, and we could lose market share.

Siltronic takes various steps to counter capital expenditure risk. Capital expenditure projects are only approved on a step-by-step basis. Intensive project planning and control serve to minimize and prevent delays. Capital expenditure risk is also closely linked to changes in customers' technological requirements. Siltronic counters this risk by closely watching the market and by holding discussions with customers in a systematic manner.

Additional costs from closing production lines

Changes to the market and to demand may force us to close down departments, production lines, or sites. This could result in the recognition of impairment losses on non-current assets and closure costs, e.g. severance payments for employees.

Product development risk

Two of the main characteristics of the semiconductor industry are constant technological progress and ever greater and new demands, and these are also true of our manufacturing processes. It is possible that we will be unable to respond quickly enough to these changes. We may gauge future market trends incorrectly or customers may not accept our product developments. Our competitors may launch new generations of wafers faster, at lower prices, or with better capabilities.

We minimize the risks arising from our development work by carrying out certain developments in cooperation with customers. At the same time, we keep a close eye on the market and our competitors, meet with customers and suppliers, and regularly attend conferences of significance to our business. Siltronic collaborates with universities and research institutions on its R&D projects in order to incorporate the latest trends into the development of its technologies and projects. We use systematic project management methods for our development projects. Specific project milestones and clear approval processes help us to detect project risks at an early stage and respond appropriately.

Procurement market risk

Raw materials, energy, other secondary materials, machinery, and spare parts are available from a limited number of suppliers. Complexity and the general pressure on costs will mean increasingly close cooperation and mutual dependencies. Quality defects, delays and failures on the part of suppliers, and unexpected price rises may have a negative impact on production, unit sales, and financial performance, and the necessary certification for new suppliers can take a long time.

We select our suppliers carefully in order to contain the risk of supplier failures. We define systematic procurement strategies for strategic raw materials and resources each year – and on an ad-hoc basis if required – that include an assessment of procurement risk. If procurement risk is considered to be significant, we implement appropriate countermeasures wherever possible, e.g. long-term supply agreements and the establishment of alternative suppliers or the development of safety stock.

We obtain various services and supplies plus a very important raw material for us, polysilicon, from Wacker Chemie AG. The services and supplies are mainly engineering and supply services at the Burghausen site, as well as general Group services. If we have to build up capacity for these services ourselves or engage alternative suppliers, it might lead to delays and additional costs.

We have secured the supply services from Wacker Chemie AG on the basis of long-term contracts. Suitable notice periods have been agreed and we obtain polysilicon from Wacker Chemie AG under a long-term agreement. The price development of polysilicon depends on the economic development in the semiconductor and solar industries. There is a risk that we will not be able to pass on rising polysilicon prices to our customers. To minimize failures in the supply of polysilicon, two production facilities of Wacker Chemie AG and other suppliers have been certified.

Production risk and product liability risk

Errors can occur during production, storage, and transportation, leading to product defects, personal injury, damage to property, or environmental damage. Our manufacturing process is highly complex and requires state-of-the-art facilities that are continually upgraded in order to meet customers' high demands in relation to specifications, quality (performance, stability, and continuous improvement), and price. The smallest variances in supplier performance can lead to considerable losses for customers, along with damages claims, a reduction in orders, and even the termination of customer relationships. In addition, they entail expensive product recalls and recertification processes. The possible resulting harm to our reputation may also adversely affect our future business performance.

We have taken out appropriate insurance for those risks that can be insured. Siltronic places particularly high importance on ensuring high quality standards in order to prevent defects in quality. The Company uses the integrated management system (IMS) along with process control and monitoring systems based on the IMS in order to manage its processes. It defines the processes and responsibilities and takes account of productivity, quality, adherence to customer specifications, safety, environmental protection, and health in equal measure. The IMS is founded not only on statutory requirements but also on national and international standards, such as ISO TS 16949 (quality), ISO 14001 (environment), OHSAS 18001 (health), Responsible Care®, and the Global Compact, which go far beyond the standards required by law. We try to ensure the maximum possible safety at our production facilities by conducting extensive maintenance checks, regular inspections, and audits. To guarantee the safety of facilities, we carry out wide-ranging safety and risk assessments, from the design stage through to start-up, and identify any necessary improvements. If a damage/loss event occurs, each Siltronic site has emergency response plans in place that govern the cooperation with internal and external emergency services and the authorities. To avoid quality risks, we apply Lean Six Sigma methods for prevention, problem-solving, and continuous improvement in our production processes.

Legal and regulatory risk

General legal risk

Lengthy legal disputes can have a negative impact on our operations, image, and reputation and involve high costs. In order to counter potential risks that may arise from the many different tax, patent, anti-trust, trade, employment, contractual regulations and laws, Siltronic bases its decisions on extensive investigations and legal advice.

As a technology company, Siltronic is particularly reliant on the protection of its intellectual property and thus pursues a patent strategy that supports this. If required, we call in external legal specialists. Our Intellectual Property department protects and monitors patents, trademarks, and licenses. Before starting research and development projects, we investigate whether existing third-party patents and other rights could hamper us in marketing newly developed products, technologies, and methods.

Legal risks are limited by a legal review by our legal department. If necessary, we also rely on specialized external legal experts. We limit the risk of legal violations through compliance programs. The applicable Code of Conduct defines rules of conduct that are binding for all employees. Through training, we increase awareness of these issues and try to avoid reputational risks.

Environmental risks

Siltronic is subject to a number of local environmental protection laws and regulations, which primarily relate to the storage, handling, disposal, emission and registration of hazardous substances. This could expose us to liability for environmental damage. Changing environmental laws may lead to further pressures on our sites.

Siltronic meets this risk through extensive maintenance routines and ongoing inspections of its own facilities. In its mission statement, Siltronic has formulated the responsibility for environmental protection, safety and health and communicated globally binding principles and strategies. In the event of damage, Siltronic has developed contingency plans in addition to the insurance protection, which are regularly reviewed and trained.

Siltronic Corp., USA, has been a party to several administrative proceedings with the Oregon Department of Environmental Quality (Oregon) and the US Environmental Protection Agency (EPA) for several years in connection with the investigation of a Portland property and possible co-responsibility for contaminating the sediments of the Willamette River in Portland and the property owned by the Company. Significant expenditures for environmental investigations and the remediation of contaminated sites have so far been borne by our insurance companies. The resulting risk is considered to be low against the background of many years of experience with this issue and communication with the involved parties, in particular the Oregon Environmental Agency, the National Environmental Protection Agency and other property owners of the business park.

Regulatory risks

In the Renewable Energy Sources Act (EEG), there is the possibility of limiting the EEG surcharge for very energy-intensive companies via the 'special compensation scheme'. This requires certain criteria regarding 'current intensity', i.e. electricity costs in relation to gross value added. In 2017, Siltronic has submitted an application for a reduction of the EEG surcharge in 2018 on the basis of the previous year's data. This application was approved by the Federal Office of Economics and Export Control at the end of 2017.

As of fiscal year 2019, Siltronic is unlikely to meet the conditions for an EEG surcharge cap in accordance with our plans. In this case, additional costs of around EUR 20 million for the German locations must be expected.

Security of the IT systems; data security

There is a general increase in information security threats. This is especially true for the use of IT systems to support business processes as well as for communication. Disruptions, defects, manipulations or delays in IT functions and communication systems would therefore have a considerable adverse impact on our financial performance, and reputation.

Siltronic checks its IT constantly and puts a high focus on ensuring that the IT-supported manufacturing and business processes can run securely. Our IT security and risk management team has the task of controlling threats in a financially viable manner. The basis is provided by the ISO 27001 standard. Using a risk analysis, we define the requirements for our central systems with regard to the availability, confidentiality, and integrity of data. We have specified these requirements in service level agreements (SLAs) with our service providers. We monitor and verify compliance with the SLAs on an ongoing basis. We have taken appropriate precautions in case of emergencies. Our service provider has set up a global security team that takes organizational and technical measures and runs awareness programs in order to counter problems with the confidentiality, integrity, and availability of data and systems.

HR risk

A lack of committed and qualified specialists and managers can have a negative impact on the Company's further growth and leading technological position.

We limit HR risk by using various HR policies. The two main activities in this area are our talent management process and the associated employee development plans. We also offer a wide range of training and development activities, attractive employee benefits, and performance-based pay. Groupwide succession plans are drawn up for key roles in the Company.

Pension risk

Our employees are sometimes granted pensions and occupational pensions after termination of employment. The longer life expectancy of beneficiaries, additional obligations resulting from salary and pension increases, and falling discount rates are causing defined benefit liabilities to rise. Under IAS 19, actuarial gains and losses and other measurement changes have to be recognized in other comprehensive income immediately and in full. This leads to greater volatility in the level of equity.

The bulk of pension entitlements at Siltronic are covered by the pension fund of Wacker Chemie VVaG in Germany and by pension funds in the US. In order to ensure sufficient return on assets and limit investment risks, the investment portfolio is diversified. As one of the sponsoring undertakings, Siltronic makes financial contributions to the pension fund when required. In the future, the return on the capital employed is unlikely to be sufficient to permanently cover the defined benefit liabilities. More information can be found in note 10 to the consolidated financial statements.

Financial risk

Credit risk

Owing to the use of financial instruments and Investments and our large credit balances with banks, we are exposed to the risk of default on the part of financial institutions. We contain our counterparty risk by entering into financial instruments and investments only with investment-grade counterparties and by limiting the individual transaction volumes and terms to maturity.

Consolidation in the semiconductor industry is leading to increasing concentration on customers becoming larger. We use various instruments to reduce the risk of default. Our receivables management team regularly assesses customers' credit standing. Default risk is contained using defined credit limits and in selected cases bank guarantees. We strive to make our customer base as diversified, balanced, and solid as possible.

Market risk/currency risk

Although we generate the bulk of our sales in US dollars and Japanese yen, most of our costs are incurred in EUR and Singapore dollars. Exchange rate movements thus affect sales, earnings, liquidity, and the measurement of financial assets/liabilities and financial instruments used to hedge currency risk.

We use financial instruments to address and manage the financial requirements and risks that are a necessary part of our operating activities. Hedging is based both on operating activities that have already been posted and on future cash flows. The declining accuracy of forecasts into the future is taken into account with graduated hedge ratios. Having production facilities outside the euro-zone also helps us to counter currency risk. Translation risk, i.e. valuation risk resulting from the translation of line items in foreign currency on the statement of financial position, is not hedged. An overview of the derivatives in existence as of the reporting date and further information regarding the management of financial risks can be found in the notes to the financial statements under [note 16](#).

Liquidity risk

Liquidity risk is managed centrally using rolling liquidity planning and efficient cash management systems. Siltronic counters funding risk by holding liquidity reserves.

Opportunity report

Siltronic can see a variety of opportunities for maintaining its path of successful growth over the next few years. We use various market observation and analysis instruments to identify opportunities at an early stage, for example, tools for the continuous structured evaluation of market data, industry data, and competitor data. Close contact with our customers also helps us to assess future opportunities. KPIs (rolling forecasts and reporting of actual figures) enable us to ascertain whether, and to what extent, identified opportunities are fulfilled.

Strategic opportunities of significant importance – such as adjustments to the strategy or possible acquisitions, alliances, and partnerships – are dealt with at Executive Board level as part of the annual strategy development and planning process or, in the case of current matters, during the regular Executive Board meetings. Various scenarios and risk/reward profiles are prepared for these opportunities to provide a basis for decision-making.

Macroeconomic and industry-specific opportunities

Further increase in income

Siltronic still sees good opportunities to increase earnings. The focus region remains unchanged in Asia. Growing prosperity in Asia and emerging markets is driving demand for higher-value semiconductor products. The focus is on the areas of automotive, industrial applications, smartphones, tablets and consumer electronics. We want to accompany this growth with innovative products.

Since the end of 2016, our capacities have been fully utilized and we were able to enforce significant price increases on the market. If the future capacity expansion for wafers is below the demand trend of our customers, the demand overhang can persist over a longer period of time and lead to further price increases or stable price developments. Since positive developments in prices are fully reflected in the earnings and financial position, this opportunity is of particular importance.

More favourable currency relations also have a positive effect on our earnings situation. For Siltronic, the exchange rate of the euro against the US dollar and the Japanese yen is decisive, with around 90% of our sales being accounted for by these currencies, while our expenses are mainly denominated in euros and Singapore dollars.

Presence at all wafer consumers

We serve all the leading consumers of silicon wafers for the semiconductor industry with our product portfolio. The growth in demand for silicon wafers for the semiconductor industry has recently been driven by a broad application base. We expect robust demand development in the traditional application areas of smartphones, PCs, tablets and consumer electronics. New markets and application areas, such as in the automotive industry and in the general industry, are likely to develop disproportionately and thus increase the demand for silicon wafers. With our broad product portfolio, we can serve these global future topics in an outstanding way. By diversifying our products into more and more applications and industries, we expect the semiconductor market to show less short-term cyclical demand fluctuations in the future and to evolve into a more stable market.

Strategic and business-performance opportunities

Sound financial position

Our strong financial situation allows us to respond flexibly and quickly to strategic options that open up as a result of developments in the market and the sector. The main areas of capital expenditure are facilities for manufacturing higher-specification wafers and greater automation. It is our goal to keep the market share of currently approx. 15 percent.

Maintain technology leadership

We firmly believe that we can successfully unlock the further possibilities and opportunities of our industry because we are continually developing new technological solutions for our customers. The wafers are used for increasingly small structures, known as design rules, which nowadays are just a few nanometers in size. This will make it possible to manufacture ever more powerful and energy-efficient generations of semiconductor chips. We have joint development projects with a large number of customers in order to be a decisive partner in the introduction of new applications and to expand our technological leadership.

Continuous improvement to cost structures

Siltronic has various opportunities for improving cost structures, processes, and productivity. We have identified potential for reducing costs in a number of areas and are already taking steps to harness this potential. These areas include specific costs for auxiliary materials, productivity advances in manufacturing, and the search for new suppliers in order to secure better purchasing terms. Capital expenditure on increased automation of production is also helping to improve cost structures. Moreover, we are working on making our sites more flexible so that we are better able to respond to changes in the market. In addition, we are working on making our locations even more flexible in order to better respond to market changes.

The Executive Board's assessment of overall risk

The Group's risk profile did not change significantly in the year under review. At the time this report was published, the Executive Board of Siltronic had not identified any individual risks or aggregate risks that could seriously jeopardize the Company's ability to continue as a going concern.

Risk assessment for 2018

Risk	Probability of occurrence				Financial and economic impact			
	Unlikely	Possible	Likely	Change from AR 2016 ¹⁾	Low	Moderate	High	Change from AR 2016 ¹⁾
Overall environment								
Economic downturn		•		→			•	→
External risk	•			→		•		→
Industry and market risk								
Competition, demand controlled by customers, threat of substitute products, cyclicality of the wafer market		•		→			•	→
Adaptation of production facilities		•		↑		•		↑
Additional costs from closures	•			→		•		→
Product development risk		•		→		•		→
Procurement market risk								
		•		→		•		→
Production risk and product liability risk								
	•			→		•		→
Legal and regulatory risk								
General legal risk		•		→		•		→
Risk relating to environmental laws	•			→		•		→
Regulatory risk	•			→	•			→
Security of IT systems and data								
		•		↑		•		→
HR risk								
	•			→	•			→
Pension risk								
		•		→		•		→
Financial risk								
Credit risk financial institutions	•			→		•		→
Credit risk customers	•			→	•			→
Market risk/currency risk		•		→			•	→
Liquidity risk	•			→	•			→

¹⁾ AR: Annual Report

→ unchanged

↑ increased

↓ decreased

Unlikely: less than 25 percent
Possible: 25 percent to 75 percent
Likely: greater than 75 percent.

Low: up to EUR 5 million
Moderate: EUR 5 million up to EUR 25 million
High: more than EUR 25 million

Outlook

Expected macroeconomic and industry trends

The International Monetary Fund (IMF) forecast for global growth in 2018 is currently slightly above the expected value for 2017 (2017: + 3.7 percent, 2018: + 3.9 percent). At the same time, the expectations of the IMF for the industrialized nations have increased in recent months despite the uncertainty of new political developments. The outlook for emerging and developing countries has also improved. Nevertheless, the IMF also points out that there are risks and uncertainties for the further development of the global economy.

In the euro area, the signs continue to point to moderate growth of 2.2 percent for 2018.

For Germany, the IMF forecasts sustained stable growth of 2.3 percent for 2018 (2017: + 2.2 percent according to the Federal Statistical Office). According to the IMF, US growth is expected to accelerate noticeably by 2.7 percent in 2018 (2017: + 2.3 percent). For Japan, by contrast, the IMF forecasts economic growth of 1.2 percent in 2018 compared with the previous year (2017: +1.8 percent). For China, the IMF forecasts growth of 6.6 percent – only marginally weaker than in previous years.

For the year 2018, the market research firm IHS Markit Technology expects demand for silicon wafers to continue to increase by 4.5 percent. The increase is driven by the good growth forecasts for silicon-based semiconductor devices (+7.6 percent for worldwide sales).

Siltronic's future performance

Siltronic is not planning any significant changes to its corporate objectives or strategy. The short- and long-term focus will remain on increasing our technology leadership, retaining our leading quality position, continuing with our program for operational excellence and cost reductions, and ensuring a high level of profitability and a stable cash flow.

One of the most important financial performance indicators for the Siltronic Group will change in 2018. The inflow and return of customer prepayments lead to a shift in the timing of free cash flow which, due to their size, impairs the meaningfulness of free cash flow. Starting 2018, we will be reporting the key figure net cash flow instead. This represents the free cash flow without the time shifts. The other key figures remain unchanged.

Consequently, the most important key financial performance indicators in 2018 are:

- EBITDA margin
- ROCE
- Net cash flow

From today's perspective, the most important key financials will develop as follows in 2018.

EBITDA margin will continue to increase

We expect to be able to further improve our EBITDA margin, which should be close to 40% in 2018.

The EBITDA margin forecast is based on the following assumptions, which involve further key financial performance indicators.

Sales will be clearly above EUR 1.3 billion in 2018, depending on exchange rate effects

From the current perspective (March 2018), the Executive Board of Siltronic anticipates that unit sales of wafers will only increase slightly over the year due to the full loading.

Sources:
IMF (World Economic Outlook, January 2018, Release January 22nd, 2018)
IHS Markit Technology (Semiconductor Silicon Demand Forecast Tool, Q1–2018 update, Release January 13th, 2017)

For 2018, we expect the silicon area to grow in the low single-digit percentage range.

In 2017, we were able to realize significant price increases. We expect wafer prices to further increase in 2018, however at a slower pace than in the previous quarters. Overall we expect price increases in the low double-digit percentage range.

Based on the EUR/USD exchange rate averaging out at 1.25 and an EUR/JPY exchange rate at 135 in 2018, we expect a negative FX impact of around EUR 100 million on sales and of around EUR 60 million on EBITDA.

Taking into account the above assumptions on volume growth and ASP development, we anticipate that sales for 2018 will be clearly above EUR 1.3 billion, depending on exchange rate effects.

Research and development (R&D) spending at roughly 5 percent of sales

To remain innovative and competitive over the long term, we intend to spend around 5 percent of sales on R&D.

Further optimization of cost structures

We want to continue with our long-standing cost-reduction programs, and our plan is to continue reviewing and optimizing our main cost structures on an ongoing basis. For 2018, we expect some headwind from pay rises and inflation on potential cost savings. In 2019, we expect a negative effect of around EUR 20 million from rising electricity costs.

Positive ROCE

We estimate that ROCE in 2018 will be clearly higher than in 2017. The projected change in ROCE is influenced not only by the changes in the factors that affect EBITDA but also by the assumptions described below.

Depreciation and amortization, slightly below previous year's level

We anticipate that depreciation and amortization, in 2018 will be slightly below the level of 2017 and will be around EUR 90 million.

Tax rate

The tax rate should be between 15 percent and 20 percent.

Financial result unchanged

The financial result is mainly attributable to the interest expenses on pensions and are likely to be stable compared to 2017.

Capital expenditure in capacity, capability requirements and automation projects above prior year

Due to the favorable pricing environment in 2017, we have decided to increase our 300mm capacity by 70,000 wafers per month by mid-2019. This allows us to grow in line with the market and to keep our market share. Furthermore, we will further pursue automation as well as capability projects. We plan to invest around EUR 240 million to EUR 260 million in 2018. This includes capex for a new crystal pulling hall for possible further capacity increases at our site in Singapore.

Clearly positive net cash flow

We expect to receive customer prepayments of more than EUR 100 million in 2018. This will have a significant positive effect on our free cash flow. When eliminating cash inflows and outflows from customer prepayments we expect to generate a net cash flow, which will be significantly higher than the previous year's figure.

Earnings per share will rise significantly

Earnings per share are likely to be significantly higher in 2018.

In view of the economic uncertainty, the actual performance of the Group may vary from that stated in our assumptions, and the difference may be either positive or negative.

Overall statement by the Executive Board on expected performance

At the time of preparing the 2017 combined management report, the Executive Board expected Siltronic to continue operating successfully in the market in 2018.

We expect wafer prices to further rise in 2018, however at a lower pace than in 2017. Exchange rate effects will have a negative impact on sales and EBITDA based on a EUR/USD exchange rate of 1.25 and a EUR/JPY exchange rate of 135. However, we believe that this effect is more than compensated by price increases. Provided our sales reach at least EUR 1.3 billion and our EBITDA goes up, we expect a sustainable EBITDA margin close to 40 percent for 2018.

Forecast for 2018

EBITDA margin	close to 40 percent
ROCE	clearly higher than in 2017
Net cash flow	clearly higher than in 2017
Sales	clearly above EUR 1.3 billion, depending on exchange rate effects
R&D	approximately 5 percent of sales
Cost positions	headwind on potential costs savings from payroll rises and inflation
FX effects	based on EUR/USD exchange rate of 1.25 and EUR/JPY exchange rate of 135 negative FX impact of around EUR 100 million on sales and of around EUR 60 million on EBITDA
Depreciation and amortization	around EUR 90 million
Tax rate	between 15 percent and 20 percent
Financial result	roughly stable
Capital expenditure	around EUR 240 million to EUR 260 million
Earnings per share	significantly higher than in 2017

Concluding declaration pursuant to section 312 (3) AktG

Pursuant to section 312 (3) of the German Stock Corporation Act (AktG), the Executive Board of Siltronic AG has produced a dependency report concerning all the Company's relationships with affiliated entities for the period January 1, 2017 to March 14, 2017. This report contains the following declaration: 'We hereby declare that Siltronic AG, for the legal transactions and measures

listed in the dependency report, received appropriate consideration in accordance with the circumstances of which we were aware at the time when the legal transactions were concluded or the measures were taken or rejected and that it did not suffer any disadvantages as a result of such measures having been taken or rejected'.

Remuneration report

The following compensation report forms part of the combined management report and the consolidated financial statements, for which an unqualified auditors' report has been issued.

Executive Board compensation system

Both the compensation system itself and the amount of compensation received by the members of the Executive Board are determined by the full Supervisory Board at the proposal of the Executive Committee and regularly reviewed for suitability. In the 2017 fiscal year, the Executive Committee of the Supervisory Board commissioned an independent compensation consultant to review the compensation of the Executive Board in a horizontal market comparison. Based on this review, at its meeting held on September 14, 2017 the Supervisory Board resolved to adjust the Executive Board compensation system with retroactive effect from January 1, 2017, as described in detail below, in order to specifically comply with the new recommendation of the German Corporate Governance Code pursuant to article 4.2.3 para. 2 sentence 3, according to which variable compensation components should, in principle, have a multi-year basis for assessment, which should essentially be forward-looking. In order to implement the new recommendation, the portion of the multi-year, share-based compensation, which will be granted in future in phantom stocks, was increased and the retroactive period of the basis for assessment for the bonus was shortened by one year. The amount of basic compensation was also adjusted with effect from October 1, 2017. The compensation consultant has confirmed that the new target compensation is in line with the market as a whole.

The adjusted compensation system for the Executive Board consists of the following key components:

Fixed components

Fixed annual basic salary

The members of the Executive Board receive a fixed annual basic salary, which is paid in twelve equal installments at the end of each month. The annual basic salary for members of the Executive Board was increased with effect from October 1, 2017 (Dr. von Plotho: from EUR 400,000 to EUR 550,000; Mr. Irle: from EUR 280,000 to EUR 360,000).

Fringe benefits

Fringe benefits include the cost of non-cash benefits and other fringe benefits such as, in particular, the provision of a company car, health and long-term care insurance contributions, and the establishment of a private pension scheme as well as costs connected with medical check-ups and other insurance policies.

Performance-related components

Members of the Executive Board are entitled to a performance-related bonus consisting of a cash-based mid-term incentive (MTI) with a two-year assessment period (one year retrospectively and one year forward-looking) and a share-based long-term incentive (LTI) with a four-year assessment period (one year retrospectively and three years forward-looking). The basis for granting both the MTI and the LTI is the achievement of the performance targets, which are set by the Supervisory Board for each fiscal year and determined by the Supervisory Board in advance. Unless otherwise specified, performance targets relate to the following performance categories: ROCE (30 percent), plan BVC (30 percent), EBITDA margin (20 percent), and plan free cash flow (20 percent). The performance indicators ROCE and EBITDA margin represent longer-term targets to be achieved over the entire economic cycle, whereas plan BVC and plan free cash flow are redefined each year. Starting in the financial year 2018, the Supervisory Board has replaced the performance indicator plan BVC with plan EBITDA and the performance indicator plan-free cash flow with plan net cash flow. The Supervisory Board is entitled to determine other or further suitable performance categories and targets for future assessment periods. These may also include personal targets for each individual member of the Executive Board. The Supervisory Board determines a target value, a minimum value, and a maximum value for each performance category. The target value corresponds to a target achievement of 100 percent, i.e. a target achievement factor of 1. The annual total target achievement factor corresponds to the weighted total of the target achievement factors in the performance categories.

The bonus basis for a specific fiscal year ('compensation year') is calculated by multiplying the average of the total target achievement factors for the performance categories of the compensation year and the preceding fiscal year by the average contractually agreed annual basic salary in the compensation year. With a total target achievement factor of 1 or 100 percent, the bonus is equivalent to the average annual basic salary. The maximum total target achievement factor is 2 or 200 percent. At its own reasonable discretion, the Supervisory Board may increase or reduce the bonus basis, based on an overall assessment of all circumstances (taking extraordinary developments into account in particular). The adjustment may be made with a maximum factor of 0.7 to 1.3. The bonus basis is determined by the Supervisory Board within the first three months of the fiscal year following the compensation year.

MTI cash components

The MTI amounts to 49 percent of the bonus basis. Entitlement to the MTI occurs with the determination of the bonus basis for the compensation year and is granted in cash with the fixed salary for the month following the month in which it is determined.

Long-term share-based components: LTI

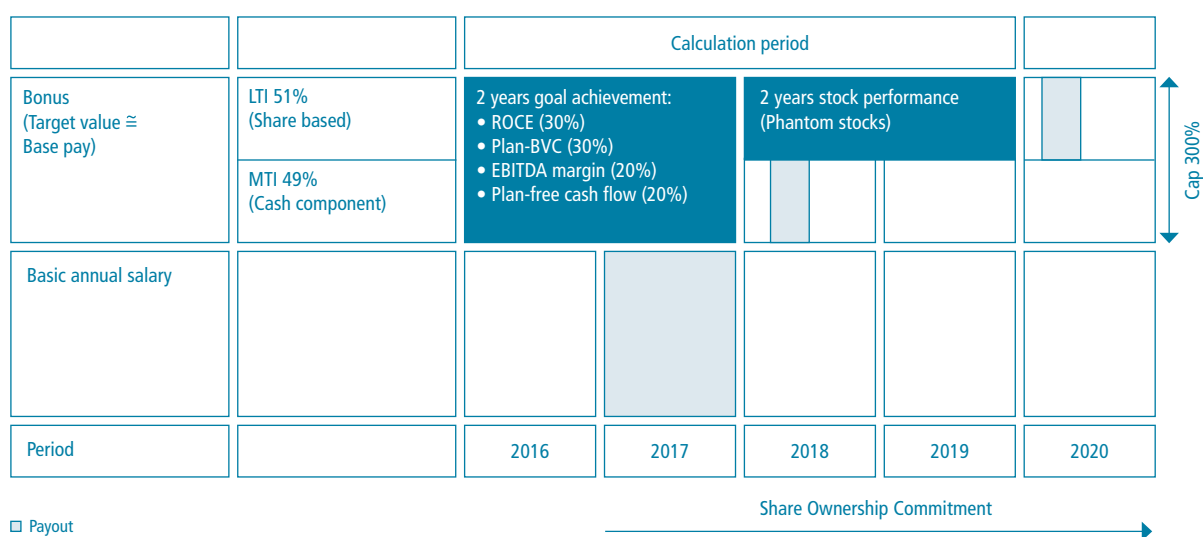
Fifty-one percent of the bonus basis is initially converted into phantom stocks as an LTI, based on the average weighted Xetra closing price of the Company's shares on the Frankfurt Stock Exchange on the last 30 trading days of the compensation year. The phantom stocks are held for a period of two years from the end of the compensation year. The LTI is settled in cash. The amount of the cash settlement is calculated according to the average weighted Xetra closing price of the Company's shares on the Frankfurt Stock Exchange on the last 30 trading days of the second fiscal year following the compensation year. In addition to the cash settlement,

dividends that would have been distributed during the holding period for real shares will be added. The amount of the LTI is determined by the Supervisory Board within the first three months of the following financial year. The LTI is payable with the fixed salary for the month following the month of detection.

Maximum amounts of compensation

In addition to the maximum amounts for the bonus basis of 260 percent of the respective average annual basic salary (if the discretionary adjustment option of the Supervisory Board is fully utilized), a maximum amount for the bonus of 300 percent of the relevant average annual basic fixed salary was agreed upon. The resulting maximum amount of compensation for the compensation year 2017 is EUR 1,750,000 for Dr. von Plotho and EUR 1,200,000 for Mr. Irle, in each case plus pension expense and fringe benefits.

System of Management Board remuneration



Further regulations of the compensation system

Share ownership commitment

Dr. von Plotho and Mr. Irle are obliged to hold at least 5,000 or 3,500 shares respectively during their periods of service as members of the Executive Board.

D&O insurance and criminal law insurance coverage

The members of the Executive Board are covered by a D&O insurance policy with a deductible in accordance with the provisions of the German Stock Corporation Act. The members of the Executive Board are also covered by the criminal law insurance policy that Siltronic has taken out for its employees and members of its executive bodies. The insurance covers any lawyers' and court costs that may be incurred for defence in criminal or misdemeanor proceedings.

Pension commitments

In order to secure the basic company pension, both the Company and the Executive Board make monthly contributions to the pension fund of Wacker Chemie VVaG in accordance with the General Insurance Conditions 1972 of the pension fund of Wacker Chemie VVaG.

In addition, the Management Board acquires claims against the company according to the order of the additional occupational pension scheme in its current version. An eligible income in the sense of the order is the agreed fixed annual salary. The benefits from this supplementary occupational pension consist of old-age pensions, early retirement pensions, invalidity pensions and survivor's pensions. The pension expense for a financial year is 15 percent (above 150 percent of the applicable income threshold of the statutory pension insurance) or 12.25 percent of the eligible annual income (between 100 and 150 percent of the income threshold). The service costs form the basis of assessment for the amount of the pension. The annual pension payments to be paid after the occurrence of the pension event is 18 percent of the total pension costs made available by the company up to that point.

The gross monthly pension payable after an Executive Board member retires, based on the employer-financed portion, is limited to 50 percent of the monthly installment of the basic annual compensation last received from the Company by each member of the Executive Board (pension cap).

The Executive Board receives an additional monthly gross amount from the Company equivalent to the employer's contribution to the statutory pension insurance as a component for establishing a private pension scheme.

Commitments in conjunction with termination of employment of the Executive Board

In the event of their departure from the Company, the members of the Executive Board are each subject to a twelve-month non-compete waiting period for which a waiting allowance is paid. The waiting allowance is calculated on the basis of 50 percent of the last annual basic salary received and 50 percent of the average bonus calculated over a three-year period. Any retirement pension and any income generated from an activity not covered by the non-compete obligation will be credited against the waiting allowance if this additional income exceeds the total annual compensation for the last full year of service as a member of the Executive Board.

In the event of premature termination of the employment contract, any payments to be agreed upon, including fringe benefits, may not exceed the value of two years' compensation and may not exceed the value of the compensation for the remaining term of the employment contract (severance pay cap).

The entitlement to MTI or LTI is forfeited if the employment contract of the Executive Board member expires due to termination by the Company for good cause before the end of the compensation year or before the number of phantom stocks has been determined by the Supervisory Board for the compensation year.

If the employment relationship ends as a result of death or permanent invalidity, a premature payout takes place.

In all other cases of termination of employment, the general rules in force remain the same as those at the time the MTI and LTI are paid out.

There is no special termination right in the event of a change of control or a promise of benefits in the event of premature termination of an Executive Board member's contract due to a change of control.

Total compensation of Executive Board members for the 2017 fiscal year

The following compensation was paid to the members of the Executive Board for the 2017 fiscal year. The table below shows the value of benefits granted for the 2017 fiscal year. Due to rounding it is possible that individual numbers do not add up exactly to the given sum.

Value of benefits granted for the 2017 fiscal year

EUR	Dr. Christoph von Plotho Chairman of the Executive Board				Rainer Irlé Member of the Executive Board			
	2016	2017	2017 (min)	2017 (max)	2016	2017	2017 (min)	2017 (max)
Fixed components								
Fixed compensation (annual basic salary)	400,000	437,500	437,500	437,500	280,000	300,000	300,000	300,000
Fringe benefits	43,139	42,341	42,341	42,341	37,030	37,486	37,486	37,486
Total	443,139	479,841	479,841	479,841	317,030	337,486	337,486	337,486
Performance-related components								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentive components								
Multi-year variable compensation target value (compensation system until 2016) ¹⁾	360,000	–	–	–	252,000	–	–	–
Multi-year variable compensation, non-share-based: MTI (target value) ²⁾	–	205,800	69,029	406,884	–	141,120	47,334	279,006
Multi-year variable compensation, share-based: LTI (fair value) ²⁾	–	416,059	0	905,616	–	285,298	0	620,994
Pension expense (service costs) ³⁾	58,810	67,761	67,761	67,761	102,910	130,608	130,608	130,608
Total compensation (DCGK)	861,949	1,169,461	616,631	1,860,102	671,940	894,511	515,094	1,368,094
./. Pension expense (service cost)								
./. MTI (target value)								
+ MTI (fair value) ⁴⁾	33,590	133,323			–38,230	7,278		
Total compensation according to DRS 17	895,539	1,302,784			633,710	901,789		

¹⁾ Last year, the old remuneration system was applied. Accordingly, the member of the Executive Board received a bonus with a three-year retrospective assessment basis. The multiple years related to the assessment base. For 15% of the bonus, Siltronic acquired shares in the company for and on behalf of the Executive Board member for which a vesting period of two years applies. 85% of the set bonus was used for the deduction of income tax and for a payout in cash

²⁾ The multi-year nature of the MTI refers to the two-year assessment base (2017 and 2016). Apart from this, the bonus is not influenced by later developments. The multi-year assessment basis is intended to have a long-term incentive effect, but does not contain a share-based component. For the calculation of the minimum - and maximum values the actual target achievement of the previous financial year 2016 and for 2017 a minimum value of 0% as well as a discretionary factor of 0.7 or a maximum value of 200% and a discretionary factor of 1.3 were used.

³⁾ Service cost in accordance with IAS 19 from commitments for pensions and other benefits.

⁴⁾ The total remuneration of all members of the Executive Board for the 2017 financial year amounts to EUR 2,204,573 in accordance with the applicable accounting principles. Instead of the target value of the MTI to be specified according to DCGK, the amount of the MTI should be set to the fair value and the coverage expenses should not be included.

The following table shows the inflow for the 2017 fiscal year consisting of fixed compensation, fringe benefits, variable compensation, and pension expense. Due to rounding it is possible that individual numbers do not add up exactly to the given sum.

Inflow for 2017

EUR	Dr. Christoph von Plotho Chairman of the Executive Board		Rainer Irlé Member of the Executive Board	
	2017	2016	2017	2016
Fixed components				
Fixed compensation (annual basic salary)	437,500	400,000	300,000	280,000
Fringe benefits	42,341	43,139	37,486	37,030
Total	479,841	443,139	337,486	317,030
Performance-related components				
One-year variable compensation	–	–	–	–
Long-term incentive components				
Multi-year variable compensation (compensation system until 2016) – Cash amount ¹⁾	–	452,400	–	316,680
Multi-year variable compensation, non-share-based (MTI) – amount paid ²⁾	406,884	–	279,006	–
Multi-year variable compensation, share-based (LTI)	–	–	–	–
Total	886,725	895,539	616,492	633,710
Pension expense ³⁾	67,761	58,510	130,608	102,910
Total compensation	954,486	954,349	747,100	736,620

¹⁾ Last year, the old remuneration system was applied. Accordingly, the member of the Executive Board received a bonus with a three-year retrospective assessment basis. The multiple years related to the assessment base. For 15% of the bonus, Siltronic acquired shares in the company for and on behalf of the Executive Board member for which a vesting period of two years applies. 85% of the set bonus was used for the deduction of income tax and for a payout in cash.

²⁾ The multi-year nature of the MTI relates to the two-year basis for assessment (2017 and 2016). Apart from this, the bonus is not influenced by subsequent developments. This component is intended to have a long-term incentive effect. It does not contain any share-based components.

³⁾ Service costs in accordance with IAS 19 from commitments for pensions and other benefits. This is not an inflow in the fiscal year.

Additional information on share-based compensation instruments in the 2017 fiscal year

As described above, the LTI attributable to the members of the Executive Board is granted in the form of phantom stocks. The weighted average Xetra price of the Siltronic share for the number

of virtual shares on the last 30 trading days of the 2017 financial year was EUR 123.45.

The following overview shows the development of the phantom stock portfolio:

	Tranche	Allocation value	Price	Quantity	Fair value
Dr. Christoph von Plotho	Tranche (2016/2017 – 2019)	423,491	123.45	3,430	416,059
Rainer Irlé	Tranche (2016/2017 – 2019)	290,394	123.45	2,352	285,298

Pension commitments

The following table shows the pension expense and the benefit obligations for the 2017 fiscal year.

	Benefit obligations		Pension expense	
	2017	2016	2017	2016
Dr. Christoph von Plotho	1,983,471	1,848,883	67,761	58,510
Rainer Irle	2,090,081	1,687,830	130,608	102,910

As described above, the LTI to which the members of the Executive Board are contractually entitled is granted in the form of phantom stocks. The average price of the Siltronic share relevant for determining the number of phantom stocks to be paid out for the compensation year was EUR 123.45. The closing price of Xetra shares on December 29, 2017, which was relevant for determining the fair value, was EUR 121.30.

Other Information

The remuneration of former Executive Board members and their surviving dependents amounted to EUR 213,317 (previous year: EUR 210,688) in the year under review.

Compensation of Supervisory Board members

The compensation of the members of the Supervisory Board of Siltronic AG is governed by the Articles of Association of Siltronic AG.

The Articles of Association provide for a fixed annual compensation of EUR 30,000 (plus value-added tax) for the members of the Supervisory Board.

Due to the additional expense associated with exercising certain functions, the compensation for the Chairman of the Supervisory Board is multiplied by a factor of 3. The factor 2 applies to his deputy and the chairperson of a committee and the compensation of members of committees is multiplied by a factor of 1.5. However, membership of the Conciliation Committee, which was required to be established by law, is not taken into account, i.e. membership of this committee does not lead to an increase in annual compensation. In addition, twin and multiple functions are not taken into account, so that the Chairman and Deputy Chairman do not receive any other factors for functions in committees and committee functions are only taken into account once for the members of the Supervisory Board.

When joining or leaving the Supervisory Board during the current year, the principle of pro rata temporis compensation of Supervisory Board members applies.

The members of the Supervisory Board also receive an attendance fee of EUR 2,500 per meeting for each physical meeting of the full Supervisory Board and its committees in which they participate in person, up to a maximum of EUR 2,500 per calendar day. Members attending physical meetings by telephone, video conference, or voting in writing, will not receive a meeting attendance fee. For meetings held in the form of a telephone or video conference, participating members receive a reduced attendance fee of EUR 1,250 per meeting.

The Company will also reimburse the members of the Supervisory Board for their necessary expenses, plus appropriate value-added tax, upon proof of such expenses.

The shareholder representatives on the Supervisory Board who are also employees of or members of the Executive Board of Wacker Chemie AG waived their prorated compensation for the period from 1 January 2017 to 30 August 2017.

The shareholder representatives on the Supervisory Board, who are also members of the Management Board or employees of Wacker Chemie AG, have waived their pro rata compensation in the period from 1 January 2017 to 30 August 2017 and for the 2016 financial year.

The Company provides Supervisory Board members with adequate insurance cover. In particular, the Company takes out a D&O insurance policy without deductible for the benefit of Supervisory Board members.

No advances or loans were granted to members of the Supervisory Board during the year under report.

Compensation of Supervisory Board members in the 2017 fiscal year

The compensation paid to Supervisory Board members for the 2017 fiscal year comprises the following:

Supervisory Board member	Annual remuneration 2017 in EUR (multiplied by the applicable factor for special functions)	Attendance fee 2017 in EUR	Total remuneration 2017 in EUR	Annual remuneration 2016 in EUR (multiplied by the applicable factor for special functions)	Attendance fee 2016 in EUR	Total remuneration 2016 in EUR
Maximilian Baumgartner ¹⁾	30,000.00	10,000.00	40,000.00	30,000	10,000	40,000
Sieglinde Feist ²⁾	10,000.00	5,000.00	15,000.00	–	–	–
Gebhard Fraunhofer ³⁾	30,000.00	10,000.00	40,000.00	30,000	10,000	40,000
Dr. Hermann Gerlinger	45,000.00	10,000.00	55,000.00	45,000	10,000	55,000
Karin Gottschalk ³⁾	30,000.00	7,500.00	37,500.00	30,000	10,000	40,000
Johann Hautz ³⁾	60,000.00	20,000.00	80,000.00	60,000	10,000	70,000
Bernd Jonas	60,000.00	17,500.00	77,500.00	60,000	20,000	80,000
Gertraud Lauber ³⁾	30,000.00	10,000.00	40,000.00	30,000	10,000	40,000
Dr. Tobias Ohler ²⁾	30,000.00	10,000.00	40,000.00	–	–	–
Dr. Franz Richter	30,000.00	10,000.00	40,000.00	30,000	10,000	40,000
Harald Sikorski ³⁾	45,000.00	20,000.00	65,000.00	45,000	20,000	65,000
Angela Wörl ²⁾	10,000.00	5,000.00	15,000.00	–	–	–

¹⁾ The representative of the executive employees of the Supervisory Board is subject to the discharge regulations of the Association of Employees and Chief Executives of the Chemical Industry e. V. (VAA).

²⁾ Waiver of Supervisory Board compensation as Management Board member or employee of Wacker Chemie AG for the period from January 1, 2017 to August 30, 2017 or for the entire 2016 financial year.

³⁾ These employee representatives on the Supervisory Board and the representatives of the trade unions on the Supervisory Board have declared their willingness to transfer their compensation to the Hans Boeckler Foundation, in accordance with the guidelines of the Confederation of German Trade Unions (DGB).

Disclosures relevant to acquisitions

(pursuant to section 289a and section 315a of the German Commercial Code (HGB)) and explanatory report

Composition of subscribed capital (section 289a para. 1 no. 1, 315a para. 1 no. 1 HGB)

The subscribed capital of Siltronic AG amounts to EUR 120 million and is divided into 30 million no-par-value shares, each with an imputed share of the capital amounting to EUR 4. The shares are registered shares. All the shares are of the same type; each share has the same rights attached to it and allows one vote at the Annual General Meeting. The Company does not have any treasury shares.

Restrictions on voting rights or the transfer of shares (section 289a para. 1 no. 2, 315a para. 1 no. 2 HGB)

The remuneration system of the Board of Management, which was valid until the 2016 financial year, saw that part of the variable remuneration is paid in the form of shares in the Company that the Company purchases in the name of and for the individual Executive Board members. According to their service contract, Executive Board members are not permitted to sell, pledge, or otherwise dispose of these shares for a lock-up period of two years. The vesting period for the shares acquired for the 2016 financial year's term expires in 2018. In accordance with the Executive Board compensation system effective from the 2017 financial year on and the Executive Board contracts amended with effect from September 14, 2017, Dr. von Plotho and Mr. Irle are required to hold at least 5,000 and 3,500 shares, respectively, for the term of their appointment as a director. The right to vote and dividend remains with the Management Board members during the holding obligation.

Further details can be found in the Remuneration Report.

The Articles of Association of Siltronic AG do not restrict the transferability of shares. However, there may be restrictions on the shares' voting rights imposed by the German Stock Corporation Act (e.g. section 136 AktG) or as a consequence of the disclosure requirements pursuant to the German Securities Trading Act (WpHG) being violated. In accordance with section 67 (2) AktG, the parties deemed to be shareholders of Siltronic AG are those parties entered as such in the share register. Pursuant to section 67 (4) AktG, Siltronic AG is entitled to demand information from the persons entered in the register on whether the shares that are entered as held by them in the register actually belong to them and, if this is not the case, to demand information on who the shares are held for, as required in order to maintain the register. Until this demand is met, the voting rights attached to the shares are suspended (section 67 (2) sentence 3 AktG).

Shareholdings in the Company that represent more than 10 percent of the voting rights (section 289a para. 1 no. 3, 315a para. 1 no. 3 HGB)

The Company has been notified of the following direct and indirect shareholdings in the Company that represent more than 10 percent of the voting rights:

- Wacker-Chemie Dritte Venture Gesellschaft mit beschränkter Haftung: 22.5 percent (direct)
- Wacker Chemie AG: 30.83 percent (of which 22.5 percent direct and 49.5 percent held through Wacker-Chemie Dritte Venture Gesellschaft mit beschränkter Haftung)
- Dr. Alexander Wacker Familiengesellschaft mit beschränkter Haftung: 30.83 percent (held through Wacker Chemie AG and Wacker-Chemie Dritte Venture Gesellschaft mit beschränkter Haftung)

Shares with special rights that confer authority to exert control over the Company (section 289a para. 1 no. 4, 315a para. 1 no. 4 HGB)

Shares with special rights conferring control powers were not issued.

Type of voting right controls in cases where employees hold shares in the Company and do not exercise their control rights directly (section 289a para. 1 no. 5, 315a para. 1 no. 5 HGB)

The employees who hold shares in Siltronic AG exercise their resulting control rights directly in accordance with the statutory provisions and the Articles of Association.

Appointment and removal of members of the Executive Board and amendments to the Articles of Association (section 289a para. 1 no. 6, 315a para. 1 no. 6 HGB)

Pursuant to section 5 of the Articles of Association, the Executive Board of Siltronic AG must consist of a minimum of two persons. In other respects, the Supervisory Board determines the number of Executive Board members. The Supervisory Board appoints one member of the Executive Board as President & Chief Executive Officer. The appointment and removal of members of the Executive Board are governed by section 84 et seq. AktG and section 31 German Codetermination Act (MitbestG).

Changes to the Articles of Association are governed by section 179 et seq. of the German Stock Corporation Act (AktG), which stipulates that all changes to the Articles of Association require a resolution to be adopted by the Annual General Meeting.

However, the Supervisory Board is authorized in section 9 (2) of the Articles of Association to make changes that relate solely to the wording. The Supervisory Board is also authorized to amend section 4 (6) of the Articles of Association accordingly after the 2015 Authorized Capital has been utilized or the period for the utilization of the 2015 Authorized Capital has elapsed. Furthermore, the Supervisory Board is authorized to amend section 4 (7) of the Articles of Association in accordance with each utilization of the 2015 Conditional Capital and after all option and conversion periods have elapsed.

Pursuant to section 179 (2) AktG, resolutions to amend the Articles of Association adopted by the Annual General Meeting require a majority of at least three quarters of the share capital represented during the voting, unless the Articles of Association specify a greater majority. In accordance with article 18 (2) of the Articles of Association, resolutions at the Annual General Meeting are passed by simple majority of the votes cast and by simple majority of the share capital represented in the voting if a majority of the share capital is required, unless the law or the Articles of Association require otherwise. The law requires a greater majority of three quarters of the share capital represented in the voting in several cases, such as when changing the objects of the company (section 179 (2) sentence 2 AktG), certain corporate actions, and the exclusion of shareholders' pre-emption rights.

Authority of the Executive Board to issue and buy back shares Authorized capital (section 289a para. 1 no. 7 and section 7, 315a para. 1 no. 7 HGB)

On the basis of a resolution of the Annual General Meeting on June 8, 2015, the Executive Board is authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period up to June 7, 2020 by up to a total of EUR 60 million by issuing new registered no-par-value shares for cash or non-cash contributions (2015 Authorized Capital). Shareholders have a pre-emption right, although the Executive Board can exclude this right, subject to the consent of the Supervisory Board, in the cases that are described in more detail in section 4 (6) of the Articles of Association, including, but not limited to:

- in order to remove fractional amounts from the pre-emption right;
- where the issue price of new shares issued for cash during a capital increase is not significantly below the market price of the shares in the Company that are already publicly listed at the time the definitive issue price is set (section 186 (3) sentence 4 AktG states that pre-emption rights can be excluded provided the capital increase is no more than 10 percent of the share capital);

- where necessary in order to grant new shares in the Company to holders/beneficial owners of bonds that have been issued or are to be issued by the Company or its subordinate Group companies, when conversion rights or warrants are exercised or to meet conversion obligations, and where necessary to grant holders of conversions rights/warrants or beneficial owners of convertible bonds with conversion obligations a pre-emption right to the same quantity of new shares to which they would have been entitled after exercising their warrants or conversion rights or meeting conversion obligations as shareholders;
- in the event of a capital increase for non-cash contributions; and
- to implement a scrip dividend.

On the basis of a resolution of the Annual General Meeting on June 8, 2015 and subject to the consent of the Supervisory Board, the Executive Board is authorized to issue bearer or registered convertible and/or warrant-linked bonds, profit-sharing rights, and/or income bonds (together: 'bonds') in a total amount of up to EUR 750 million on one or more occasions until June 7, 2020 and to grant the holders/beneficial owners of these bonds warrants/conversion rights (including mandatory conversion requirements or option obligations) to a maximum of 12.5 million new registered shares that together represent notional share capital of up to EUR 50 million in accordance with the specific terms and conditions of the bonds. The bonds may be issued in return for cash but also for non-cash contributions. If convertible bonds are issued, the holders/beneficial owners of the bonds receive the right to convert them into new shares in the Company in accordance with the specific terms and conditions of the bonds. The terms and conditions of the bonds may also specify mandatory conversion on maturity or at an earlier point in time. If warrant-linked bonds are issued, one or more warrants are attached to each bond that entitle or require the holders to buy shares in the Company in accordance with the specific terms and conditions applicable to warrants or that contain an issuer's put option. Shareholders have a pre-emption right to the bonds, but the Executive Board is authorized, subject to the consent of the Supervisory Board, to exclude the pre-emption right either wholly or in part in certain cases described in more detail in the resolution adopted by the Annual General Meeting, including but not limited to:

- fractional amounts arising from the pre-emption ratio;
- where bonds with warrants/conversion rights or with option obligations/mandatory conversion obligations are issued for cash and are structured such that their issue price is not significantly below their theoretical market value determined according to recognized principles of financial mathematics (section 186 (3) sentence 4 AktG states that pre-emption rights can be

- excluded provided the capital increase is no more than 10 percent of the share capital);
- where bonds are issued for a non-cash consideration; and
- where necessary in order to give the same pre-emption rights to the holders/beneficial owners of bonds that have previously been issued.

The Executive Board is authorized, subject to the consent of the Supervisory Board and complying with the stipulations of the Annual General Meeting's resolution, to decide on the further details as regards the issuance and terms of issue of the bonds and their conditions.

To enable the Company to service the aforementioned bonds, the Annual General Meeting of June 8, 2015 conditionally increased the Company's share capital by up to EUR 50 million through the issue of up to 12.5 million new registered shares (Conditional Capital 2015). The new shares are issued at the conversion or warrant prices to be determined in accordance with the authorization from the Annual General Meeting.

In accordance with the resolution of the Annual General Meeting on May 7, 2015, the Executive Board is authorized pursuant to section 71 (1) no. 8 AktG to purchase treasury shares equating to up to a total of 10 percent of the existing share capital at the time the resolution was adopted or at the time the authorization is exercised, whichever is the lower. The share capital at the time the resolution was adopted amounted to EUR 100 million. The authorization is valid until May 6, 2020. At the discretion of the Executive Board, the treasury shares may be purchased through the stock exchange, by way of a public purchase offer made to all shareholders, or by way of a public invitation to shareholders to tender their shares. The Annual General Meeting's authorization sets out different requirements for the individual purchase types, particularly with regard to the purchase consideration. The authorization may be exercised on one or more occasions, for the entire amount or for partial amounts. Subject to the consent of the Supervisory Board, the Executive Board is permitted to sell the treasury shares purchased in accordance with this authorization on the stock exchange, to make an offer to all shareholders in proportion to their shareholding, or to use these treasury shares for any legally permitted purpose. In particular, they may be sold in return for a non-cash capital consideration (in the context of business combinations, to acquire entities or parts of an entity) or for cash. However, the treasury shares may also be used to satisfy or secure purchase rights or obligations attached to shares in the Company (in connection with convertible or warrant-linked bonds). The treasury shares may also be retired. Shareholders' subscription rights are disappplied in the aforementioned cases, with the exception of retirement.

Material agreements that are conditional upon a change of control resulting from a takeover bid (section 289 a para. 1 no. 8, 315a para. 1 no. 8 HGB)

There are no significant agreements that are subject to the condition of a change of control following a takeover bid.

Compensation agreements in the event of a takeover bid (section 289a para. 1 no 9, 315a para. 4 no. 9 HGB)

There are no agreements with the Executive Board or employees of the Company that provide for compensation in the event of a takeover bid.

Non-financial report issued by Siltronic AG, Munich

(Implementation of the requirements contained in sections 315b, 315c in conjunction with sections 289c to 289e of the German Commercial Code)

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Foreword

GRI 102-14

In order to achieve economic success, companies need to be trusted by society. We take our corporate responsibility seriously. We combine corporate success with responsible action – in our production processes, in our use of resources and in all our interactions with employees.

We are one of the global market leaders in the field of hyperpure silicon wafers and supply all leading consumers of these wafers within the semiconductor industry. Silicon wafers are key components in the vast majority of electronic parts that make our lives easier, safer, and ecologically friendlier. Our technologies form the basis for manufacturing smaller and more energy-efficient components in the modern world of electronics. That way, we contribute towards preserving precious resources and reducing carbon dioxide emissions worldwide. We continually and consistently improve our production processes with the aim of reducing energy consumption and increasing the percentage of supplies that can be reused. In order to make deliveries to our customers as environmentally friendly as possible, we combine deliveries and utilize multiple-use packaging solutions.

Our employees represent our greatest asset and the cornerstone of our success. We treat one another with respect, honesty, and openness and see the differences between people as a source of enrichment. Our goal is to achieve even greater diversity within our organization, focusing in particular on mentoring more women and employees with varying cultural experiences to take up positions in middle and upper management. We support the reconciliation of work and family life with a variety of measures. Occupational health and safety are deeply embedded in our business processes.

Siltronic implements the ten principles of the United Nations 'Global Compact' initiative for the protection of human rights, social and environmental standards, and the fight against corruption. We respect internationally proclaimed human rights and promote their observance within our sphere of influence.

Siltronic employees worldwide take on the daily challenge of making our processes better, safer, simpler, environmentally friendlier, and therefore more sustainable. Together, we want to live up to our responsibility to reconcile the impact of our business activities with the expectations and needs of society.



Dr. Christoph von Plotho
CEO

1. The framework for this sustainability report and non-financial report

We see sustainability as the positive impact of our current activities on future conditions in the ecological, economic, and social spheres, mitigating inequalities and promoting an open future. Consequently, the underlying reason for this non-financial report or sustainability report is the question of how Siltronic contributes towards the improvement or deterioration of ecological, economic, and social aspects at local, regional, and global levels.

Apart from the external impact achieved, we believe that sustainable activity is also beneficial for Siltronic as a company. For instance, we are safeguarding our profitability by deploying raw materials more efficiently and optimizing energy consumption. Profitability is an important factor in our ability to provide employees with above-average social benefits and offer them a wide range of advanced training measures. A dedicated, well-trained workforce is, for example, more capable of breaking new ground in the field of research and development, which, in turn, has a beneficial impact on our profitability in the medium and long term. Thus, a cycle is created that is not only positive for stakeholders and the environment, but for Siltronic as a company, too.

With this sustainability report or non-financial report we supplement the economic aspects outlined in the consolidated financial statements and the combined management report by including ecological and social aspects and explaining how we propose to reconcile these with one another.

This sustainability report is the first to be independently prepared by Siltronic AG and the Siltronic Group, based in Munich. Up to March 15, 2017, Wacker Chemie AG held both directly and indirectly the majority of Siltronic shares. For this reason, in previous years, information relating to sustainability at Siltronic was contained in the sustainability reports published by Wacker Chemie AG, which were drawn up for the entire Wacker Group. On March 15, 2017 Wacker Chemie AG reduced its share in Siltronic AG to 31 percent and Siltronic ceased to be a subsidiary of the Wacker Group from that point in time. The reduction of this shareholding does not have a major impact on Siltronic, as the Siltronic Group was already an independent group. **GRI 102-1, -3, -5, -10, -48, -49, -51**

This report is the summarized, separate non-financial report for the financial year 2017 and applies to both the Siltronic Group and Siltronic AG. Information that applies only to the AG, are indicated in the text. The non-financial report has been issued and was made available to the public on <https://www.siltronic.com/en/our-company/sustainability.html>.

The non-financial information contained in this sustainability report was prepared based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI). Moreover, this report provides information regarding sustainability to the degree relevant for reporting the 'Communication on Progress' of the United Nations Global Compact. The period under report corresponds to that of the consolidated financial statements and all Group entities were included. In future we intend to prepare the sustainability report on an annual basis. **GRI 102-50, -52**

This non-financial report is audited by the Supervisory Board of Siltronic AG. On behalf of the Supervisory Board, the non-financial report was audited by KPMG AG Wirtschaftsprüfungsgesellschaft using the ISAE 3000 to obtain a limited assurance regarding the information required in accordance with Sections 315b, 315c in conjunction with 289c to 289e of the German Commercial Code. **GRI 102-56**

2. The Siltronic business model and our ethical principles

Section 289c para. 1 of the German Commercial Code

The Siltronic business model

Siltronic is a globally operating market and technology leader specialized in manufacturing hyperpure silicon wafers. Since wafers form the basis for semiconductors all our customers are manufacturers of semiconductors. [GRI 102-2](#)

Wafers are produced by melting hyperpure silicon and extracting a crystal from the melt by means of a pulling process. The crystal is sawn into individual slices, polished, and subjected to a final inspection prior to packaging. We deploy many special-purpose machines in the course of manufacturing and a considerable part of the process takes place in cleanrooms. Production costs are attributable (in decreasing order) to personnel, auxiliaries and operating materials, depreciation, raw materials and energy. [GRI 102-9](#)

The production equipment largely consists of machines for pulling crystals, furnaces, measurement equipment, cleaning systems, and machines for the mechanical and chemical treatment of the wafer surfaces. Most of the wafer manufacturing process takes place in cleanrooms. From our four production sites we dispatch our wafers directly to our customers' chip factories, which are located (in alphabetical order) in (mainland) China and Taiwan, Israel, Japan, Korea, Malaysia, Singapore, the USA, and Western Europe. Apart from our production sites, which all have their own administration and sales departments, we operate five small sales or administration units in five countries. [GRI 102-4, -6, -9](#)

We produced some 28 million wafers in 2017 (2016: approx. 26 million).

Additional information on our business model is available in the management report.

Corporate ethics at Siltronic

In order to achieve economic success, companies need the trust of society. In our efforts to ensure that Siltronic's business is conducted responsibly and compliant to all statutory regulations, we have developed various guidelines, including: [GRI 102-16](#)

- Code of Conduct: We have drawn up a Code of Conduct for our Group that sets out binding rules for responsible and law-abiding conduct, which all Siltronic employees are required to observe. The Code of Conduct deals in particular with the

topics behavior towards one another, leadership as an example, dealings with business partners, handling information, separation of private and corporate interests, quality, safety, health and environment, and social responsibility. [GRI 102-17](#)

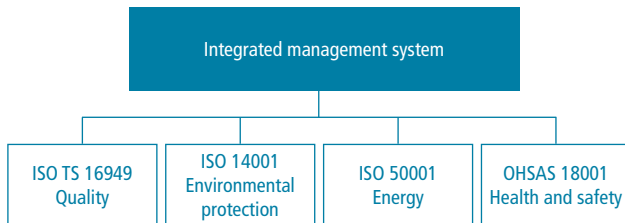
- Voluntary commitments: Siltronic implements the ten principles of the United Nations Global Compact initiative for the protection of human rights, social and environmental standards, and the fight against corruption. Siltronic adheres to the principles of the chemical industry's Responsible Care® initiative. In 2017, Siltronic became signatory to the 'Diversity Charter'. As a signatory, Siltronic undertakes to actively implement and promote equal opportunity and diversity. As a supplier to the electronics industry, Siltronic observes the Code of Conduct set out by the Responsible Business Alliance (RBA, formerly known as the Electronic Industry Citizenship Coalition or EICC), which leading companies in the electronics industry use to promote social and ecological responsibility as well as ethical business practices worldwide. [GRI 102-12, -13](#)
- Strategy handbook: This handbook sets out Siltronic's highest aims and defines our mission statement. Our mission statement consists of aspiring to create added value for our stakeholders. We want to achieve this aim by offering wafers of outstanding quality at competitive cost.

The impact of ethical principles on the organization of Siltronic

The above guidelines have an impact on the organizational structure of Siltronic, whereby the most important organizational measures for ensuring the ethical principles are (a) management systems, (b) the existence of a separate department for environmental protection, occupational health and safety, and plant process safety, and (c) reporting channels to the Executive Board and Supervisory Board.

We control operational processes via our Integrated Management System (IMS). The IMS outlines processes and responsibilities and defines group-wide standards, including those relating to quality, energy, occupational health and safety, environmental protection, and plant process safety. The standards are based on national and international standards, laws, customer requirements, and our own principles. Selected management systems are certified by a globally operating service provider. The certifications include ISO 14001 for environmental protection, OHSAS 18001 for occupational health and safety, ISO 50001 for energy management at our sites in Germany, and ISO TS 16949 for quality systems.

Group management system



In order to identify and manage the variety of possible risks entailed in conducting business, the Executive Board has implemented a risk management system, which is described in detail in the consolidated management report in the chapter 'Risk and opportunity report'. In addition, we have installed a compliance system aimed at avoiding, identifying, and sanctioning company-related statutory violations, for which the Siltronic compliance organization is responsible. Siltronic has appointed compliance officers in all of its active entities (Germany, USA, Japan, Singapore, Taiwan). As a protected reporting channel, we have also appointed an external ombudsman to whom our employees and third parties can anonymously report any violations of statutory regulations. The Chief Compliance Officer reports directly to the CEO of Siltronic AG. [GRI 102-17](#)

As a company working with complex chemical and mechanical processes, we have a high degree of responsibility for the operation of our equipment as well as for the protection of people and the environment. For this reason, we have appointed employees at production sites who are specially trained in the fields of environmental protection, occupational health and safety, and plant safety. These employees are grouped together in the department Quality Management and Sustainability reports directly to the CEO. The allocation of responsibilities among the members of the Executive Board is presented in the management report. [GRI 102-11](#)

For information on the composition of the Supervisory Board and its cooperation with the Executive Board, please refer to the explanations in the Corporate Governance Report and the Report of the Supervisory Board. Information on the remuneration of the Executive Board and the Supervisory Board is available in the Remuneration Report.

Non-financial performance indicators within our organization

The management of the Siltronic organization is based on financial performance indicators. The most important of these are recorded monthly on a local and Group basis and entered in reporting systems, where they are compared with previously determined targets. The most important financial performance indicators in 2017 have been EBITDA margin, ROCE and free cash flow. These most important financial performance indicators are explained in the outlook of the management report.

Apart from the financial performance indicators, our organization uses non-financial performance indicators. However, none of these indicators are used to manage the Company.

Similar to the financial performance indicators, non-financial performance indicators also have a hierarchy according to their significance. From the wide range of non-financial performance indicators that can be assigned to sustainability, the Executive Board has selected five performance indicators via which it is informed in the course of routine reporting. Each of these indicators has a target for the fiscal year. The five non-financial indicators relating to the field of sustainability are as follows: [Section 289c para. 3 number 5 of the German Commercial Code](#)

- The efficient use of silicon (raw materials management)
- The efficient use of energy (energy management)
- The avoidance of waste (waste management)
- The number of work accidents
- Accidents involving chemicals

Similar to the financial performance indicators, the causes of negative variants in non-financial performance indicators are analyzed and discussed and improvement measures are introduced.

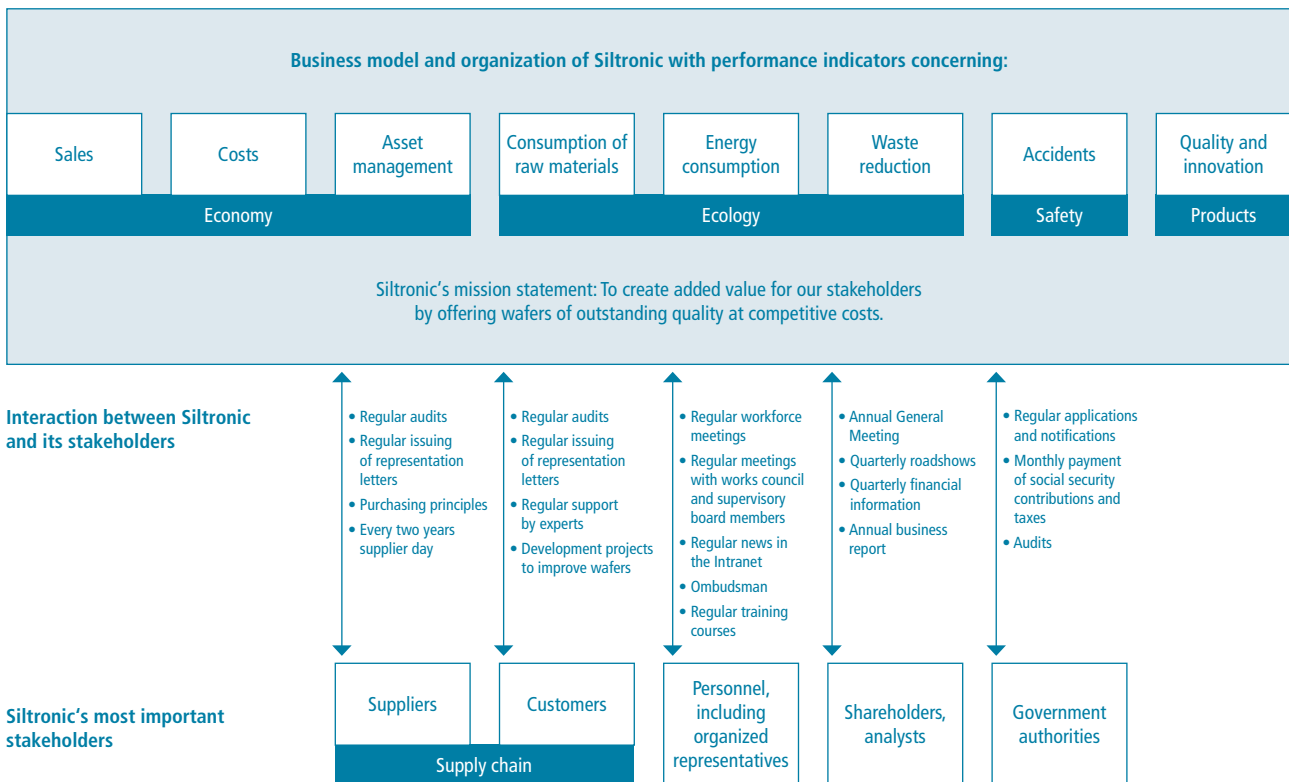
3. Determining the contents of this report

Siltronic's most important stakeholders

Due to its extensive activities, Siltronic impacts outside individuals, companies, and public authorities in a variety of ways. The defining of stakeholder groups that have been assessed as the most important ones is based on the number of interactions with a particular stakeholder group and the involvement of managers. [GRI 102-42](#)

The following diagram shows the most important interactions and their frequency of exchange. [GRI 102-40, -43](#)

The content selected for the Sustainability Report was determined by taking the above-mentioned most important stakeholders of Siltronic into account.



Determining the contents of the report

In order to identify the topics important for this report, we identified various sustainability aspects as a first step, prioritized them according to materiality in a second step, and assigned them to interdisciplinary areas in a third step. Prioritization was based on the ten principles of the United Nations Global Compact project

as well as on industry-specific and company-related aspects. In a fourth step, we subjected the result to a validation process, which was carried out in consultation with internal experts and by comparing it with the corporate strategy. The result was the following list: [GRI 102-46, -47](#)

	Environmental aspects	Supply chain	Personnel aspects	Society
Reduction of specific silicon consumption	x			
Reduction of the specific consumption of auxiliary materials	x	x		
Reduction of specific energy consumption	x			
Occupational health and safety			x	
Compliance	x	x	x	x
Diversity			x	x
Greenhouse gas emissions	x	x		
Advanced training, demographics			x	x
Recycling	x	x		
Environmental impact of transportation	x	x		
Environmental protection measures	x			
Water consumption	x			

4. Environmental aspects

Section 289c para. 1 of the German Commercial Code, UNGC

Management of raw materials and supplies

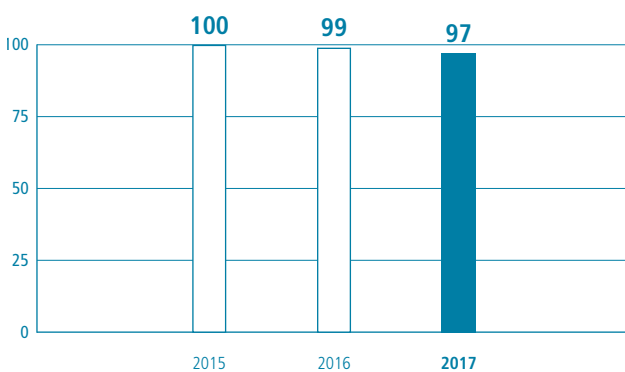
As wafers consist almost entirely of hyperpure silicon, silicon is by far the most important raw material for Siltronic. After oxygen, silicon is the second-most frequently found element in the Earth's crust and non-toxic. For this reason we regard silicon wafers as an unrivalled raw material for manufacturing semiconductors and the raw material of choice for our products in the long term.

We endeavor to use silicon as efficiently as possible, thereby contributing towards reducing environmental pollution and helping us remain competitive. The performance indicator 'efficient use of silicon' triggers in particular that silicon residues are recycled in our production cycle, that manufacturing processes are further developed with the aim of increasing yield, and that investments are made in new machinery. We set a target value for this performance indicator on an annual basis. The will to achieve our targets leads to the development of new ideas, which are subject to testing. If their use in production scenarios looks promising, investments are made to implement them. Unfortunately, the increasing physical and chemical specifications required by our customers on many wafer types has a negative impact on the yield.

The following table illustrates how the efficient use of silicon has developed, whereby 2015 was selected as the basis for comparison:

Development of the efficient use of silicon

in %



The specific target for 2017 was an improvement of 4 percent percent on the previous year. This target was not met, the main reason being that the product mix required by customers shifted from the previous year to wafer types that require an above-average amount of silicon to manufacture.

Apart from the raw material silicon, chemicals, gases, and polishing agents used in the form of auxiliary materials play a role in our production process. As the various auxiliary materials are of less importance to us than silicon, no performance indicators were reported to the Executive Board. We work continuously to change our production processes with the aim of reducing the specific amounts of auxiliary materials required. Specific reductions are usually achieved by avoidance (e.g. by using less chromium) or by recycling (e.g. by reducing the use of polishing agents and cleaning baths). Progress is usually measured using quantitative factors and compared with targets after one or two years.

Management of energy (consumption of energy within Siltronic)

A substantial part of the process of transforming the purchased silicon into wafers is performed at high temperatures and in air-conditioned cleanrooms. The large amount of energy required to drive this process makes wafer production an energy-intensive industry.

In 2017, energy consumption totaled 721 GWh. Consumption includes production, research and development, and administration. Sales offices are not included in the total, as their overall energy consumption is insignificant. Electricity is by far the most important source of energy.

Energy consumption

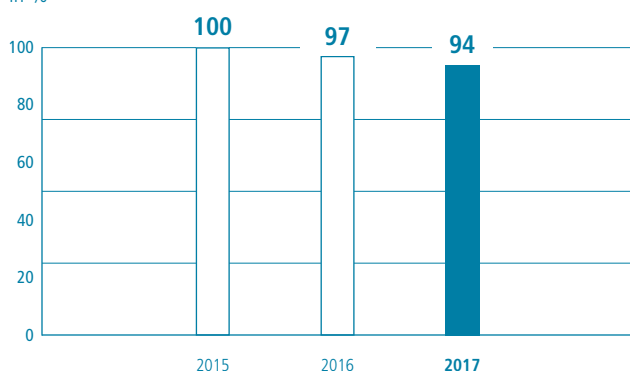
in GWh	2015	2016	2017
Electricity consumption	574	586	601
Use of primary energy			
Natural gas	72	75	75
Steam, heat	40	42	39
Fuel oil	10	7	6
	122	124	120
Total	696	710	721

The electricity Siltronic requires is purchased. About 55 percent of the electricity is consumed in Germany. According to the Federal Association of the Energy and Water Industry (BDEW), more than 36 percent of the electricity consumed in Germany stems from renewable sources, which mainly includes wind, biomass and solar.

Energy consumption per square centimeter of wafer manufactured describes the energy intensity of our products (the forms listed in the table 'Energy consumption' are used to calculate energy consumption). The following table illustrates how energy intensity has developed since 2015.

Energy consumption per sq cm wafer surface

in %



In order to reduce energy intensity, projects are being initiated to lower specific electricity consumption. Sustainable changes are achieved in particular by reducing the temperatures of selected cooling water and using less energy-intensive lasers.

The 'efficient use of energy' performance indicator is reported to the Executive Board on a regular basis and ambitious targets are determined annually.

Siltronic pursues the strategic target of reducing its specific energy consumption by an average of 1.5 percent per year. On this basis and using planned production volume, we calculate absolute savings targets in MWh for the sites and absolute targets for the production areas.

Numerous energy efficiency measures have contributed to meeting the 2017 target, resulting in a total sustainable reduction in electricity consumption of 8.9 GWh per annum and an equivalent value of EUR 0.6 million. The annual target of 1.5 percent was surpassed.

Management of waste

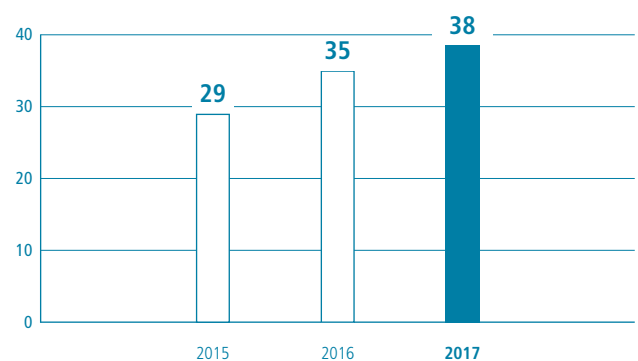
In order to reduce packaging waste, we have taken an initiative with our customers and introduced two recyclable types of reusable packaging, namely the 'Hybox' and the 'FOSB'. As multiples of FOSBs can be stacked in a Hybox, an FOSB forms the inner reusable packaging and the Hybox the outer reusable packaging solution. Since both types of reusable packaging impact customers' production processes, customers first need to agree to the use of the Hybox and the FOSB.

Over the years, we have nearly always been able to convince customers of the benefits of this form of packaging wherever the use of the Hybox was technically feasible. Through this reuse concept we reduce the transport of packaging by around 438 tons and the waste by about 876 tons in comparison to carton packaging.

Our main focus in reusable packaging is the use of the FOSB. The percentage of multiple use of the FOSB for packaging purposes between the customer and us is one of the five non-financial performance indicators that are regularly reported to the Executive Board.

Share of wafer area in returnable packaging

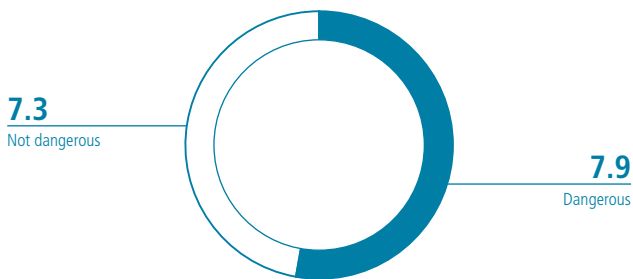
in %



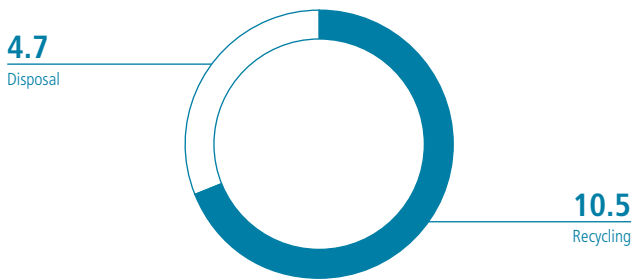
The target for 2017 was to achieve a percentage of 35 percent. This target was achieved.

With regard to waste, the disposal of hazardous material is also a significant factor. The composition of waste and its disposal channels during the year under report were as follows:

Composition of the waste GRI 306-2
in 1,000 t



Disposal routes of waste GRI 306-2
in 1,000 t



Disposal routes as well as the classification of waste into the categories 'dangerous' and 'not dangerous' are based on local legal or quasi-legal regulations.

39 percent of the waste is caused by Siltronic AG.

We are not affected by particularly critical aspects of materials and work practices in the supply chain. So-called 'conflict materials', such as metals originating from critical regions in Africa or Asia, are not involved in our manufacturing process.

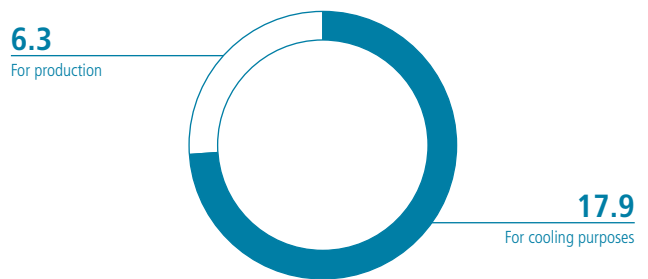
Management of water

Water is primarily used in our manufacturing process for cleaning and cooling purposes. We endeavor to protect natural water resources and use them as sparingly as possible. Furthermore, the World Business Council for Sustainable Development defines Singapore as a water shortage area and for that reason we operate our own water treatment plant in Singapore.

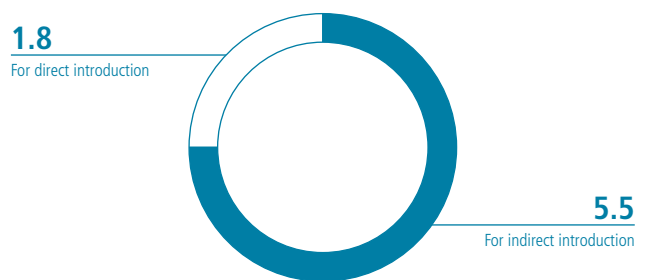
Due to the increased risk of flooding in Freiberg, in 2017 Siltronic AG completed the construction of a new water reservoir at the site, effectively reducing the amount of rainwater flowing into the nearby stream by almost half and making an important contribution to flood protection. The system is monitored via sensors connected to computers in Siltronic's control center in Freiberg.

The following graphs show the use of waste and wastewater in 2017.

Use of water
in million m³



Use of wastewater (without cooling water)
in million m³



About 86 percent of the use of water falls to Germany and about 59 percent is wastewater (without cooling water).

Environmental protection measures

We take preventive measures to protect the environment, mainly by ensuring that our systems are safe.

Siltronic invested approximately EUR 3.6 million in environmental management, including prevention.

Emission of greenhouse gases

The groupwide carbon footprint is an essential instrument for improving climate protection. In addition to direct greenhouse gas emissions (in accordance with the Greenhouse Gas Protocol 'Scope 1') and indirect emissions from the purchase of energy ('Scope 2'), we also calculate emissions generated along the value chain ('Scope 3', which relates in particular to polysilicon, auxiliary materials, water, and waste). The carbon footprint is calculated within the framework of the sustainability assessments of the Carbon Disclosure Project (CDP).

The emissions attributable to Scope 3 will be calculated for the first time in 2017. We plan to report emissions according to Scope 3 in the CDP.

Name of emissions

Description of emissions in accordance with the Carbon Disclosure Project (CDP), causes and main sources			Tonnes of CO ₂ equivalents
Scope 1	Direct emission	Natural gas, fuel, climate-impacting gases	11,891
Scope 2	Indirect emission	Electricity, steam	277,331

The collection methodology is in accordance with the guidelines of the GHG Protocol for the chemical industry. The calculation includes all Group entities.

The climate-impacting gases comprise only a marginal part of Scope 1 emissions. Nevertheless, we are continuously working on more effective use and on the substitution with gases that have a lower greenhouse effect. We also motivate our employees to leave their cars at home. At our Burghausen site we have provided commuter buses for shift workers for over ten years. At our site in Portland, Oregon, USA, we provide our employees with subsidies for public transport tickets and in Singapore, Siltronic offers shuttle buses from the company to various parts of the city.

Our activities to minimize Scope 2 emissions mainly focus on utilizing energy with increasing efficiency.

As a result of our measures to increase the efficiency of energy use, the CO₂ emissions of the wafer area produced per Scope 2 have declined by a medium single-digit percentage over the previous year.

NO_x amounted to 90 tons in 2017 and NMVOC to 53 tons. Ozone is used negligibly in production. SO_x, POP, HAP and PM are irrelevant in terms of quantity.

Influence of climate change

The demand for wafers is mainly driven by demand in the fields of mobile communication, computers and servers, data storage on local devices and in the cloud, automotive electronic components, and industry in general. We do not view our business model as being negatively impacted by climate change. On the contrary: without semiconductor components and therefore wafers, electric mobility would not be possible, the feeding in of electricity generated by solar installations and wind farms unthinkable, and a great many smart ways of reducing power consumption unfeasible. Moreover, storing data on semiconductor components consumes less electricity than other forms of electronic data storage. [GRI 201-2](#)

5. Personnel aspects

Section 289c para. 2 number 2 of the German Commercial Code, UNGC

Headcount and personnel planning strategy

On December 31, 2017, the Siltronic Group employed 3,730 people, 62 percent of whom were employed by Siltronic AG, 27 percent in Asia, and 11 percent in the USA.

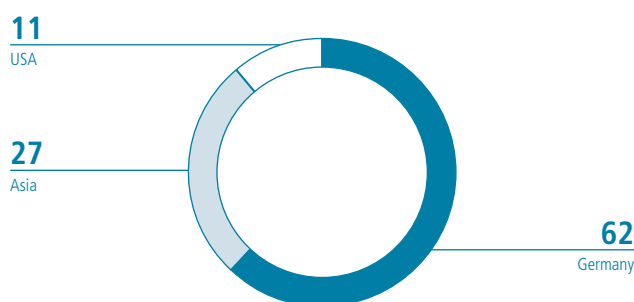
Headcount as at December 31, 2017 [GRI 102-8](#)

	Men	Women	Total	Employees in the Group
Germany	1,833	465	2,298	62%
Of which on permanent contracts	1,830	462	2,292	
Of which on temporary contracts	3	3	6	
Singapore and other Asian countries	730	299	1,029	27%
Of which on permanent contracts	730	297	1,027	
Of which on temporary contracts	0	2	2	
USA	294	109	403	11%
Of which on permanent contracts	294	109	403	
Of which on temporary contracts	0	0	0	
Employees in the Group	2,857	873	3,730	100%

Of the 3,730 employees employed at the end of 2017, 3,281 worked full-time and 449 part-time. Of the part-time workers, 52 percent were women and 100% part-time workers were in permanent employment. [GRI 102-8](#)

Breakdown of employees by region (excluding temporary employees)

in %



As demand in the semiconductor industry has historically shown considerable ups and downs and we are required to cope with these changes, we pursue a flexible strategy in our personnel planning. The strategy includes covering a certain percentage of our personnel requirements in the field of production with temporary staff, which also protects the core workforce. If a perceptible upturn in demand leads to production peaks, we deploy temporary staff. Conversely, if personnel cost cuts become necessary due a market downturn, we initially reduce the number of temporary workers. If that measure proves insufficient, as a second stage we stop renewing fixed-term contracts. In a third step, we consider introducing reduced working hours for staff in areas particularly impacted by a downturn.

In order to react promptly to any significant changes in demand, the personnel requirements resulting from incoming orders are continuously compared with current and future staff levels. Any measures planned to substantially increase or reduce the number of employees are discussed by employer and employee representatives in a structured process.

On December 31, 2017, Siltronic employed a total of 709 temporary workers (524 men and 185 women). The last time Siltronic needed to reduce working hours was in 2012. [GRI 102-8](#)

Relationship with employee representatives and employees' rights

The Siltronic Group cooperates with employee representatives in a spirit of goodwill, and regular meetings between employer and employee representatives are convened.

Our workforce has always been highly unionized, particularly in Germany. Since employees are not required to report union membership and as it is inadmissible for employers to ask, we do not know how many of our employees are union members. Some 60 percent of employees work in units covered by collective agreements. **GRI 102-41**

If an employer's collective bargaining agreement is in place, Siltronic is obliged by the employment contract to treat employees as if the respective collective bargaining agreement were applicable – regardless of their membership in a trade union.

At sites that do not have an established representation, there are employees who act as contacts for employee issues.

In addition to remuneration and working time, essential employee rights include the right to parental leave or maternity leave. Of course, Siltronic employees also make use of this right and at December 31, 2017, 14 women and 3 men were on either maternity or parental leave.

Siltronic regularly informs the workforce about current developments that could have an impact on the business performance. Employees are comprehensively informed of any significant operational changes in a timely manner. Siltronic hereby complies with the respective national and international information requirements.

Diversity and equal opportunity

Siltronic operates in Europe, North America, and Asia and therefore in a culturally diverse environment. Siltronic AG, the largest of the Group's companies, employed people of about 30 different nationalities during the year under report.

One focus of our efforts is to leverage the diversity that exists in modern society and, with this point in mind, Siltronic AG has appointed a Diversity Officer. Among other advantages, the diversity of the workforce with its variety of skills and talents provides a range of opportunities for developing innovative and creative solutions. Among other factors, diversity includes gender, nationality, ethnic origin, religion, and disability (the management report provides information on employees with disabilities).

We reject discrimination or degradation on the basis of gender, race or ethnic origin, religion or belief, disability, sexual orientation, or age. These principles apply throughout the Group and are set out in writing as part of our corporate culture. Employees can report potential discrimination to their managers, to compliance officers, the works council, the personnel department, or an ombudsman. The complaint will be reviewed and the complainant duly informed of the outcome.

All employees working at Siltronic sites in Germany are required to familiarize themselves with the General Act on Equal Treatment (AGG) by participating in an e-learning course. The advanced training course is obligatory for employees at all levels of Siltronic's hierarchy.

Our long-term goal is to raise the level of diversity within our workforce, also by increasing the percentage of women in management positions. At the end of 2017, two out of 17 positions one level below the Executive Board and two out of 37 positions on the second level below are represented by women. The Corporate Governance Report provides more information on this subject.

The following table shows the percentage of men and women at management level at German sites:

Headcount as at December 31, 2017

	Men	Women	Total
Employees in the Group	50	4	54
<i>In percent</i>	93%	7%	100%
Of which first level below Executive Board	15	2	17
<i>In percent</i>	88%	12%	100%
Of which second level below Executive Board	35	2	37
<i>In percent</i>	95%	5%	100%

Advanced training and demographic trends in Germany

Competent employees keep the company both innovative and competitive. We encourage our employees in Germany in particular to keep learning throughout their lives and retain a flexible attitude towards change, as we believe that we all need to be prepared for longer working lives in Germany in order to cope with the demographic change. To enable employees to make the most of their potential, Siltronic offers a wide range of opportunities for further development. The training measures relate to personality, management, and social competence as well as technical expertise.

Employees and their managers discuss development measures at least once a year in a performance review, regardless of hierarchic level, gender, or location.

At the end of 2017, the average age of the typical employee was 45 years. The following table shows the age structure of Siltronic employees worldwide.

Age structure as at December 31, 2017

	Male	Female	Total
Under 30 years of age	14%	16%	15%
30 to 50 years of age	47%	51%	48%
Over 50 years of age	39%	33%	37%
Total	100%	100%	100%

In 2017 15,100 e-learning courses were provided and around 2,400 employees attended seminars, further education or similar events.

Remuneration and equal pay

In order to attract new employees and retain existing ones, both of which we require in order to ensure a successful future, we need to offer competitive levels of remuneration. In addition to their basic salary with vacation and Christmas bonuses, employees in Germany receive variable remuneration if the company achieves certain defined financial targets. This voluntary payment benefits both employees paid according to standard tariffs and those who are not. There are also variable remuneration components for those employed by foreign subsidiaries.

We regard it as important to treat temporary workers fairly. We pay at least the wage in accordance with the collective agreement on industry surcharges for temporary employment in the chemical industry (TV BZ Chemie). In addition, there are workplace, shift, and other voluntary allowances, which can vary according to business and location. In addition, Siltronic meets the requirements for an equivalent wage in accordance with the German Temporary Employment Act (AÜG).

In addition to salary, remuneration includes various other benefits that extend beyond the statutory minimum requirements, regardless of whether an employee works full-time or part-time. In Germany, the most important company benefits include in particular the company pension scheme, partial retirement programs, bus subsidies, anniversary bonuses, canteen subsidies, and preventative health care programs. Company pension plans and health insurance are provided in the USA.

The staff turnover rate can be seen as a sign of how well we manage to retain employees and attract new members of staff. During the year under report, Siltronic recruited 452 employees, 108 within Germany and 344 at foreign subsidiaries. At the balance sheet date, recruitment accounted for 12 percent of the workforce. In 2017, 10 percent of the workforce or 362 employees left the company. In 77 cases, the departure was in Germany and in 285 cases abroad. The fluctuation was low in both Germany and the US and on a typically higher level in Asia.

Just like Siltronic AG's employees at sites in Germany, temporary workers employed at those locations also receive performance-related remuneration for 2017.

The notes to the consolidated financial statements contain information on personnel expenses and pensions.

Occupational health and safety

Responsibility towards the entire workforce in the field of occupational health and safety plays a major role at Siltronic and is primarily reflected in extensive preventative measures. Secondly, the Executive Board receives regular reports on the development of accident figures, which are a non-financial indicator, as well as on any relevant occupational accidents and their related corrective measures. Special attention is given to injuries involving chemicals. The target figure for injuries involving chemicals is 0.

With our safety program, we work continuously to improve safety standards within the working environment. Key measures include the appointment of safety officers, safety inspection tours, training courses, talks with operating staff, and emergency drills, all aimed at identifying and avoiding unsafe activities – whether when operating equipment, handling chemicals, in the workplace, in the office, or on the way to work. The occupational health and safety standard OHSAS 18001 has been defined as a group-wide standard. However, despite these measures, accidents still occur.

The following table shows the development of accident figures, which the Executive Board has defined as an indicator, and on which it receives regular reports.

Number of work accidents per 1 million working hours

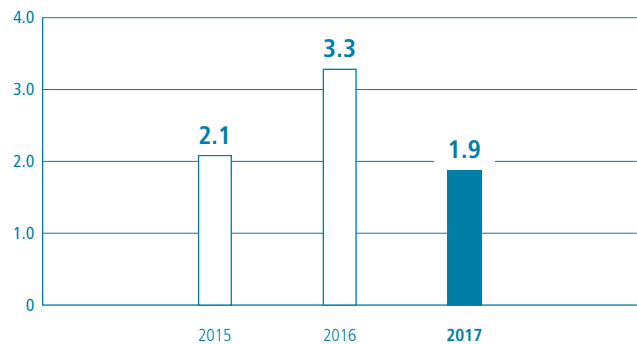
	2015	2016	2017
Work accidents ¹⁾	2.1	3.3	1.9
Injuries involving chemicals	1	2	1

¹⁾ Accidents are entered in the statistics if the employee involved is unfit to work for at least one day. The statistics include work accidents involving temporary staff.

The targets for 2017 were 1.8 for occupational accidents and 0 for injuries due to chemicals. The number of occupational accidents exceeded the self-imposed target to a negligible extent, and for injuries with chemicals the target was not reached because of one incident. There have been no fatal or serious accidents at work in recent years.

Accidents at work¹⁾

Number of accidents per million working hours



¹⁾ Loss of one or more working days

The number of accidents has decreased compared to 2016 but is still not satisfactory. As the accidents are essentially behavior-related, we have launched initiatives that specifically address this cause. These include workshops especially designed for raising awareness among new staff members as, according to our internal statistics, they are exposed to a higher risk of accidents during their first few months of employment. We also run awareness-raising campaigns on the subject of stumbling, slipping, and falling. Moreover, we have introduced a program for reporting safety-critical situations in which reports are recorded using the company's tried-and-tested suggestion system, according to which, the number of reports on potential stumbling risks and hazards involving in-house transportation as well as in production areas has increased significantly.

6. Supply chain

Supplier relationships

In 2017, our purchasing volume totaled almost EUR 571 million. We cooperate with more than 3,450 suppliers worldwide, nearly 250 of whom constitute some 90 percent of our purchasing volume. The volume purchased in Europe accounts for around 70 percent, from Asia roughly a quarter is sourced and North America accounts for 6 percent. The most important of these is the former parent company Wacker Chemie AG, which not only supplies us with the raw material polysilicon, but also provides a variety of on-site services at our plant in Burghausen under the terms of a service agreement. Furthermore, suppliers of electricity and equipment is particularly important. **GRI 102-9**

We strive to ensure that our suppliers act responsibly with regard to working conditions, ethical standards, safety standards, and the management of local resources. One of the key measures we have enacted is to ensure that our suppliers commit, within the framework of our general procurement conditions, to comply with the principles of the UN Global Compact and the Responsible Care® initiative. However, should we detect any violations of these regulations within the framework of our cooperation, we discuss these observations with the relevant suppliers and demand improvements.

In the course of 2017, we began taking over some of the services previously provided to Siltronic by our former parent company Wacker Chemie AG within Germany and plan to continue reducing the volume of services received from Wacker over the next few years. **GRI 102-10**

Sustainability with regard to customers

Technical progress and innovation in the interaction between Siltronic and many of its customers is of great significance, due to the fact that technical progress in the semiconductor industry is advancing quicker than in many other branches of industry. The technical advancement that semiconductor manufacturers are achieving is above all evident in the fact that electronic circuits are becoming more compact. Smaller circuits make semiconductors more efficient and they consume less electricity at the same time. This development can only be maintained if wafers meet more sophisticated physical and chemical specifications. Our customers set the pace of development. In order to satisfy their expectations, we spend around seven percent of our total sales on research and development based on a multi-year average.

As previously mentioned in the section on waste management, we have worked for years to convince our customers to use reusable transport packaging and our efforts were successful.

7. Social responsibility and social aspects

Section 289c para. 2 numbers 3/4/5 of the German Commercial Code

For Siltronic, sustainability also means transparency and openness in the sense of corporate citizenship. This begins with a good relationship to our neighbors and speaking openly about what happens within the plant as well as addressing questions posed by the public worldwide. This is the only way to create the spirit of social trust that companies need in order to be economically successful. With these points in mind, Siltronic assumes social responsibility, particularly in the regions near its various locations. Our concepts in this respect extend beyond the above-mentioned global initiatives RBA (formerly EICC) and the United Nations Global Compact:

Fighting legal violations, particularly corruption and bribery

According to the Corruption Perception Index of Transparency International (CPI), Siltronic operates predominantly in countries with a medium to low risk of corruption.

We resolutely oppose any form of violation of the law. Irrespective of the national probabilities of occurrence, our compliance system described above, in every market in which we operate, is designed to avoid, prevent, identify and sanction compliance violations in form of corruption, fraud, infringements of competition rules, and other manifestations of white-collar crime.

Employees are required to report any violations they observe to their managers, compliance officers, the works council, or the responsible members of staff in the personnel department. Moreover, both employees and third parties can anonymously report violations of legal regulations to an external ombudsman, who has been appointed by Siltronic. The Company investigates every reasonable suspicion, examines the case and defines measures to remedy any weaknesses identified. It also takes any disciplinary measures deemed necessary. The Chief Compliance Officer reports to the Executive Board of Siltronic AG on a monthly and ad-hoc basis. [GRI 102-17](#)

Employees who have contact with business partners are required to complete an e-learning course on compliance. Furthermore, all employees in sales and marketing are required to undergo online training courses on antitrust law. [GRI 102-17](#)

Human rights

Our four production sites are located in highly developed industrialized countries, where there is a low risk of human rights violations compared to less developed nations. However, a certain degree of risk remains. Since we want to actively fight human rights violations within our company as well as in the upstream and downstream supply chain, we have taken measures to identify possible contraventions.

Via our Code of Conduct, we explicitly endorse the ten principles of the United Nations Global Compact initiative. The first two principles of the Global Compact deal with upholding human rights and the exclusion of human rights abuses. Based on the first principle of the Global Compact "support for human rights" and the second principle "exclusion of human rights abuses", Siltronic implements the following measures in particular:

- Siltronic does not purchase materials, goods, or services from suppliers or service providers who do not undertake to uphold human rights. We implement this aim by requiring suppliers and service providers to accept our relevant purchasing principles.
- We train our employees at specific seminars to ensure compliance with internationally proclaimed human rights.
- If we become aware of potentially critical aspects with regard to human rights, we analyze them. Should a situation turn out to be critical in the face of analysis, we take action.
- In our dealings with customers, we commit to uphold human rights and exclude any abuses thereof.

Charitable causes

Employees within Germany participate in the cent donation program organized by the Wacker Relief Fund in which employees consent to having their monthly salary rounded downwards to the next lower amount in euros. These remaining cents are then donated to the Wacker Relief Fund.

Wacker Chemie AG's relief fund supported the people of Nepal following the devastating earthquakes of 2015 and helped them to build and maintain schools in Nepal in 2017 in particular.

Furthermore, in 2017, Siltronic AG donated EUR 100,000 to the Deutsches Museum in Munich, Germany.

Relationships with associations and with politics

We are committed to responsible behavior towards political parties and non-governmental organizations. We represent our political interests in accordance with the standpoints we have publicly expressed. Our approach to politics is based on factual considerations and we are open to dialogue with all democratic parties. Any donations made to political parties require the approval of the Executive Board of Siltronic AG.

We do not hold special positions in any association or organization in which we are a member. Siltronic has not participated in legislative procedures. [GRI 415-1](#)

Dialog at regional levels

At all locations, we maintain regular exchanges with the authorities in the field of environmental protection. For this commitment our manufacturing company in the United States has been awarded the "Gold Compliance Award for No Pretreatment Violations" and the "Gold Sustainability at Work Certification Bureau of Sustainability" from the city of Portland, Oregon.

United Nations Global Compact

Siltronic participates in this project and hereby reports on its progress.

GRI 102-12

Principles	Measures implemented (key examples)
<p>Human rights</p> <p>Principle 1: Support of human rights</p> <p>Principle 2: Exclusion of human rights abuses</p>	<ul style="list-style-type: none"> • Siltronic does not purchase materials, goods, or services from suppliers or service providers who do not undertake to uphold human rights. We implement this aim by requiring suppliers and service providers to accept our relevant purchasing principles. • We train our employees at corresponding meetings to ensure compliance with internationally proclaimed human rights. • In our Code of Conduct, we explicitly commit ourselves to all ten principles of the Global Compact. • In our dealings with customers, we undertake to uphold human rights and exclude any abuses thereof.
<p>Labor standards</p> <p>Principle 3: Uphold freedom of association</p> <p>Principle 4: Eliminate all forms of forced and compulsory labor</p> <p>Principle 5: Abolition of child labor</p> <p>Principle 6: Elimination of discrimination</p>	<ul style="list-style-type: none"> • We have taken steps to ensure that an employee can turn to various authorities for information on violations of labor standards. Apart from their managers, employees can report to compliance officers based at each location, the works council, the personnel department, and an external ombudsman. • We will punish proven misconduct according to its degree of severity. • Some 62 percent of employees work in units where there are independent employee representatives. • In our Code of Conduct, we explicitly commit ourselves to all ten principles of the Global Compact. • In our dealings with customers, we commit ourselves to respecting the freedom of association, to the abolition of all forms of forced labor, the abolition of child labor, and the elimination of discrimination.
<p>Environmental protection</p> <p>Principle 7: Precautionary environmental protection</p> <p>Principle 8: Initiatives for greater environmental responsibility</p> <p>Principle 9: Development and diffusion of environmentally friendly technologies</p>	<ul style="list-style-type: none"> • Worldwide certification of our environmental protection system in accordance with ISO 14001 and the certification of our energy management system in accordance with ISO 50001 at our sites in Germany. • Implementation of certain non-financial performance indicators aimed at reducing the specific use of raw materials, specific energy consumption, and increasing the utilization rate of reusable packaging that can be used to package wafers. • Annual preparation of a sustainability report that is subject to an external audit (non-financial report). • In our Code of Conduct, we explicitly commit ourselves to all ten principles of the Global Compact.
<p>Anti-corruption</p> <p>Principle 10: Measures to fight corruption</p>	<ul style="list-style-type: none"> • Training sessions • In representation letters to our customers, we are committed to taking action against corruption.

Consolidated financial statements

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Consolidated statement of profit or loss

from January 1 to December 31, 2017

In EUR million	Note	2017	2016
Sales	01	1,177.3	933.4
Cost of sales	01	-807.0	-761.5
Gross profit		370.3	171.9
Selling expenses		-37.1	-33.2
Research and development expenses		-68.3	-66.4
General administration expenses		-25.6	-20.6
Other operating income	01	59.7	52.5
Other operating expenses	01	-63.3	-77.2
Operating result		235.7	27.0
Interest income	02	1.9	1.3
Interest expenses	02	-1.2	-3.3
Other financial result	02	-9.2	-9.1
Financial result		-8.5	-11.1
Result before income tax		227.2	15.9
Income taxes	03	-35.0	-7.2
Net profit for the year		192.2	8.7
<i>of which</i>			
<i>attributable to Siltronic AG shareholders</i>		<i>185.3</i>	<i>12.0</i>
<i>attributable to non-controlling interests</i>		<i>6.9</i>	<i>-3.3</i>
Earnings per common share in EUR (basic/diluted)	15	6.18	0.40

Consolidated statement of financial position

as of December 31, 2017

In EUR million	Note	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	04	24.0	26.4
Property, plant and equipment	05	513.3	519.8
Securities	08	1.3	–
Other financial assets	07	1.5	1.9
Deferred tax assets	03	6.5	6.0
Non-current assets		546.6	554.1
Inventories	06	149.9	140.9
Trade receivables	07	159.9	118.2
Fixed-term deposits	08	116.3	79.0
Other financial assets	07	21.3	16.8
Other non-financial assets	07	30.0	11.2
Income tax receivables	07	2.6	0.2
Cash and cash equivalents	08	225.8	136.4
Current assets		705.8	502.7
Total assets		1,252.4	1,056.8

In EUR million	Note	Dec. 31, 2017	Dec. 31, 2016
Subscribed capital		120.0	120.0
Capital reserves		974.6	974.6
Retained earnings and net Group result		–269.7	–455.0
Other equity items		–187.6	–207.7
Equity attributable to Siltronic AG shareholders		637.3	431.9
Equity attributable to non-controlling interests		0.6	–6.6
Equity	09	637.9	425.3
Provision for pensions	10	367.2	395.1
Other provisions	11	48.8	36.8
Provisions for income taxes	11	0.7	–
Deferred tax liabilities	03	2.7	2.5
Financial liabilities	13	–	40.4
Other financial liabilities	12	0.0	1.2
Other non-financial liabilities	12	42.9	3.9
Non-current liabilities		462.3	479.9
Other provisions	11	4.6	7.8
Provisions and liabilities for income tax	11/12	5.4	6.6
Trade liabilities	12	67.1	81.6
Other financial liabilities	12	1.2	9.8
Other non-financial liabilities	12	73.9	45.8
Current liabilities		152.2	151.6
Liabilities		614.5	631.5
Total equity and liabilities		1,252.4	1,056.8

Consolidated statement of cash flows

from January 1 to December 31, 2017

In EUR million	Note	2017	2016
Net profit		192.2	8.7
Depreciation/amortization of non-current assets, including impairment losses and reversals thereof		117.4	119.0
Other non-cash expenses and income		-17.4	-4.7
Result from disposal of non-current assets		1.6	0.6
Interest income		-0.7	2.0
Interest paid		-8.5	-2.0
Interest received		2.0	1.2
Tax expense		35.0	7.2
Taxes paid		-38.9	-4.9
Changes in inventories		-13.3	3.1
Changes in trade receivables		-52.9	-13.7
Changes in other assets		-14.4	-11.5
Changes in deferred taxes		-1.0	0.2
Changes in provisions		18.7	17.9
Changes in trade liabilities		4.5	12.4
Changes in other liabilities without prepayments		29.8	0.6
Changes in prepayments		44.8	-20.5
Cash flow from operating activities		298.9	115.6
Payments for capital expenditures (including intangible assets)		-129.3	-96.7
Proceeds from the disposal of property, plant and equipment		0.0	0.1
Payments for the acquisition of fixed-term deposits		-274.5	-131.7
Proceeds from fixed-term deposits		232.2	92.8
Cash flow from investing activities		-171.6	-135.5
Payments for financial liabilities	13	-31.4	-
Cash flow from financing activities		-31.4	-
Changes due to exchange-rate fluctuations		-6.5	1.8
Changes in cash and cash equivalents	08	89.4	-18.1
at the beginning of the year		136.4	154.5
at the end of the year		225.8	136.4

Consolidated statement of comprehensive income

from January 1 to December 31, 2017

In EUR million	2017		2016	
	Before tax	After tax	Before tax	After tax
Net profit	192.2	192.2	8.7	8.7
Item not reclassified to profit or loss: Remeasurement of defined benefit plans	19.5	22.4	-90.5	-90.5
Items reclassified to profit or loss:				
Difference from foreign currency translation	-9.7	-9.7	0.1	0.1
<i>thereof recognized in profit or loss</i>	-	-	-	-
Changes in market values of available-for-sale financial instruments	0.1	0.1	-	-
<i>thereof recognized in profit or loss</i>	-	-	-	-
Changes in market values of derivative financial instruments (cash flow hedge)	19.8	15.8	8.6	8.6
<i>thereof recognized in profit or loss</i>	-3.8	-2.7	19.8	19.8
Effects of net investments in foreign operations	-8.2	-8.2	1.1	1.1
<i>thereof recognized in profit or loss</i>	-	-	-	-
Sum of items reclassified to profit or loss	2.0	-2.0	9.8	9.8
Other comprehensive income/loss	21.5	20.4	-80.7	-80.7
Total comprehensive income/loss		212.6		-72.0
<i>of which</i>				
<i>attributable to Siltronic AG shareholders</i>		205.4		-68.6
<i>attributable to non-controlling interests</i>		7.2		-3.4

Consolidated statement of changes in equity

as of December 31, 2017

In EUR million	Subscribed capital	Capital reserves	Difference from foreign currency translation	Effects of net investments in foreign operations	Changes in market values of available for sale financial instruments	Changes in market values of derivative financial instruments (cash flow hedge)	Remeasurement of defined benefit plans	Retained earnings/net Group result	Total	Non-controlling interests	Total equity
Balance as of January 1, 2016	120.0	997.3	-0.5	-	-	-13.2	-113.4	-489.7	500.5	-3.2	497.3
Net profit for the year	-	-	-	-	-	-	-	12.0	12.0	-3.3	8.7
Other comprehensive income	-	-	0.2	1.1	-	8.6	-90.5	-	-80.6	-0.1	-80.7
Total comprehensive income	-	-	0.2	1.1	-	8.6	-90.5	12.0	-68.6	-3.4	-72.0
Netting of Siltronic AG's net loss for the year with capital reserves	-	-22.7	-	-	-	-	-	22.7	0.0	-	0.0
Balance as of December 31, 2016	120.0	974.6	-0.3	1.1	-	-4.6	-203.9	-455.0	431.9	-6.6	425.3
Balance as of January 1, 2017	120.0	974.6	-0.3	1.1	-	-4.6	-203.9	-455.0	431.9	-6.6	425.3
Net profit for the year	-	-	-	-	-	-	-	185.3	185.3	6.9	192.2
Other comprehensive income	-	-	-10.0	-8.2	0.1	15.8	22.4	-	20.1	0.3	20.4
Total comprehensive income	-	-	-10.0	-8.2	0.1	15.8	22.4	185.3	205.4	7.2	212.6
Balance as of December 31, 2017	120.0	974.6	-10.3	-7.1	0.1	11.2	-181.5	-269.7	637.3	0.6	637.9

Notes to the consolidated financial statements of Siltronic AG and subsidiaries

General information to the consolidated financial statements

Nature of operations

Siltronic AG (the 'Company'), together with its subsidiaries (the 'Group') is a manufacturer of semiconductor silicon wafers made from hyperpure silicon whose customers comprise nearly all major semiconductor companies worldwide. Silicon constitutes the base substrate for most semiconductor devices, and silicon wafers are components of everyday electronics including smartphones, tablets, PCs, flat screens, and sensors. The Group operates wafer facilities one each in Burghausen and in Freiberg, Germany, two wafer facilities in Singapore, and one wafer facility in Portland, Oregon, USA.

The Company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange and are included in the TecDAX. Until March 15, 2017, Wacker Chemie AG held a majority stake in the Company.

Siltronic AG is registered in the commercial register of Munich under number HRB 150884. The headquarters of the company is located at Hanns-Seidel-Platz 4, Munich.

Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and related interpretations issued by the IFRS Interpretations Committee (IFRIC). The consolidated financial statements comply with IFRS as adopted by the EU. The Group has applied all standards and interpretations that were effective as of December 31, 2017 and endorsed by the EU.

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. The statement of profit or loss is prepared using the cost of sales method.

The consolidated financial information is presented in euros, which is the Company's functional currency and the Group's reporting currency. All amounts are shown in millions of euros (EUR million) unless otherwise stated.

The Executive Board of Siltronic AG approved the consolidated financial statements on March 1, 2018.

The declaration in relation to the German Corporate Governance Code, as prescribed in Section 161 of the German Stock Corporation Act has been issued and was made available to the public on <https://www.siltronic.com/en/investors/corporate-governance.html>.

Financial reporting principles applied for the first time in 2017

The application of the following new standards, interpretations, and changes to existing standards is mandatory for the period starting on January 1, 2017. The Group continuously evaluates new standards, interpretations, and changes to existing standards to determine their impact on the consolidated financial statements.

Financial reporting principles applied for the first time

Standard/amendment/interpretation	Effective date	Expected impact on Siltronic
IAS 7 Cash flow statement (Disclosure initiative – Amendments to IAS 7)	January 1, 2017	extended notes
IAS 12 Recognition of deferred tax assets for unrealized losses (Amendments to IAS 12)	January 1, 2017	immaterial
IFRS 12 Annual IFRS improvements 2014–2016 – Amendments to IFRS 12	January 1, 2017	immaterial

Financial reporting standards and interpretations not yet applied

The application of the following new standards, interpretations, and changes to existing standards is not yet mandatory for the period under review. The Group does not apply any of these earlier than required. Currently the Group expects the following impact:

Financial reporting principles not yet applied:

Standard/amendment/interpretation Endorsed by EU		Effective date	Expected impact on Siltronic
IFRS 9	Financial instruments	January 1, 2018	See explanatory notes below the table
IFRS 15	Revenue from contracts with customers including clarifications to IFRS 15	January 1, 2018	See explanatory notes below the table
IFRS 16	Leases	January 1, 2019	See explanatory notes below the table
IFRS 4	Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts)	January 1, 2018	immaterial
IFRS 1 und IAS 28	Annual IFRS improvements 2014–2016 – Amendments to IFRS 1 and IAS 28	January 1, 2018	immaterial

Standard/amendment/interpretation not yet endorsed by EU		Effective date	Expected impact on Siltronic
IFRS 2	Amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions)	January 1, 2018	immaterial
IFRS 17	Insurance contracts	January 1, 2021	analysis not yet completed
IFRS 9	Amendments to IFRS 9 (Prepayment Features with Negative Compensation)	January 1, 2019	immaterial
IAS 28	Amendment to IAS 28 (Long-term Interests in Associates and Joint Ventures)	still pending	immaterial
IAS 40	Amendments to IAS 40 (Transfers of Investment Property)	January 1, 2018	immaterial
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	immaterial
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	immaterial
IFRS 10 und IAS 28	Amendments to IFRS 10 und IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	still pending	immaterial
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual IFRS improvements 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019	immaterial

Estimated impact of IFRS 9 and IFRS 15

The Group is required to apply IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from January 1, 2018. The estimated impact of the first-time application

of IFRS 9 and IFRS 15 on the consolidated financial statements has been assessed by Siltronic. The result of the assessment, based on the current analysis, is summarized below.

In EUR million	As reported on December 31, 2017	Expected impact of IFRS 9	Expected impact of IFRS 15	Expected adjusted opening balance as of January 1, 2018
Retained earnings and net Group result	269.7	-0.1	2.7	272.3

The total adjustment (after tax) to equity in the Group's opening balance sheet as at January 1, 2018 is currently estimated at EUR 2.6 million. The individual components of the assessment are described below.

IFRS 9 'Financial Instruments'

IFRS 9, which was issued in July 2014, replaces the requirements contained in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out revised requirements for the classification and measurement of financial instruments, including a new model for expected credit losses to determine the impairment of financial assets and new general requirements for hedge accounting. It also replaces the requirements for the recognition and derecognition of financial instruments contained in IAS 39.

Application of IFRS 9 Financial Instruments is mandatory for Siltronic with effect from January 1, 2018.

It is intended to apply the modified retrospective method on initial application of the Standard. Siltronic will continue to make use of the option available in using IAS 39 for hedge accounting.

IFRS 9 sets out three major classifications for financial assets, namely 'measured at amortized cost', 'measured at fair value through profit or loss' (FVTPL) and 'measured at fair value through other comprehensive income' (FVOCI). The assessment made by the Group indicated that the classification of financial assets as at January 1, 2018 will not have a material impact.

IFRS 9 also replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model is required to be applied to financial assets measured at amortized cost or at FVOCI as well as to contract assets. Siltronic measures impairment losses on trade receivables and contract assets based on the concept of lifetime expected credit losses. In the case of all other financial assets, the 12-month expected credit loss model is applied unless the credit risk has increased significantly since the end of the previous reporting period. The credit risk is reviewed regularly.

The impairment methodology and its expected impact (after tax) are described below:

In EUR million	Expected additional impairment as of January 1, 2018
Trade receivables	0.1
Contract assets due to application of IFRS 15	0.0
Other financial assets	0.0
Cash and fixed-term deposits	0.0

Receivables, contract assets and other financial assets

Siltronic classifies customer risk using external ratings where available. In the event that external ratings are not available, internal assessments are used. Determining internal ratings requires the use of judgement. Default probabilities are allocated to ratings and valuations, enabling the expected credit loss to be calculated. See also the risk report [61](#) for further information.

Cash and fixed-term deposits

The Group holds cash and fixed-term deposits at banks given ratings of AA- to BBB+ by the rating agency Standard & Poors (S&P) at December 31, 2017. The estimated impairment allowance was determined on the basis of published S&P probability of defaults for banks.

The Group does not have any financial liabilities that are classified at fair value through profit or loss, nor does it intend to assume any such liabilities. The assessment made by the Group indicated that the classification of financial liabilities as at January 1, 2018 will not have a material impact.

IFRS 15 'Revenue from Contracts with Customers'

The new Standard sets out a comprehensive framework for the measurement and timing of revenue recognition. It replaces the current requirements for revenue recognition, including those contained in IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. Siltronic will apply the new Standard for the first time for the fiscal year beginning on January 1, 2018. The Standard provides a single, principles-based five-step model to be applied to all categories of revenue transactions with customers. The core principle is that revenue should be recognized when control passes to the customer. The analysis performed indicated that the application of IFRS 15 will not have a material impact on Siltronic's consolidated financial statements. It is estimated that revenue reserves will increase by EUR 2.7 million (after tax) at January 1, 2018. The increase is based on changed requirements for revenue recognition for customers with whom Siltronic has consignment inventory arrangements. In such cases, the timing of revenue recognition will shift from the date on which a customer withdraws goods and products from a consignment store to the date on which goods and products are transferred to it. Changes will arise in the balance sheet as a consequence of the separate reporting of contract assets/liabilities, and in the notes to the financial statements in the form of quantitative and qualitative disclosures.

On initial application of IFRS 15, the Group intends to apply the modified retrospective method, with cumulative adjustments recognized as at January 1, 2018. Accordingly, the Group will not apply the requirements of IFRS 15 to each of the comparative periods it reports on.

IFRS 16 'Leases'

IFRS 16, published in January 2016, removes the requirement for lessees to classify lease arrangements into finance and operating leases. In its place, IFRS 16 sets out a uniform accounting model that requires leases to be recognized in the lessee's balance sheet. A lessee recognizes a 'right-of-use' asset, representing the lessee's right to use the underlying item, and a lease liability, representing the lessee's obligation to make lease payments. Exemption regulations apply for short-term leases (under 12 months) as well as for leases of low-value assets. Accounting at the level of the lessor is similar to the current Standard (i.e. the lessor continues to classify the lease either as a finance lease or an operating lease).

The new Standard is mandatory for annual periods beginning on or after January 1, 2019. Siltronic is in the process of assessing the quantitative and qualitative impact on the consolidated financial statements of applying IFRS 16 and is therefore not yet in a position to assess the outcome reliably. As lessee, Siltronic is likely to apply the modified retrospective method in combination with practical exemptions allowed for by the Standard.

Scope of consolidation

The consolidated entities as of the reporting date comprised six subsidiaries compared with five subsidiaries the previous year. The higher number was due to the foundation of one subsidiary in Seoul/Korea.

Subsidiaries are defined as companies in which the Company directly or indirectly holds a voting majority or has, in any other way, the power to govern the financial and business policies of an entity in order to benefit from its activities. In assessing control, the Company takes into account potential voting rights that are currently exercisable or convertible. The financial statements of subsidiaries are included in the consolidated financial statements from the date when the possibility to control commences until the date that such possibility ceases to exist.

The table below shows the subsidiaries reflected in the scope of consolidation as of December 31 of the respective year. The percentages noted refer to the interest Siltronic has directly or indirectly in the respective companies:

Group holdings

in %	Dec. 31, 2017	Dec. 31, 2016
Europe		
Siltronic Holding International B.V., Krommenie, The Netherlands	100.0	100.0
North America		
Siltronic Corp., Portland, Oregon, USA	100.0	100.0
Asia excluding Japan		
Siltronic Singapore Pte. Ltd., Singapore ¹⁾	100.0	100.0
Siltronic Silicon Wafer Pte. Ltd., Singapore	77.7	77.7
Japan		
Siltronic Japan Corporation, Tokyo, Japan	100.0	100.0
Korea		
Siltronic Korea Ltd., Seoul/Korea ¹⁾	100.0	–

¹⁾ Siltronic Korea Ltd., Seoul/ Korea was founded on October 25, 2017. As of this date the entity was fully consolidated in Siltronic's consolidated financial statement.

Consolidation methods

The consolidated financial statements are based on the separate financial statements of the Company and its consolidated subsidiaries for the calendar year.

Intra-group balances and transactions and any related unrealized income and expenses are eliminated.

Acquisitions

The Group accounts for its business combinations using the acquisition method when control is transferred to the Group. The consideration transferred is measured at fair value and allocated to the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit and loss immediately. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit and loss.

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss.

Foreign currency translation

The financial statements of consolidated companies are prepared using the currency of the primary economic environment in which the entity operates (the functional currency) and translated on the basis of the functional currency principle using the modified closing rate method, in which balances are translated from the functional currency to the reporting currency using the spot rates prevailing on the period end, while amounts in the statement of profit or loss are translated using the period's average exchange rates.

The Company and its subsidiaries conduct their business in the respective functional currency, which is the local currency. Any net gains or losses arising from the translation of equity are recognized directly in other comprehensive income. Translation differences on monetary assets and liabilities resulting from fluctuating exchange rates are recorded in the statement of profit or loss. If a Group company is removed from consolidation, any translation difference is reclassified from equity to profit or loss.

The table below includes the exchange rates between the most significant currencies reported in these consolidated financial statements and the Euro for the reporting periods.

Exchange rates

	ISO code	Spot rate December 31		Average rate for the year	
		2017	2016	2017	2016
US dollar	USD	1.20	1.05	1.13	1.11
Japanese yen	JPY	135	123	126	120
Singapore dollar	SGD	1.60	1.52	1.56	1.53
South Korean won	KRW	1,282	–	1,282	–

Estimates and assumptions used in preparing the consolidated financial statements

The preparation of the consolidated financial statements in compliance with IFRS requires management to make assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and contingencies. These assumptions and estimates impact the carrying amount of assets and liabilities at period end and the amount of income and expenses for the period. The assumptions on which the estimates are based relate primarily to the uniform determination of useful lives throughout the Group, the recognition and measurement of provisions, the probability of realizing future tax benefits, and cash flow projections which were used for impairment testing and purchase price allocation purposes.

The actual results may differ from these assumptions and estimates. Changes in accounting estimates are recognized as soon as they become apparent and affect the net results for the period in which the estimates have changed and in any future periods affected.

Intangible assets and property, plant and equipment

The expected useful life of intangible assets and of property, plant and equipment, together with their amortization or depreciation schedules, is based on past experience, plans, and estimates.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. Goodwill is tested annually for impairment. In the case of an impairment test, an estimate must be made of the recoverable amount of the affected cash-generating unit that corresponds to the higher of the fair value less costs to sell or the value in use. To assess the value in use, the discounted future cash flows of the affected cash-generating unit are to be determined. The estimate of the discounted future cash flows contains significant assumptions, in particular relating to future selling prices for and sales volumes of wafers, development of costs and discount rates. Although the Group 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 require a change in the analysis. This could result in additional impairments or reversals of impairment losses in the future.

The carrying amount of intangible assets and property, plant and equipment as of December 31, 2017 amounted to EUR 537.3 million.

Defined benefit obligations

The accounting of pensions and similar obligations is in accordance with actuarial valuations. These valuations are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, expected salary and pension increases, and the mortality rate. 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 the associated future expenses.

The provision recorded for pension obligations is valued by discounting the Group-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. The bonds are 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. This is based on information as of the closing date and on a maturity that approximates the maturity of the pension obligation.

The provision for pensions amounts to EUR 367.2 million as of December 31, 2017.

Deferred tax assets

At the end of each period, the Group assesses whether the probability of future tax benefits is sufficient to recognize deferred taxes. Among other things, this requires that management evaluates the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account.

Deferred tax assets as of December 31, 2017 amount to EUR 6.5 million.

Accounting policies

The Company and its subsidiaries apply uniform methods for the recognition and valuation of assets, liabilities, income, and expenses.

Assets and liabilities of the consolidated financial statements are reported based on their historical cost, with the exception of the items reported at fair value. In particular, derivative financial instruments and plan assets used to cover future pension obligations are recorded at fair value.

Other accounting policies have been applied consistently.

Intangible assets

Intangible assets acquired are measured at cost and, if their useful lives can be determined, are amortized on a straight-line basis. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use the assets. Intangible assets with indefinite useful lives are subject to an annual impairment test. In the year 2014, goodwill was recorded as a result of the step acquisition of SSW.

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. Such assets are recognized at cost and amortized on a straight-line basis. Their stated useful lives correspond to those of the intangible assets acquired against payment. The capitalization of development costs does not play a role for the Group because development costs refer to existing products and processes respectively or because future cash inflows are too uncertain.

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 new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any obligation incurred for the demolition and removing of the asset from its location. Property, plant and equipment is not revalued on the basis of the provisions in IAS 16. 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.

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 sale of an asset is recognized under other operating income or expenses.

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. No borrowing costs were capitalized in the periods presented.

Depreciation and amortization

Depreciation and amortization are recognized using the straight-line method and based on the following useful lives:

Useful lives

	Years
Intangible assets	3 to 5
Production buildings	20 to 30
Other buildings	10 to 30
Machinery and equipment	6 to 12
Factory and office equipment	3 to 10

If, having been measured in accordance with the above principles, the carrying amounts of intangible assets or items of property, plant and equipment that were amortized or depreciated are higher than their recoverable amounts as of the reporting date, corresponding impairment losses are recognized as an expense.

The Group reviews regularly the residual value and the useful life of assets.

At the end of every reporting date, the Group 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 amount of the fair value less costs to sell, and the value in use.

Government grants

Government grants that relate to the acquisition of an asset reduce acquisition and production costs and are recognized in profit and loss as the asset is depreciated or amortized. Unless otherwise indicated, these grants (investment incentives) are provided by government bodies.

Grants that are compensation for expenses or losses already incurred are recognized as separate assets if the company is of the opinion that all material obligations have been fulfilled and the necessary application form has been or will be submitted. Such grants are recognized as other operating income.

Inventories

Inventories are measured at cost using the average cost method. Lower net realizable values or prices are taken into account by means of write-downs to fair value less costs to sell. Cost of sales includes directly attributable costs as well as appropriate portions of indirect material and labor costs, administrative expenses, and depreciation. Due to the short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost allocations are determined on the basis of a specific capacity utilization.

Write-downs are recognized for inventory risks resulting from obsolescence or reduced usability or to reflect other reductions in the recoverable amount.

Unfinished and finished goods are combined for disclosure purposes due to the nature of the wafer production process.

Financial instruments and derivatives

A financial instrument is a contract that gives rise to a financial asset at one party and a financial liability or equity instrument at another party. Financial instruments are recognized in the consolidated financial statements at the time that the Group becomes a contracting party to the financial instrument.

In general, financial assets and financial liabilities are not offset. A net amount is presented only if the Group currently has a right to offset the recognized amounts and intends to settle on a net basis.

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. The fair value of financial instruments is equal to the amount the Group would receive or pay if it exchanged or settled the financial instruments. If available, quoted market prices are used for financial instruments. Otherwise, fair values are calculated based on the market conditions prevailing on the valuation date, typically interest rates and exchange rates. The fair value is calculated using mathematical models, typically by discounting future cash flows using the market interest rate or by applying standard option-pricing models.

The Group's financial assets comprise cash and cash equivalents, trade receivables, loans granted and other receivables, fixed-term deposits, securities classified as available-for-sale and primary and derivative financial assets held for trading. Financial assets must generally be settled in cash or for another asset. This includes trade liabilities and derivative financial liabilities. The Group makes no use of its option to measure financial liabilities at fair value through profit or loss.

The manner in which financial assets and liabilities are subsequently measured depends on whether a financial instrument is held for trading or held-to-maturity, whether such a financial instrument is available-for-sale, or whether the financial assets concerned are loans and receivables granted by the Company.

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. All other primary financial assets, which include equity instruments and debt instruments not held-to-maturity, are classified as available-for-sale and reported at fair value if their fair value can be determined reliably.

Derivative financial instruments are generally measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values are recognized as a receivable and negative market values as a liability.

Changes in the market value of derivatives used to hedge the risk of future cash flows denominated in a foreign currency (cash flow hedges) are recognized in other comprehensive income. The accumulated amount of other comprehensive income of the hedging instrument is not released to the statement of profit or loss until 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.

Derivative financial instruments are used for hedging purposes only to reduce the Group's exposure to foreign currency exchange rates. The Group does not hedge any net investments in foreign operations.

Contracts concluded in order to receive or deliver non-financial goods for the Group's own use are not accounted for as derivatives, but treated as pending transactions.

For further information see [note 16](#) Financial Instruments.

Receivables and other assets, cash and cash equivalents

Trade receivables and other assets (including tax receivables), with the exception of financial derivatives, are generally recognized at cost. Risks are taken into account through appropriate valuation allowances. Allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made at the latest when legal action is taken. If payment of a receivable is no longer expected even though legal action has been taken, the gross receivable is derecognized and any valuation allowances made are reversed. Non-current receivables which are non-interest-bearing or low-interest-bearing are discounted.

Generally, cash and cash equivalents comprise cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are only subject to an insignificant risk of changes in value.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and carrying amounts. The deferred tax assets include existing loss carryforwards, the realization of which is assured with sufficient probability. Deferred taxes are determined on the basis of the tax rates which, under current law, are applicable or anticipated in the individual countries when they are realized. Deferred tax assets and liabilities are offset only to the extent possible under the same tax authority.

The change of deferred tax assets and liabilities is recognized in the statement of profit or loss. In cases where profits or losses are recognized in other comprehensive income, the deferred tax effect is likewise posted under other comprehensive income.

Provision for pensions – defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contribution to the plan.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest income), and the effect of the asset ceiling (if any), are recognized immediately in other comprehensive income. Actuarial gains and losses are arising from the difference between the estimate at the start of the period and actual outcome at the end of the period in relation to mortality rates, pension and salary trends, and discount rates.

The Group determines net interest expenses on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability applicable at that date, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expenses and other expenses to defined benefit plans are recognized in profit and loss.

If the present value of a defined benefit obligation changes due to a plan modification or curtailment, the Group recognizes the effect as a past service cost. This is immediately recognized in profit or loss when it occurs. The profits and losses resulting from settlement are also recognized immediately in the statement of profit or loss when settlement takes place. Administrative expenses that are not related to the management of plan assets are likewise recognized in profit or loss when incurred. The expense incurred in funding the pension provisions (service cost) is allocated to the costs of the functional areas concerned. The interest cost is reported under financial result, other finance cost, net.

Provision for pension – defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Provisions for early retirement and anniversaries

Provisions for early retirement and anniversaries are measured in accordance with actuarial appraisals and belong to other long-term employee benefits. The Group's net liability is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Provisions for early retirement are linked to the rendering of future service.

The provisions are recognized on a pro rata basis over the service period during the work phase. The part of the salary that employees forgo during the work phase is secured with plan assets against default. The provision for early retirement represents the Group's net liability, i.e. after the plan assets have been offset against the total obligation. The additional compensation granted is not completely earned until the required work has been rendered in full by the employees.

Other 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 reliably estimated. The amounts recognized are based on what will be required to cover the Group's future payment obligations, identifiable risks and contingencies. As a rule, cost components that are capitalized under inventories are included in the measurement of other provisions. Significant future price increases are taken into account in the measurement.

Non-current provisions are measured at the discounted present value as of the reporting date. The discount rate applied is the current 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 certain or legally enforceable, are not offset against provisions. Instead, they are capitalized as separate assets.

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

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 reversal of a provision, the impact is presented in the same line item of the statement of profit or loss as the original estimate. If the original estimate has been presented in other operating expense the reversal would be presented in other operating income.

Liabilities

Trade liabilities and other liabilities including tax liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are included in the recognized liability.

Sales recognition

Sales represent the fair value of the consideration received for the goods and services that were sold within the scope of ordinary activities. These are reported without value-added and other taxes incurred in connection with sales and net of discounts and price reductions. Sales from products are recognized when the goods have been delivered and the main risks of ownership have passed to the purchaser. Sales from services are recognized once services are rendered. The Group does not conduct any business that requires using the percentage-of-completion method for recognizing sales of long-term production contracts.

Cost of sales

Cost of sales comprise the manufacturing costs for products, the purchase price for trade products, the costs incurred for services rendered to a customer. In addition to directly attributable costs such as raw materials and supplies, direct labor and energy costs, cost of sales includes depreciation/amortization, appropriate overhead costs allocated to manufacturing activities, and inventory write-downs.

Selling expenses, research and development costs, and general administration expenses

Selling expenses include costs incurred by the sales organization and the cost of market research, application support on customers' premises and commission expenses.

Research and development expenses cover costs incurred in the development of products and processes. Research costs in the narrow sense are recognized as expenses when they are incurred, i.e. not capitalized. Development costs are capitalized only if all the prescribed recognition criteria have been met, i.e. 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 be realized.

General administration expenses include the pro rata payroll and material costs of corporate control functions, human resources, and accounting and information technology, unless they have been charged as an internal service to other functional areas.

Timing of recognition of income and expenses

Operating expenses are reported as expenses when the service is utilized and interest income is accrued using the effective interest rate.

Notes to the statement of profit or loss

01 Sales, cost of sales, other operating income, and other operating expenses

In EUR million	2017	2016
Sales		
Product sales	1,176.0	927.5
Sales from services and license fees	1.3	5.9
Total	1,177.3	933.4
Cost of sales	-807.0	-761.5
<i>thereof inventory valuation allowance and reversal respectively</i>	<i>- 4.0</i>	<i>- 4.7</i>
Other operating income		
Gains from currency transactions	57.0	49.1
Government grants for research	0.8	0.6
Income from reversal of provisions and liabilities	0.2	0.7
Income from disposal of property, plant and equipment	0.0	0.1
Income from reversal of valuation allowances for receivables	0.1	0.2
Other	1.6	1.8
Total	59.7	52.5
Other operating expenses		
Losses from currency transactions	-60.0	-70.0
Losses from impairment of property, plant and equipment	0.0	-1.0
Losses from disposal of property, plant and equipment	-1.7	-0.7
Losses from additions to valuation allowances for receivables	-	-0.1
Losses from onerous contracts	0.0	-3.5
Other	-1.6	-1.9
Total	-63.3	-77.2

Losses from onerous contracts in prior year resulted from long-term leases.

Depreciation and amortization expenses and personnel expenses and cost of sales

Depreciation and amortization expenses amount to EUR 117.4 million in 2017 (prior year: EUR 119.0 million).

Personnel expenses amount to EUR 309.0 million in 2017 (prior year: EUR 278.2 million), of which EUR 248.2 million was attributable to salaries (prior year: EUR 221.9 million), EUR 23.2 million to social security (prior year: EUR 22.6 million), and EUR 37.6 million to pensions (prior year: EUR 33.7 million). The cost of materials came to EUR 344.5 million (prior year: EUR 334.9 million).

02 Interest income and expenses/ other financial expenses

In EUR million	2017	2016
Net interest income		
Interest income	1.9	1.3
<i>thereof from fixed-term deposits</i>	<i>1.9</i>	<i>0.7</i>
Interest expenses	-1.2	-3.3
Total	0.7	-2.0
Other financial result, net		
Interest cost on provisions	-8.4	-8.9
Other financial expenses	-0.8	-0.2
Total	-9.2	-9.1

Other finance cost, net

The interest cost on provisions mainly refers to pensions and includes net interest on the net defined benefit liability.

Interest expenses declined due to reduced expenses for currency swaps. In 2016 they amounted to EUR 2.0 million. In 2017, however they are no longer recorded as financial expenses but as other financial expenses and amount to EUR 0.8 million.

03 Income taxes

Income taxes are calculated on the basis of applicable or anticipated tax rates according to the tax laws in the individual countries as of the realization date. These tax rates are generally based on the legal statutes valid or adopted as of the reporting date.

In Germany, prevailing tax rates include a corporate income tax, a solidarity surcharge on corporate income tax, and a trade income tax that varies depending on the municipality in which a company is located.

Tax rates in Germany

In %	2017	2016
Weighted average trade income tax rate in Germany	12.5	12.2
Corporate income tax rate in Germany	15.0	15.0
Solidarity surcharge on corporate income tax in Germany	5.5	5.5
Income tax rate for Siltronic AG in Germany	28.3	28.0

Profits generated by foreign subsidiaries are taxed in the respective countries at the relevant local and national tax rates. The income tax rates for the foreign subsidiaries companies are within a range of 0 percent to 38 percent.

Deferred taxes on undistributed profits of subsidiaries are recognized only if distribution is planned. The amount of EUR 164.4 million (prior year: EUR 170.3 million) is available for distribution.

The tax expenses reported for 2017 were EUR 35.0 million (prior year: EUR 7.2 million). Applying the German tax rate on the result before tax would result in tax expense of EUR 63.6 million (prior year: EUR 4.5 million). The differences between the expected tax expense and the actual tax expense of EUR 28.6 million (prior year: EUR -2.7 million) were primarily caused by the impairment of deferred tax benefits at Siltronic AG, Siltronic Japan Corp. and Siltronic Corporation and by variances in tax rates.

Income tax comprises current tax income for prior years with an amount of EUR 0.7 million (prior year: EUR 2.5 million).

Tax expense

In EUR million	2017	2016
Current taxes, Germany	-11.1	0.0
Current taxes, foreign	-25.7	-6.9
Total current taxes	-36.8	-6.9
Deferred taxes, Germany	0.8	0.0
Deferred taxes, foreign	1.0	-0.3
Total deferred taxes	1.8	-0.3
Total income taxes	-35.0	-7.2
Reconciliation of effective tax rate		
Result before taxes	227.2	15.9
Income tax rate for Siltronic AG in %	28.0	28.0
Expected tax expense (-)/ benefit (+)	-63.6	-4.5
Variance in tax rate	13.3	0.7
Effect of non-deductible expenses	-0.8	-1.2
Effect of tax-free income	3.5	0.8
Taxes relating to other periods (current earnings)	0.7	2.5
Effect due to unrecognized deferred tax assets	16.0	-6.0
Other variances	-4.1	0.5
Total income taxes	-35.0	-7.2
Effective tax rate in %	15.4	45.3

Deferred tax assets are recognized only if it is assumed that the tax benefits will be realized. The following table shows the allocation of deferred taxes to the assets and liabilities:

Allocation of deferred taxes

In EUR million	As of December 31, 2017		As of December 31, 2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	3.0	2.3	4.6	2.5
Current assets	2.4	5.5	1.4	2.5
Provision for pensions	4.7	–	0.0	–
Other provisions	0.4	0.3	0.4	–
Liabilities	1.1	–	2.5	0.4
Loss carryforward	0.3	–	–	–
Total	11.9	8.1	8.9	5.4
Netting	–5.4	–5.4	–2.9	–2.9
Deferred taxes reported in the statement of financial position	6.5	2.7	6.0	2.5

A netting of deferred tax assets and deferred tax liabilities is performed only in the case that future benefits and obligations relate to the same taxable entity and to the same tax authority.

Changes in deferred tax assets and liabilities in the amount of EUR 1.8 million (prior year: EUR –0.1 million) were fully taken to profit or loss.

Tax loss carryforwards not utilized amount to EUR 126.7 million (prior year: EUR 168.7 million). Thereof, the tax loss carryforwards expire in the following years as shown below:

Tax loss carryforwards

In EUR million	2017	2016
Within 1 year	12.1	–
Within 2 years	–	13.3
Within 3 years	0.2	–
Within 4 years	36.0	0.2
Within 5 years or later	60.4	66.8
Total	108.7	80.3

Due to the loss history of the respective company, no deferred taxes are recognized for losses carryforwards that are unlikely to be realized. If deferred taxes had been recognized, an amount of EUR 38.4 million (prior year: EUR 49.5 million) would have resulted from such recognition.

As of December 31, 2017, no deferred tax assets were recognized for tax-deductible temporary differences of EUR 355.6 million (prior year: EUR 428.0 million).

Notes to the statement of financial position

04 Development of intangible assets

In EUR million	2017			
	Goodwill	Customer relationship	Other	Total
Cost				
January 1	20.5	11.0	45.4	76.9
Additions	–	–	0.9	0.9
Disposals	–	–	–0.9	–0.9
Transfers	–	–	0.6	0.6
Effect of movements in exchange rates	–	–0.5	–1.5	–2.0
December 31	20.5	10.5	44.5	75.5
Amortization				
January 1	–	6.4	44.1	50.5
Additions	–	2.2	1.4	3.6
Disposals	–	–	–0.8	–0.8
Effect of movements in exchange rates	–	–0.4	–1.4	–1.8
December 31	–	8.2	43.3	51.5
Carrying amount as of December 31	20.5	2.3	1.2	24.0
In EUR million	2016			
	Goodwill	Customer relationship	Other	Total
Cost				
January 1	20.5	10.9	44.7	76.1
Additions	–	–	0.2	0.2
Disposals	–	–	0.0	0.0
Transfers	–	–	0.0	0.0
Effect of movements in exchange rates	–	0.1	0.5	0.6
December 31	20.5	11.0	45.4	76.9
Amortization				
January 1	–	4.2	42.2	46.4
Additions	–	2.2	1.4	3.6
Disposals	–	–	0.0	0.0
Effect of movements in exchange rates	–	0.0	0.5	0.5
December 31	–	6.4	44.1	50.5
Carrying amount as of December 31	20.5	4.6	1.3	26.4

The goodwill and the customer relationship acquired through business combinations are due to the consolidation of SSW in 2014.

The customer relationship is amortized based on management's expectation of the term of the relationship. The amortization follows the straight-line method over the expected term of the customer relationship. Other intangible assets primarily comprise industrial property rights and similar rights acquired at cost from third parties, e.g. software licenses.

Amortization of intangible assets are included in the cost of sales.

For the purpose of impairment testing, goodwill has been allocated to the Group's Cash Generating Unit (CGU) '300mm'. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The key assumptions used for the calculation of the recoverable amount are a long-term EBITDA margin in line with the relevant medium-term planning, a remaining useful life of the leading asset of the CGU (parts of buildings designed for the wafer production), and a discount rate of 10.8 percent before tax. The determination of the long-term EBITDA margin and the useful life of the leading asset which covers 22 years, reflect past experiences in relation to similar CGUs. The discount rate was derived from a post-tax measure estimated on the historical industry average weighted-average cost of capital. External information sources in relation to the EBITDA margin of the CGU are only available for some of the EBITDA components.

In the relevant medium-term planning, increasing revenues and rising EBITDA margins are assumed. For the following years up to the end of the observation period it is assumed, that the average EBITDA of the relevant medium-term planning is achieved and remains constant. In order for the CGU to reach EBITDA following the relevant medium-term planning, EBITDA growth of an average of 7.5 percent per annum must be achieved during the relevant medium-term planning period. No growth rate was applied. The recoverable amount exceeds the carrying amount by more than EUR 1 billion.

In addition, Siltronic conducts sensitivity analyses in which different assumptions are made for the EBITDA growth and discount rate, which Siltronic considers to be unlikely but possible.

There is a possibility of lower than forecasted EBITDA margins due to an overcapacity of the worldwide wafer supply industry and due to significant exchange rate fluctuations. A drop in EBITDA margin by an average of 25 percent compared to the forecasted margin would result in an impairment.

There is the possibility of higher than forecasted weighted-average cost of capital. A rise in the discount rate by 26 percentage points would lead to an impairment.

05 Development of property, plant and equipment

In EUR million	2017				Total
	Land, buildings and similar rights	Machinery and technical equipment	Other equipment, factory and office equipment	Assets under construction and advanced payments	
Cost					
January 1	746.1	2,439.2	131.5	43.7	3,360.5
Additions	1.6	42.8	2.8	75.2	122.4
Disposals	–	–10.4	–3.0	0.0	–13.4
Transfers	4.0	35.4	0.8	–40.8	–0.6
Effect of movements in exchange rates	–39.4	–76.4	–1.6	–0.4	–117.8
December 31	712.3	2,430.6	130.5	77.7	3,351.1
Depreciation and impairment losses					
January 1	525.6	2,191.8	123.0	0.3	2,840.7
Additions	13.1	97.0	3.7	–	113.8
Impairment loss	0.0	–	–	–	0.0
Disposals	–	–9.0	–2.8	–	–11.8
Transfers	0.0	–0.0	–	–	0.0
Effect of movements in exchange rates	–32.3	–71.1	–1.5	0.0	–104.9
December 31	506.4	2,208.7	122.4	0.3	2,837.8
Carrying amount as of December 31	205.9	221.9	8.1	77.4	513.3
In EUR million	2016				Total
	Land, buildings and similar rights	Machinery and technical equipment	Other equipment, factory and office equipment	Assets under construction and advanced payments	
Cost					
January 1	712.9	2,351.9	130.1	60.3	3,255.2
Additions	11.6	45.2	2.8	29.0	88.6
Disposals	0.0	–19.7	–3.6	0.0	–23.3
Transfers	4.6	39.6	1.7	–45.9	0.0
Effect of movements in exchange rates	17.0	22.2	0.5	0.3	40.0
December 31	746.1	2,439.2	131.5	43.7	3,360.5
Depreciation and impairment losses					
January 1	498.0	2,093.0	121.0	0.3	2,712.3
Additions	12.6	96.8	5.0	–	114.4
Impairment loss	0.1	0.9	0.0	–	1.0
Disposals	0.0	–18.9	–3.6	–	–22.5
Transfers	–	–0.1	0.1	–	0.0
Effect of movements in exchange rates	14.9	20.0	0.5	–	35.5
December 31	525.6	2,191.8	123.0	0.3	2,840.7
Carrying amount as of December 31	220.5	247.4	8.5	43.4	519.8

06 Inventories

In EUR million	2017	2016
Raw materials and supplies	63.0	62.6
Finished and unfinished products	86.9	78.3
Total	149.9	140.9
<i>of which recorded at net realizable value</i>	<i>0.0</i>	<i>1.4</i>

As of December 31, 2017, unfinished products amounted to EUR 51.5 million (Prior year: EUR 51.6 million).

07 Trade receivables, other financial and non-financial assets and income tax receivables

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Total	of which non-current	of which current	Total	of which non-current	of which current
Trade receivables	159.9	–	159.9	118.2	–	118.2
Derivative financial instruments	20.0	1.5	18.5	5.0	1.9	3.1
Special payments to German pension fund of Wacker Chemie VVaG	–	–	–	11.1	–	11.1
Other	2.8	–	2.8	2.6	–	2.6
Other financial assets	22.8	1.5	21.3	18.7	1.9	16.8
Prepaid expenses	2.4	–	2.4	1.2	–	1.2
Other tax receivables	15.6	–	15.6	6.0	–	6.0
Prepayments to German pension fund of Wacker Chemie VVaG	8.0	–	8.0	–	–	–
Other	4.0	–	4.0	4.0	–	4.0
Other non-financial assets	30.0	–	30.0	11.2	–	11.2
Other financial and non-financial assets	52.8	1.5	51.3	29.9	1.9	28.0
<i>of which maturity > 5 years</i>	–	–	–	–	–	–
Income tax receivables	2.6	–	2.6	0.2	–	0.2
<i>of which maturity > 5 years</i>	–	–	–	–	–	–

Receivables are measured at cost which correspond to their market values. If not covered by insurance or advance payments received, default risks are taken into account with valuation allowances.

The following table shows the aging of receivables:

Overdues

In EUR million	As of December 31, 2017					
	Carrying amount	Of which neither impaired nor past due	Of which past due, but not impaired			Of which past due and impaired
			past due < 30 days	past due 31 to 45 days	past due > 45 days	
Trade receivables	159.9	138.6	20.8	0.1	0.2	0.2
Other financial assets	22.8	22.8	–	–	–	–
Other non-financial assets	30.0	30.0	–	–	–	–
Total	212.7	191.4	20.8	0.1	0.2	0.2

In EUR million	As of December 31, 2016					
	Carrying amount	Of which neither impaired nor past due	Of which past due, but not impaired			Of which past due and impaired
			past due < 30 days	past due 31 to 45 days	past due > 45 days	
Trade receivables	118.2	107.1	10.8	0.3	–0.3	0.3
Other financial assets	18.7	18.7	–	–	–	–
Other non-financial assets	11.2	11.2	–	–	–	–
Total	148.1	137.0	10.8	0.3	–0.3	0.3

The following table shows the development of valuation allowances on trade receivables during the reporting periods (no valuation allowances have been recorded on other assets):

Valuation allowances

In EUR million	2017	2016
As of January 1	0.3	1.6
Utilization	–	–1.1
Additions	–	–
Reversals	–0.1	–0.2
As of December 31	0.2	0.3

The maximum default risk is estimated to match the carrying amount of the receivables not covered by a default insurance. The Group provides for default risk based on past experience and on the conditions prevailing as of the period end.

08 Cash and cash equivalents, fixed-term deposits and securities

Deposits and cash on hand and fixed-term deposits are measured at their notional amounts. The development of cash and cash equivalents is shown in the statement of cash flows.

Cash and cash equivalents comprise cash on hand and deposits with a maturity of three months.

The securities are classified as available-for-sale financial instruments with a maturity of more than one year.

09 Equity

The individual items of equity and its development are shown in the consolidated statement of changes in equity.

Subscribed capital

The subscribed capital of Siltronic AG amounts to EUR 120 million and is divided into 30 million no-par-value shares, each with an imputed share of the capital amounting to EUR 4. The shares are registered shares. All the shares are of the same type; each share has the same rights attached to it and allows one vote at the Annual General Meeting.

Capital reserve

The capital reserve amounts to EUR 974.6 million and comprises a premium on the issuance of shares, non-cash capital contributions, and transactions with shareholders.

Retained earnings and net result

This item comprises the Group's cumulative net result of prior periods, net of dividend payouts.

Management of capital

The capital management of the Siltronic Group pursues the objective of ensuring a going concern on a sustainable basis and of generating an appropriate return for the shareholders. Instruments of capital management include, amongst others, dividend payments. In managing its capital, Siltronic AG complies with the legal stipulations on capital maintenance. The Company's Articles of Association do not stipulate any capital requirements. Special terms for capital are not used.

There is conditional capital and authorized capital: the Company's share capital may be increased by issuing up to 12,500,000 new no-par-value registered shares, whereby the share capital may increase by up to EUR 50.0 million (conditional capital). Furthermore, the Executive Board is authorized, subject to the approval of the Supervisory Board, to increase subscribed capital until June 7, 2020, by up to a total amount of EUR 60.0 million through the issue of new no-par-value bearer shares on one or more occasions (Authorized Capital).

10 Provision for pensions

There are various post-employment pension plans for Group employees, which depend on the legal, economic and fiscal conditions prevailing in the relevant countries. These pension plans generally take into account employees' service term and salary levels.

The Group operates both defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. The Group has both defined contribution and defined benefits plans, which are partly financed through the Pensionskasse der Wacker Chemie VVaG (pension fund) or funds. Pension obligations result from defined benefit plans in the form of entitlements to pension benefits for eligible active and former employees of the Siltronic Group and their surviving dependents. In essence, the various pension plans guarantee employees lifelong pensions based on the average salary (career average plan) during employment at Siltronic, or capital payments.

The Group has the following pension plans:

Plans supplied by pension fund

For employees in Germany, a basic pension is provided through the legally independent pension fund. This is financed by members' and company contributions. The promised benefits include retirement, disability, and survivors' benefits.

The Pension Fund is a small mutual insurance company within the meaning of § 210 of the Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) and is regulated by § 230 (1) VAG. It is thus subject to the regulations for German insurers and is supervised by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). There are legal minimum financing requirements.

For employees who joined the pension fund up to 2004, the basic pension is subject to a fixed benefit obligation, which must be taken into account when valuing the pension obligations. The pension level is independent of the age of the contribution payment and also irrespective of the asset interest rate achieved. For employees who entered the Company after 2004, new rates apply to the basic pension. The benefits are based on guaranteed interest rates and the level of benefits depends on the age of the contribution payment. Annual surplus participation may increase future benefits. In addition, employees in Germany can make contributions to the pension fund in respect of the voluntary supplementary pension scheme PK+. Above all, the contributions under the pension scheme regulated by collective agreement are paid into the voluntary higher insurance on the basis of collective bargaining agreements on single payments and old-age pensions, and on working life and demography.

Benefits by direct commitments

In addition to the pension fund commitments, employees in Germany receive direct commitments in the form of an additional pension. The additional pension insures salary elements above and beyond the pension insurance contribution assessment ceiling. For employees who joined the company before the end of 2004, a pension is granted and depends on the average salary earned during the period of employment with the Group (career average plan). For employees who joined the plan from 2005 onwards, the pension is based on a certain percentage of the salary above the pension insurance contribution assessment ceiling. The resulting capital will bear interest. The benefits may be drawn as a life-long pension or, in the case of commitments from 2005 onwards, as a lump sum. Employees and their surviving dependents are eligible to receive benefits. The employees' entitlements are included in the calculation of the pension obligations. This applies both to employees who joined up to 2004 and to employees who joined from 2005 onwards.

'Deferred Compensation' plan

Non-tariff employees in Germany may contribute part of their salary to an employee-financed commitment plan ('Deferred Compensation'). This plan enables employees to waive their portions of their future salary claims into pension benefits. Depending on the date of conclusion of the agreement to participate in the benefit plan (commitment), the pension capital will bear interest at 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. From 2015, senior executives can pay parts of their salary into an employee-financed benefit plan at a variable interest rate. The variable interest rate is dependent on the current yield of domestic five-year bearer bonds and is at least 2.5 percent and at most 5 percent. The payout is solely in capital form. Commitments made up to December 31, 2000 are valued at the m/n-tel net present value (in accordance with the Projected Unit Credit method). Commitments made on or after January 1, 2001, are valued at the present value of the acquired expectancy or the acquired capital.

The pension entitlements in Germany are protected against insolvency by the Mutual Pension Assurance Association (Pensions sicherungsverein a.G.). The insolvency insurance has an upper limit. There are no legal minimum funding requirements.

United States

Various pension plans are available for 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 significant to the Group.

In the United States, defined benefit plans exist for employees of Siltronic Corporation, Portland who have entered the company before end of 2003. Both plans were closed for new entrants after December 31, 2003. Retirement benefits are paid monthly starting

at age 65 and are based on the last average salary paid. Special provisions apply to early retirement at age 55 depending on the employee's years of service. Post-retirement health care and severance benefits are also provided to eligible employees due to the related character. Hires after 2003 only receive defined contribution benefits.

The present value of defined benefit obligations reconcile with the provisions recognized on the statement of financial position as follows:

Net liability of defined benefit obligations

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Germany	Foreign	Total	Germany	Foreign	Total
Present value of the at least partially fund-financed defined benefit obligations	614.8	127.0	741.8	603.3	130.2	733.5
Fair value of plan assets	447.8	90.3	538.1	412.1	88.4	500.5
Funded status	167.0	36.7	203.7	191.2	41.8	233.0
Present value of unfunded defined benefit obligations	156.5	7.0	163.5	154.6	7.5	162.1
Provisions for pensions and similar obligations	323.5	43.7	367.2	345.8	49.3	395.1

Development of the net liability of defined benefit obligations

In EUR million	2017		
	Projected benefit plan obligation	Fair value of plan assets	Difference
As of January 1	895.6	500.5	395.1
Current service cost	20.3	–	20.3
Interest expenses and interest income	19.3	11.2	8.1
Administrative cost paid out of plan assets	–	–0.6	0.6
Past service cost	–	–	–
Effects of settlements ¹⁾	–	0.0	–
Remeasurements			
Gains (–)/losses (+) from plan assets, excluding amounts recognized in interest income	–	17.9	–17.9
Gains (–)/losses (+) from changes in demographic assumptions	1.5	–	1.5
Gains (–)/losses (+) from changes in financial assumptions	–15.8	–	–15.8
Gains (–)/losses (+) from changes in experience-based assumptions	12.7	–	12.7
Effects of exchange-rate differences	–16.9	–10.6	–6.3
Contributions by			
Employer	–	28.5	–28.5
Pension plan beneficiaries	4.3	4.3	–
Pension payments	–16.1	–13.1	–3.0
Transfers	0.4	–	0.4
As of December 31	905.3	538.1	367.2
In EUR million	2016		
	Projected benefit plan obligation	Fair value of plan assets	Difference
As of January 1	749.1	449.7	299.4
Current service cost	16.9	–	16.9
Interest expenses and interest income	22.1	13.6	8.5
Administrative cost paid out of plan assets	–	–0.8	0.8
Past service cost	0.4	–	0.4
Effects of settlements ¹⁾	–12.7	–11.8	–0.9
Remeasurements			
Gains (–)/losses (+) from plan assets, excluding amounts recognized in interest income	–	38.8	–38.8
Gains (–)/losses (+) from changes in demographic assumptions	–	–	–
Gains (–)/losses (+) from changes in financial assumptions	114.3	–	114.3
Gains (–)/losses (+) from changes in experience-based assumptions	15.0	–	15.0
Effects of exchange-rate differences	5.9	3.3	2.6
Contributions by			
Employer	–	17.9	–17.9
Pension plan beneficiaries	2.5	2.5	–
Pension payments	–15.8	–12.7	–3.1
Transfers	–2.1	–	–2.1
As of December 31	895.6	500.5	395.1

¹⁾ Relates to the sale of part of the pension obligations for already retired employees by Siltronic Corp., Portland, Oregon, USA, to a third party.

Assumptions

The pension obligations are calculated by taking into account company-specific and country-specific biometric calculation principles and parameters. The calculations are based on actuarial valuations that factor in the following parameters:

Assumptions

In %	2017		2016	
	Germany	USA	Germany	USA
Discount rate	2.10	3.45	1.94	3.92
Salary growth rate	2.50	3.00	2.50	3.00
Pension growth rate				
Basic and additional pension plan ¹⁾	1.8/1.0	–	1.8/1.0	–
Deferred compensation ¹⁾	2.5/1.0	–	2.5/1.0	–

¹⁾ Varies according to the date the employees enter the company or according to the date of conclusion of the various tariff generations.

With regard to life expectancy, the 'Richttafeln 1998' mortality tables developed by Prof. Klaus Heubeck are used in Germany, subject to modifications. For this, mortality tables approved by the supervisory authority (reduction of mortality for men to 75 percent and for women to 85 per cent of the guideline values) are used for the pension fund portfolio (basic pension). For the remaining commitments, the mortality rate for men was reduced to 60 percent and for women to 85 percent of the Heubeck values, taking into account, in particular, the recognized correlation between life expectancy and the amount of the pension ('Influence of socio-economic status'). In the United States, the sex-distinct RP-2014 mortality tables (Scale SoA MP-2014) are used for pensioners and candidates, differentiated on the basis of gender. For this, the RP-2014 mortality table was recalibrated to the year 2007 and a modified version of table MP-2014 was used for future periods.

The discount rates and increases in salaries taken into account in the calculation of the pension obligation were derived in accordance with the respective economic framework conditions and according to uniform principles. The discount rate is based on a yield curve which is derived from high-grade fixed-income corporate bonds with matching maturities issued by the respective country concerned. It takes into account the Siltronic-specific, expected future cash flows of the obligations.

Sensitivity analysis

The following sensitivity analysis involves an adjustment of only one assumption with the other assumptions remaining unchanged so that the sensitivity of each individual assumption can be observed in isolation. It follows that possible correlation effects between the individual assumptions are not taken into account.

The following table shows the estimated changes in the present value of pension obligations resulting from changes in the respective actuarial assumptions:

Sensitivity analysis

	As of December 31, 2017		As of December 31, 2016	
	Effect on defined benefit obligation		Effect on defined benefit obligation	
	Defined benefit obligation in EUR millions	Change in %	Defined benefit obligation in EUR millions	Change in %
Present value of pension obligations as of the reporting date	905		896	
Present value of all pension obligations if				
the discount rate increases by 0.5%	824	-9.0	813	-9.3
the discount rate decreases by 0.5%	998	10.3	990	10.5
salaries increase by 0.5%	913	0.9	904	0.9
salaries decrease by 0.5%	898	-0.8	887	-1.0
future pension increases are 0.25% higher	930	2.8	922	2.9
future pension increases are 0.25% lower	881	-2.7	871	-2.8
life expectancy increases by one year	936	3.4	926	3.3

Composition of plan assets

In Germany, the plan assets are comprised of insurance policies issued by the Pension Fund. The Pension Fund invests about half of the assets in equity and equity funds. The other half is mainly invested in bonded loans, real estate and private equity. Almost five percent of assets are retained for liquidity purposes.

The investment strategy follows the investment guideline provided by the executive board of the pension fund.

The plan assets of pension funds in the United States are generally invested in equities and funds in accordance with the applicable investment guidelines. The composition of plan assets for the Group is:

Composition of plan assets

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Market price quoted in an active market	No market price quoted in an active market	Total	Market price quoted in an active market	No market price quoted in an active market	Total
Real estate	–	77.7	77.7	–	77.0	77.0
Loans and fixed-income securities	207.2	84.0	291.2	186.2	91.5	277.7
Equities/equity funds/private equity	95.3	53.0	148.3	75.6	45.5	121.1
Cash and cash equivalents	–	20.9	20.9	–	24.7	24.7
Total plan assets	302.5	235.6	538.1	261.8	238.7	500.5
<i>thereof own-used real estate</i>	–	0.4	0.4	–	0.5	0.5

The Group was utilizing EUR 0.4 million of plan assets for its own purposes (prior year: EUR 0.5 million). The assets in question comprised the real estate used by Siltronic AG for its headquarters in Munich.

Risks

In addition to the actuarial risks, the risk connected with the defined benefit obligation relates in particular to financial risks connected with plan assets. In Germany, substantial amounts of the defined benefit obligation are covered by plan assets managed by the pension fund.

The current and future relationship between the asset allocation in its portfolio and our pension obligations are analyzed and projected as part of an annual asset-liability study to determine the long-term return on plan assets. The long-term yield requirement of the pension fund is calculated as a result. Based on this, the pension fund defines a strategic target portfolio. The yield requirement, the company contribution of the sponsoring companies, and the strategic asset allocation are thus reviewed annually and harmonized.

All capital investments are exposed to market price fluctuation risks. These risks may comprise changes in interest rates, equity prices, or exchange rates. The company aims to limit losses to a predefined level by means of what is known as overlay management. Derivatives are partially used for hedging purposes.

Due to the investment of plan assets in equities and funds, the defined benefits plans in the USA are not only subject to actuarial risks, but also to market price risks.

Depending on the legal and company statutory provisions, we are under a duty to reduce any shortfall in the pension plans by providing liquid funds.

Risks arise in particular from the life expectancy of the beneficiaries, the interest rate guarantee risk and also from salary and pension increases. The interest rate guarantee risk is regularly monitored as part of the risk management process. The determination of the long-term interest rate requirement and the ability to meet it is one of the focus areas of the pension fund. Risks from the interest rate guarantee also apply to the 'Deferred Compensation'.

Financing of the pension plan

In the year 2017, benefits in the amount of EUR 11.3 million (prior year: EUR 10.6 million) were paid into pension plans in Germany, and EUR 4.8 million (prior year: EUR 5.2 million) into pension plans outside of Germany. Expected employer contributions to plan assets will amount to approximately EUR 8.6 million in the year 2018. The expected term of pension obligations as of December 31, 2017 was 20.6 years (prior year: 21.3 years) in Germany and 17.1 years (prior year: 16.3 years) in the United States.

The following table shows the pensions benefits that the Group expects to pay from 2018 to 2022:

Projected payment periods for pension benefits

In EUR million	2018	2019	2020	2021	2022
	17.6	20.3	21.9	23.5	26.4

Composition of pension expenses by pension plan

In EUR million	2017	2016
Current service cost due to defined benefit plans	20.3	16.9
Past service cost/effects of settlements/transfers	0.0	-0.5
Administrative cost paid out of plan assets	0.6	0.8
Net interest expenses due to defined benefit plans	8.1	8.5
Expenses due to defined contribution plans	0.9	1.3
Other pension expenses	0.1	-
Contributions to public pension schemes	15.7	15.2
Total retirement benefits	45.7	42.2

11 Other provisions/provisions for income taxes

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Total	of which non-current	of which current	Total	of which non-current	of which current
Personnel	43.3	40.7	2.6	39.7	36.6	3.1
Onerous contracts	8.7	8.0	0.7	3.5	-	3.5
Other	1.4	0.1	1.3	1.4	0.2	1.2
Total	53.4	48.8	4.6	44.6	36.8	7.8
Provision for taxes	1.2	0.7	0.5	6.5	-	6.5

Provision for personnel

The provision for personnel primarily represents obligations for anniversary payments and early retirement. The provisions for early retirement plans will be completely paid out in six years. The out-flow takes place on a continuous basis. The Group owns bonds and securities that serve as plan assets for early retirement benefits and have been offset against the obligations resulting from early retirement.

Provisions for onerous contracts

The provision includes expected costs for obligations arising from the termination of long-term contracts.

The following table shows the development of other provisions for the years 2017 and 2016:

Development of other provisions

In EUR million	Jan. 1, 2017	Utilization	Reversal	Addition	Interest and exchange rate	Other	Dec. 31, 2017
Personnel	39.7	-16.0	-1.1	20.7	0.2	-0.2	43.3
Onerous Contracts	3.5	-3.3	-0.2	8.7	-	-	8.7
Other	1.4	-0.8	0.0	0.9	-0.1	-	1.4
Total	44.6	-20.1	-1.3	30.3	0.1	-0.2	53.4

Provision for taxes

The provision for taxes comprises amounts for current income tax obligations. This line item comprises all expected obligations from domestic and foreign entities.

The following table shows the development of the provision for income taxes:

Provision for taxes

In EUR million	Jan. 1, 2017	Utilization	Reversal	Addition	Interest and exchange rate	Dec. 31, 2017
Taxes	6.5	-6.3	-	1.5	-0.5	1.2

12 Trade liabilities, other financial and non financial liabilities, and income tax liabilities

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Total	of which non-current	of which current	Total	of which non-current	of which current
Trade liabilities	67.1	–	67.1	81.6	–	81.6
Other liabilities						
Derivative financial instruments	0.7	0.0	0.7	10.4	1.2	9.2
Other	0.5	–	0.5	0.6	–	0.6
Total	1.2	0.0	1.2	11.0	1.2	9.8
<i>of which > 5 years</i>	–	–	–	–	–	–
Other non-financial liabilities						
Other tax liabilities	2.9	–	2.9	2.9	–	2.9
Social security	2.1	–	2.1	2.1	–	2.1
Payroll	1.6	–	1.6	1.0	–	1.0
Profit-sharing and bonuses	29.0	–	29.0	10.6	–	10.6
Other personnel liabilities	11.3	–	11.3	6.9	–	6.9
Prepayments received	69.8	42.9	26.9	26.2	3.9	22.3
Other	0.1	–	0.1	0.0	–	0.0
Total	116.8	42.9	73.9	49.7	3.9	45.8
<i>of which > 5 years</i>	–	–	–	–	–	–
Income tax liabilities	4.8	–	4.8	0.1	–	0.1

Liabilities relating to social security refer in particular to amounts withheld that have not been paid.

The other personnel liabilities include primarily vacation and flex-time credits.

Within the scope of long-term supply agreements with customers, the Group has received prepayments for future shipments of wafers. These prepayments will be reduced due to shipments; the amount of the reduction depends on the level of future sales.

The liability from derivative financial instruments represents the negative fair value of these instruments.

13 Financial liabilities

In EUR million	As of December 31, 2017			As of December 31, 2016		
	Total	of which non-current	of which current	Total	of which non-current	of which current
Loan from non-controlling interests	–	–	–	40.4	40.4	–

Non-current financial liabilities included a shareholder loan from non-controlling interests. The non-controlling interest refers to the SSW.

The loan including accrued interest was fully repaid in 2017. Of the repayment in the amount of EUR 39.9 million, EUR 31.4 million refer to the nominal value of the loan, reported under cash flow from financing activities, and EUR 8.5 million refer to accrued interest included in cash flow from operating activities. The difference of EUR 0.5 million compared to the carrying amount at the end of the financial year 2016 is due to currency-related adjustments, because the loan was issued in SGD.

14 Other financial obligations and contingencies

The Group leases property, equipment, vehicles, and IT equipment by way of rental agreements and operating leases. With the exception of the property leases that have terms until the year 2040, the rentals and leases have terms up to eight years.

In 2017 and 2016, expenses for lease and rent amounted to EUR 9.0 million and EUR 7.1 million, respectively.

Other financial obligations

In EUR million	Dec. 31, 2017	Dec. 31, 2016
Obligations from rental and operating lease agreements		
due within 1 year	3.0	3.4
due between 1 to 5 years	10.3	11.3
due after 5 years and more	35.0	45.7
Total	48.3	60.4

As of December 31, 2017, obligations from purchase commitments were EUR 139.5 million (prior year: EUR 30.6 million); the commitments primarily related to property, plant and equipment.

The Group enters into long-term purchase agreements with minimum commitments. These minimum purchasing obligations amounted to EUR 50.2 (prior year: EUR 45.5 million) as of December 31, 2017.

Other disclosures

15 Earnings per share

	2017	2016
Net result attributable to Siltronic AG shareholders (in EUR million)	185.3	12.0
Average number of outstanding common shares	30,000,000	30,000,000
Number of common shares outstanding at the end of the year	30,000,000	30,000,000
Earnings per common share (in EUR) (average)	6.18	0.40
Dividend payment per common share (in EUR)	0.00	0.00

For the financial year 2017, the Management Board and Supervisory Board propose to distribute a dividend of EUR 2.50 per share. The approval or rejection of this proposal is the responsibility of the Annual General Meeting of Siltronic AG. Subject to this approval a total amount of EUR 75 million will be distributed for the total number of 30,000,000 no-par value shares.

16 Financial instruments

The following tables show financial assets and liabilities by measurement categories and classes for the years ending December 31, 2017 and 2016, respectively. Also presented are liabilities from derivatives for which hedge accounting is used, even though they do not belong to any of the IAS 39 measurement categories.

The fair value of financial instruments measured at amortized cost is determined based on discounting, taking into account customary market interest rates that are adequate to the specific risk and correspond to the relevant maturity. The carrying amount of current items recognized in the statement of financial position approximate fair value. The categories in accordance with IAS 39 differ between assets and liabilities measured at amortized costs and those measured at fair value as shown in the table below.

These categories are sufficient to reflect the classes in accordance with IFRS 7 which distinguish at minimum financial instruments measured at amortized cost from financial instruments measured at fair value. Those financial instruments which show specific risks are derivative financial instruments only pertaining to foreign currency derivatives, which are presented separately in the table below.

Financial assets and liabilities by measurement categories

In EUR million	Measurement according to IAS 39				Fair value as of Dec. 31, 2017
	Carrying amount as of Dec. 31, 2017	Amortized cost	Fair value through profit or loss	Fair value through other comprehensive income	
Securities	1.3	–	–	1.3	1.3
Trade receivables	159.9	159.9	–	–	159.9
Fixed-term deposits	116.3	116.3	–	–	116.3
Other financial assets	22.8	2.8	4.2	15.8	22.8
Loans and receivables		2.8	–	–	2.8
Derivatives for which hedge accounting is not used (assets held for trading)		–	4.2	–	4.2
Derivatives for which hedge accounting is used		–	–	15.8	15.8
Cash and cash equivalents	225.8	225.8	–	–	225.8
Total financial assets	526.1				526.1
<i>of which pursuant to IAS 39 measurement categories:</i>					
Loans and receivables	504.8	504.8	–	–	504.8
Securities classified as available-for-sale	1.3	–	–	1.3	1.3
Derivatives for which hedge accounting is not used (assets held for trading)	4.2	–	4.2	–	4.2
Derivatives for which hedge accounting is used	15.8	–	–	15.8	15.8
Trade liabilities	67.1	67.1	–	–	67.1
Recognized at amortized cost		67.1	–	–	67.1
Other financial liabilities	1.2	0.5	0.2	0.5	1.2
Recognized at amortized cost		0.5	–	–	0.5
Derivatives for which hedge accounting is not used (liabilities held for trading)		–	0.2	–	0.2
Derivatives for which hedge accounting is used		–	–	0.5	0.5
Total financial liabilities	68.3				68.3
<i>of which pursuant to IAS 39 measurement categories:</i>					
Financial liabilities recognized at amortized cost	67.6	67.6	–	–	67.6
Derivatives for which hedge accounting is not used (assets held for trading)	0.2	–	0.2	–	0.2
Derivatives for which hedge accounting is used	0.5	–	–	0.5	0.5

Financial assets and liabilities by measurement categories

In EUR million	Measurement according to IAS 39				Fair value as of Dec. 31, 2016
	Carrying amount as of Dec. 31, 2016	Amortized cost	Fair value through profit or loss	Fair value through other comprehensive income	
Trade receivables	118.2	118.2	–	–	118.2
Fixed-term deposits	79.0	79.0	–	–	79.0
Other financial assets	18.7	13.7	1.9	3.1	18.7
Loans and receivables		13.7	–	–	13.7
Derivatives for which hedge accounting is not used (assets held for trading)		–	1.9	–	1.9
Derivatives for which hedge accounting is used		–	–	3.1	3.1
Cash and cash equivalents	136.4	136.4	–	–	136.4
Total financial assets	352.3				352.3
<i>of which pursuant to IAS 39 measurement categories:</i>					
Loans and receivables	347.3	347.3	–	–	347.3
Derivatives for which hedge accounting is not used (assets held for trading)	1.9	–	1.9	–	1.9
Derivatives for which hedge accounting is used	3.1	–	–	3.1	3.1
Financial liabilities	40.4	40.4	–	–	40.4
Recognized at amortized cost		40.4	–	–	40.4
Trade liabilities	81.6	81.6	–	–	81.6
Recognized at amortized cost		81.6	–	–	81.6
Other financial liabilities	11.0	0.6	2.7	7.7	11.0
Recognized at amortized cost		0.6	–	–	0.6
Derivatives for which hedge accounting is not used (liabilities held for trading)		–	2.7	–	2.7
Derivatives for which hedge accounting is used		–	–	7.7	7.7
Total financial liabilities	133.0				133.0
<i>of which pursuant to IAS 39 measurement categories:</i>					
Financial liabilities recognized at amortized cost	122.6	122.6	–	–	122.6
Derivatives for which hedge accounting is not used (assets held for trading)	2.7	–	2.7	–	2.7
Derivatives for which hedge accounting is used	7.7	–	–	7.7	7.7

The loans and receivables reported include trade receivables, fixed-term deposits and other loans, as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the exchange rate on the reporting date. Their carrying amounts are equal to their fair values.

The carrying amounts of trade liabilities and current other liabilities are equal 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 as of the reporting date.

The following table shows the net gains and losses from financial instruments by measurement category. The impacts on earnings due to derivatives that qualify for cashflow hedge accounting are not shown in the table because they do not belong to any of the IAS 39 measurement categories.

Net result by measurement category

In EUR million	2017	2016
Loans and receivables	-18.5	7.5
Securities classified as available for sale	0.1	-
Assets/liabilities classified as at fair value through profit or loss	6.0	-3.8
Financial liabilities recognized at amortized cost	3.3	-2.3
Total	-9.1	1.4

The net result of the category 'Loans and receivables' was primarily due to net losses and gains from exchange rate effects, interest income from financial assets, fixed-term deposits and bank balances (net of valuation allowances).

The net gains on long-term securities are shown in the category 'Securities classified as available-for-sale'.

Gains and losses from changes in the fair value of foreign exchange rates which do not meet the requirements of IAS 39 for hedge accounting are recorded in the category 'fair value through profit or loss.'

The net losses in the category 'Financial liabilities recognized at amortized cost' primarily consist of interest expenses on financial liabilities and effects resulting from valuations with different foreign exchange rates.

The interest income from financial assets which are not recognized at fair value through profit or loss amounts to EUR 1.9 million in 2017 (prior year: EUR 0.7 million). This interest income relates to cash and cash equivalents and fixed-term deposits.

The interest expenses from financial liabilities which are not recognized at fair value through profit or loss were EUR 1.2 million in 2017 (prior year: EUR 1.3 million).

The financial assets and liabilities measured at fair value in the statement of financial position were allocated to one of three categories in accordance with the fair value hierarchy described in IFRS 13.

The levels of the hierarchy are as follows:

Level I. Financial instruments measured using quoted prices in active markets (markets showing appropriate liquidity) which are representative to the financial instrument being measured.

Level II. 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 and loans.

Level III. 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 application of different valuation methods (typically applied for over-the-counter derivatives and unquoted equity instruments).

The following tables show 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.

Fair value hierarchy

In EUR million	As of December 31, 2017			
	Level I	Level II	Level III	Total
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading)	–	4.2	–	4.2
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	15.8	–	15.8
Securities classified as available-for-sale	–	1.3	–	1.3
Total	–	21.4	–	21.4
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	–	0.2	–	0.2
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	0.5	–	0.5
Total	–	0.7	–	0.7
As of December 31, 2016				
In EUR million	Level I	Level II	Level III	Total
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading)	–	1.9	–	1.9
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	3.1	–	3.1
Total	–	5.0	–	5.0
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	–	2.7	–	2.7
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	7.7	–	7.7
Total	–	10.4	–	10.4

Market values are calculated using information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methods (discounted cash-flow or well-established actuarial methodologies, such as the par method).

Derivative financial instruments and securities are recognized at fair value and are thus subject to a recurring fair value assessment. They are categorized as Level II fair values.

The fair value of a derivative financial instrument is calculated based on market data such as exchange rates or yield curves in accordance with market-specific valuation methods. The calculation of the fair value reflects our and the counterparty's default risk, using maturity-matching and market-observable CDS values.

Financial liabilities measured at amortized cost included in prior year the loan of the non-controlling interests of SSW.

Disclosures on derivative financial instruments

In cases where the Group hedges against foreign currency risks, it uses derivative financial instruments which comprise currency forward exchange contracts, currency option contracts, and currency foreign exchange swaps. Derivatives are used only if they are offset by scheduled transactions arising from operations (underlying transactions). The scheduled transactions also include expected transactions. The derivatives relate to three areas which are called 'strategic hedging', 'operational hedging' and 'hedging of specific intra-group matters'.

Strategic hedging comprises expected sales transactions in foreign currency which are not yet invoiced. The time horizon for strategic hedging is between two and a maximum of 21 months. The hedged cash flows influence the statement of profit or loss at the time when sales are realized. The cash inflows are usually recorded one to two months afterwards. Strategic hedging is carried out using currency forward exchange contracts, currency option contracts as well as stop/loss-orders deposited with the bank.

Operational hedging relates to recognized trade receivables and trade liabilities and generally covers time horizons of between one and two months. Hedges are executed with currency forward exchange contracts.

Hedging of specific intra-group matters, especially intra-group loans, are usually covered by currency swap contracts.

Foreign exchange hedging is carried out mainly for the US dollar, Japanese yen and Singapore dollar.

The market values refer to the repurchase values (redemption values) of the financial derivatives and are calculated using recognized actuarial methods.

The derivatives are recognized at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets or other liabilities. Where eligible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange cash flows. In such cases, changes in the market values of foreign exchange contracts and changes in the intrinsic values of currency options are recognized in other comprehensive income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated in other equity items are reversed through profit or loss.

For strategic hedging purposes, staggered hedging ratios of between 30 percent and 50 percent are used in relation to the expected net exposure in US dollars (where applicable, taking into account currencies showing a high correlation with the US dollar). The expected net exposure on US dollar basis for 2018 is approximately 35 percent hedged.

The accumulated unrealized gains and losses recorded directly in other equity items at December 31, 2017 included unrealized gains and losses from cash flow hedges of EUR 11.2 million (prior year: EUR -4.6 million).

Depending on the nature of the underlying transaction, cash flow hedges are posted in the statement of profit or loss under the operating result or, if financial liabilities are being hedged, under financial result.

Nominal values and market values

In EUR million	As of December 31, 2017		As of December 31, 2016	
	Nominal values	Market values	Nominal values	Market values
Foreign currency derivatives	783.2	19.3	593.4	-5.4
Market values for derivative financial instruments within hedge accounting	-	15.2	-	-4.6

The foreign exchange derivatives contain forward exchange contracts and currency options with nominal amounts of USD 494.2 million, JPY 16.9 billion, and SGD 15.0 million and EUR 218.0 million as of December 31, 2017. Derivatives with market values of EUR 17.8 million are due in 2018 and of EUR 1.5 million due in 2019.

The following table provides information on the netting of financial assets and liabilities in the consolidated statement of financial position. It also shows the financial effects of a possible setting off

of financial instruments from netting agreements, enforceable global netting agreements, or similar agreements.

Netting of financial assets and liabilities

In EUR million	As of December 31, 2017					
	I	II	I–II	Related amounts not set off in the statement of financial position		Net amount
	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial assets/liabilities set off in the statement of financial position	Net amounts of financial assets/liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	
Derivatives with a positive market value	20.2	0.6	19.6	0.3	–	19.3
Derivatives with a negative market value	–0.9	–0.3	–0.6	–0.6	–	0.0

In EUR million	As of December 31, 2016					
	I	II	I–II	Related amounts not set off in the statement of financial position		Net amount
	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial assets/liabilities set off in the statement of financial position	Net amounts of financial assets/liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	
Derivatives with a positive market value	5.8	0.9	4.9	4.3	0.0	0.6
Derivatives with a negative market value	–11.2	–0.9	–10.3	–4.3	0.0	–6.0

In addition to the amounts offset under the provisions on netting pursuant to IAS 32, the table also includes those amounts that may not be netted pursuant to IAS 32.

are recognized as a net amount in accordance with IAS 32. In addition, general offsetting agreements, which apply only in cases of insolvency, have been concluded with a number of banks.

As a part of strategic hedging of foreign currency cash flows the Group closes out forward-exchange contracts prior to maturity by offsetting transactions. The strategic forward exchange contract and the corresponding offsetting forward exchange transaction

The Group has not received any pledged cash security for positive market values of derivatives nor pledged any cash security for negative market values.

Management of financial risks

The following disclosures explain the management of the financial risks of the Group. Other parts of these notes include more quantitative information to financial assets and financial liabilities or contingencies.

In the normal course of business, the Group is exposed to credit, liquidity, and market risks from financial instruments. The goal of financial risk management is to limit risks from operating business and the resultant financing requirements by using certain derivative and non-derivative hedging instruments.

In terms of assets, liabilities, and planned transactions, the Group faces risks resulting from the fluctuation of foreign exchange rates. Changes in interest rates and equity prices do not play a significant role for the Group.

Generally, only those risks which have an impact on the cash flow of the Group are hedged. To mitigate default risks, hedging instruments are only entered with counterparties of high credit rating.

The basic rules of financial management are determined by the Executive Board and monitored by the Supervisory Board of the Group. The Executive Board has the overall responsibility for the implementation and monitoring of the risk management of the Group. Part of this system is the management of financial risks. Among other things, the system for managing financial risks has a guideline defining the usage and the extent of derivative financial instruments and committees supervising the application of the guideline, evaluating the efficiency of the derivative financial instruments entered and defining additional risk limits when necessary.

The Group mitigates financial risks through the risk management system it has in place. This system is monitored by the Supervisory Board. The fundamental purpose of the risk management system is to identify, analyze, coordinate, monitor, and communicate risks in a timely manner. The Executive Board of the Group 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 currency exchange risks, and interest rate risks on net interest income.

Foreign currency risks

Foreign currency risks generally result from investments, financing measures, and operating business. The Group hedges foreign currency risks as far as it can influence the cash flow of the Group. Foreign currencies which do not influence the cash flow of the Group result from the translation of assets and liabilities of foreign subsidiaries into Euro. Such risks are not hedged because they refer to long-term investments.

Since it is very common in the semiconductor industry to transact in US dollar and the proceeds for the Group from the sale of products (operating business) significantly exceed the cash-outflows in US dollar (operating business and investments), the Group faces a US dollar foreign exchange risk. The Group also faces foreign exchange risk related to the Japanese yen and the Singapore dollar.

The net exposure for foreign currency, i.e. the amount in the same foreign currencies (or currencies put together because of high correlations) remaining after eliminating cash inflows and cash outflows, is hedged according to the Group policy.

In the finance area, the Group is exposed to currency risks from a loan denominated in foreign currency which exists for the Group's financing purposes in relation to a minority shareholder. When material, these risks are hedged against currency exchange rates and swaps are used as hedging instruments.

To record market risks, IFRS 7 requires sensitivity analyses which show the results from hypothetical changes of relevant risk variables on profit or loss and on equity. The periodical changes are calculated by applying the hypothetical changes of the risk variables on all existing financial instruments as of the reporting date. The sensitivity analyses regarding foreign currencies have the following presumptions:

The existing primary monetary financial instruments (cash and cash equivalents, fixed-term deposits receivables, interest bearing, and non-interest bearing liabilities) as of the reporting date represent a normal level. In the future, approximately two-thirds of consolidated sales, which is the current level, will be invoiced in US dollar. Payouts in foreign currency remain on the current level which is dependent on the production level. Thus, the Group is only opposed to foreign currency exchange risks coming from trade receivables not hedged and the change in fair value of existing derivative financial instruments.

If the US dollar against the euro as at 31 December 2017 would have been up or down by 10 percent, the fair value of the hedging instruments would have decreased or increased by around EUR 28.1 million. The change would have been recorded in other comprehensive income with EUR 26.9 million and in the net result for the period with EUR 1.2 million. The corresponding changes in value as of December 31, 2016 would have decreased or increased by EUR 10.2 million as a result of the use of options. If the yen had been up or down by 10 percent against the euro as of December 31, 2017, the fair value of the hedging instruments would have increased by around EUR 8.9 million. The change would have been recorded in other comprehensive income with EUR 8.7 million and in net result for the period with EUR 0.2 million. The corresponding change in fair value as of December 31, 2016 would have amounted to EUR 9.5 million.

Interest rate risk

Since the Group had no material interest bearing net liabilities at the reporting date and does not expect to face major net liabilities, interest rate risks are not hedged. Further, due to the fact that the derivatives related to foreign currencies are not subject to significant changes in interest rates, no interest rate risk arises thereof.

Other price risks

The Group does not face any material other market price risks, which generally result from stock market prices.

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, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal guidelines 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 partly hedged against by means of trade credit insurance. Receivables from major customers are not so high as to represent an extraordinary concentration of risks. The Group has implemented rules to monitor receivables including dunning and stop of shipments. Default risks are accounted for by impairment, taking advance payments received into account.

To minimize the credit risk resulting from all base transactions related to the original financial instruments, collateral (e.g. retention of title) is requested or credit information and references respectively are obtained or historical data from prior business relationships, especially payment behavior, is used to avoid payment default. The measure depends on the type and amount of transaction. As far as default risk can be recognized for individual financial assets, such risks are covered by specific reserves for bad debt.

In the last three years, the expenses for default was on average less than 0.1 percent of sales.

Liquidity risk

A liquidity risk means that a company may not be able to meet its existing or future financial obligations because of insufficient funds. The Group ensures continuous liquidity and financial flexibility by holding enough funds as cash and cash equivalents. Financing through loans plays a minor role.

The liquidity status of the Group is monitored by comparing cash outflows for each of the next three months with the cash proceeds. In addition, actual cash flows are compared to forecasted cash flows to detect unplanned developments early. Moreover, a cash flow forecast on a monthly rolling basis is in place covering the period to the end of the year. This forecast is in accordance with the monthly forecasts of statement of profit or loss and statement of financial position which are also covering the period to the end of the year. By these means the Company ensures that it will meet financial liabilities without negatively affecting its reputation.

According to the policy of the Group, guarantees are generally issued only to subsidiaries. No guarantees had been issued as of the years ended December 31, 2017 or 2016.

Market risk

Market risk describes the risk that the fair value or future cash flows of an original or derivative financial asset will change due to the volatility of the market.

Fixed-term deposits

Fixed-term deposits are investments held at banks. The terms of the deposits run until 2018.

17 Segment reporting

The Group has only one reportable segment, which includes the development, production, and marketing of semiconductor wafers with a wide variety of features satisfying numerous product specifications to meet customers' precise technical specifications, which are utilized in the manufacture of semiconductor devices. Based on the fact that in the wafer industry the allocation of

resources is derived from a wide variety of specifications, the Group operates only in one segment. The products can differ between diameters, between polished and epitaxial wafer, between different pulling technologies and other features.

The geographical information during the reporting periods was as follows:

Segment information by region

In EUR million	2017							Siltronic Group
	Germany	Europe excluding Germany	United States	China including Taiwan	Korea	Asia excluding China and Korea	Consolidation and others	
External sales by customer location	80.2	134.2	154.6	381.8	225.5	185.0	16.0	1,177.3
Additions to property, plant and equipment, and intangible assets	92.8	–	5.1	0.1	0.1	25.1	–	123.2
Non-current assets (December 31)	285.0	–	11.9	0.1	0.1	222.4	17.7	537.2

In EUR million	2016							Siltronic Group
	Germany	Europe excluding Germany	United States	China including Taiwan	Korea	Asia excluding China and Korea	Consolidation and others	
External sales by customer location	61.0	109.5	126.2	266.5	193.5	163.5	13.2	933.4
Additions to property, plant and equipment, and intangible assets	67.4	–	1.5	–	–	19.9	–	88.8
Non-current assets (December 31)	243.7	–	9.6	–	–	275.4	17.5	546.2

In 2017, the Group realized sales with two customers with a share of 16 percent and 15 percent, respectively. In 2016, two customers constituted 16 and 13 percent of consolidated sales.

18 Transactions with related companies and persons

The disclosure requirements according to IAS 24 refer to transactions (i) with its minority shareholder Wacker Chemie AG (until March 15, 2017 majority shareholder) and the ultimate controlling shareholder of Wacker Chemie AG, which is Dr. Alexander Wacker Familiengesellschaft mbH (holding more than 50 percent of the voting shares in Wacker Chemie AG), (ii) with Pensionskasse (pension fund), and (iii) with members of the Executive Board and Supervisory Board of the Company.

Related companies

The amounts recorded in the statement of profit or loss resulting from transactions with related companies were as follows:

Information on transactions with related companies

In EUR million	2017	2016
Sales	1.0	5.1
Purchased material and services (primarily cost of sales)	171.8	164.8

In 2017, sales include research and development services for EUR 1.0 million (prior year: EUR 3.0 million) to Wacker Chemie AG.

Remuneration of corporate bodies

In EUR		Fixed remuneration	Variable remuneration	Share-based payments	Pensions	Total
	2017	817,327	685,890	701,356	265,666	2,470,239
Remuneration for Executive Board members	2016	760,169	769,080	–	235,586	1,764,835
	2017				4,073,552	4,073,552
Provisions for pensions for active Executive Board members	2016				3,536,713	3,536,713
	2017				213,317	213,317
Remuneration for former Executive Board members and their surviving dependants	2016				210,688	210,688
	2017				7,205,291	7,205,291
Remuneration for former Supervisory Board members and their surviving dependants	2016				7,402,473	7,402,473
	2017	537,500				537,500
Supervisory Board remuneration	2016	470,000				470,000

The cost of sales primarily relates to (i) the purchase of the major raw material polysilicon from Wacker Chemie AG and (ii) a services framework agreement the Company has entered into with Wacker Chemie AG covering technical engineering, IT, materials management and procurement, site services at the production facility in Burghausen, and corporate administrative services.

The following table shows inventories, receivables from and liabilities to related parties recorded in the statement of financial position for the years ended December 31, 2017 and 2016:

Inventories, receivables from and liabilities to related parties

In EUR million	Dec. 31, 2017	Dec. 31, 2016
Inventories	10.0	10.8
<i>of which Wacker Chemie</i>	10.0	10.8
Other assets	8.0	12.3
<i>of which advance/special payment to Pensionskasse</i>	8.0	11.1
Trade liabilities	9.5	24.9
<i>of which Wacker Chemie</i>	9.5	24.9

The inventories relate to shipments of raw materials supplied by Wacker Chemie AG.

Related persons

The following table shows the remuneration of members of the Executive Board and Supervisory Board:

Remuneration for pensions consists of service costs and interest costs.

Moreover there were no further significant transactions between Siltronic and related parties in the 2017 fiscal year going beyond the existing employment, service, or appointment relationship or the contractual remuneration.

Detailed information on the remuneration of the Executive Board members are included in the remuneration report on [p. 74](#). The remuneration report is part of the management report and includes disclosures which are part of the notes under German commercial law.

19 Share-based payments

At its meeting on September 14, 2017, the Supervisory Board modified the compensation system in place for the Executive Board with retroactive effect from January 1, 2017. For the first time, a part of their performance-related compensation of members of the Executive Board will be granted in the form of phantom stocks.

The performance-related compensation for a particular fiscal year ('compensation year') is calculated on the basis of the average of the overall target achievement factors relating to each of the performance categories for the compensation year and the previous fiscal year, multiplied by the average contractually agreed annual basic salary in the compensation year. 51 percent of the performance-related compensation is initially converted into virtual shares (phantom stocks) based on the average weighted Xetra closing price of the Company's share during the last 30 trading days of the compensation year. After a holding period of two years, the virtual shares are settled in cash. Dividends that would have been paid out during the holding period for real shares are added to the cash settlement. The variable compensation is limited to a maximum amount of 300 percent of the average annual basic salary. Details of the share-based payment agreement are provided in the remuneration report on [p. 74](#). A total of 5.782 shares will be allocated to the Executive Board on the basis of the overall target achievement factors for the various performance categories. The average price of the Siltronic share was EUR 123.45, which is the relevant average price for the number of phantom shares. The fair value per phantom share on the reporting date was EUR 121,30 (closing rate 2017), giving rise to a provision of EUR 0.7 million at the end of the fiscal year and a personnel expense of EUR 0.7 million for 2017.

20 Other information

On March 15, 2017, Wacker Chemie AG sold the majority of the shares in Siltronic AG. Therefore, Siltronic AG is only included into the consolidated financial statements of Wacker Chemie until March 14, 2017. Until this point in time, Wacker Chemie AG prepared the consolidated financial statements for the largest group of companies and Siltronic for the smallest group of companies.

Wacker Chemie AG's consolidated financial statements can be inspected in the electronic Federal Gazette and can be accessed via the Wacker Chemie AG website.

As of March 15, 2017, Siltronic AG prepares the consolidated financial statements for the largest group of companies.

The following table shows the personnel employed on average during the year.

Average number of employees

Number	2017	2016
Non-production staff	1,224	1,228
Production staff	2,482	2,583
Total	3,706	3,811

Costs for auditors are separated into audit and other advisory services.

Audit fees

In EUR million	2017	2016
Audit of financial statements	0.4	0.4
Other audit services	0.1	0.0
Total	0.5	0.4

The list of shareholdings in affiliated companies as of December 31, 2016 is as follows (IFRS amounts):

List of shareholdings

	2017		
	Share capital in EUR million	Net income in EUR million	Equity share in %
Siltronic Holding International B.V., Krommenie, The Netherlands ¹⁾	273.1	0.1	100.0
Siltronic Singapore Pte. Ltd., Singapore ²⁾	237.5	71.8	100.0
Siltronic Silicon Wafer Pte. Ltd., Singapore ²⁾	-2.5	35.6	77.7
Siltronic Corp., Portland (Oregon), USA ²⁾	18.4	14.1	100.0
Siltronic Japan Corp., Tokyo, Japan ²⁾	-4.2	2.6	100.0
Siltronic Korea Ltd., Seoul, Korea ¹⁾	0.0	0.0	100.0

¹⁾ Held directly by Siltronic AG

²⁾ Held indirectly by Siltronic AG

21 Subsequent events

There were no significant events after the end of the fiscal year ending December 31, 2017.

Munich, March 1, 2018

The Executive Board of Siltronic AG



Dr. Christoph von Plotho
(CEO)



Rainer Irle
(CFO)

Additional information

Auditor's report

To Siltronic AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Siltronic AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Siltronic AG for the financial year from 1 January 2017 to 31 December 2017.

In our opinion, based on the findings of our 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 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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 combined management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and 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 Combined 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 combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 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, and we do not provide a separate opinion on these matters.

Revenue recognition cut-off

Please refer to the 'Revenue recognition' section under 'Accounting policies' in the notes to the consolidated financial statements for more information on the accounting methods used to recognise revenue.

Financial Statement Risk

The Group's revenue amounted to EUR 1,177.3 million in the reporting year.

The Group's key markets are in Europe, the US and Asia. Group entities deliver the products around the world on the basis of differing delivery terms. The delivery terms specify the transfer of risk and thereby generally also the date of revenue recognition. The products are delivered to or picked up by customers using various modes of transportation such as aircraft, truck or ship.

The use of different delivery terms and various transport times, alongside the high number of deliveries, means there is the risk for the financial statements that revenue could be incorrectly recognised as of the reporting date.

Our audit approach

In order to audit whether revenue is recognised in the period in which it is incurred, we assessed the appropriateness and implementation of internal controls in terms of order acceptance, outgoing goods and invoicing, as well as in particular the determination and verification of the proper/actual transfer of risk.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices to the related external delivery records and the corresponding orders. This was based on revenue selected using a mathematical/statistical procedure, which – depending on the delivery terms and typical delivery times until the transfer of risk – was recognised during a defined period before and after the reporting date. In addition, we also examined whether all outgoing deliveries made until the reporting date were recognised accordingly. This was based on a system-generated report, the validity of which we have verified. Furthermore, we examined whether relevant credit notes were issued at the start of the following financial year. In this context, we evaluated the respective documents. Furthermore, we assessed revenue entered into the accounts manually, especially as of the end of the period and the beginning of the following year. To this end, we evaluated the manual transactions using the related supporting documents, such as invoices or the contractual basis.

Our observations

Siltronic Group's procedure for revenue recognition cut-off is appropriate.

Measurement of derivative financial instruments to hedge currency risk

Please refer to the 'Market price/currency risk' section of the 'Risks and opportunities report' in the combined management report for explanatory notes on the derivative financial instruments used to hedge currency risk. Please refer to the 'Financial instruments and derivatives' section under 'Accounting policies' as well as the 'Financial instruments' section in the notes to the consolidated financial statements for information on the valuation methods used.

Financial Statement Risk

As Siltronic generates considerable revenue in US dollars and Japanese yen, however incurs costs predominantly in euros and Singapore dollars, it is exposed to foreign exchange risk from its operating activities. Foreign exchange risk is partially hedged by

derivative financial instruments. These derivative financial instruments include currency forwards, currency swaps and currency options. The consolidated financial statements as of 31 December 2017 include financial assets from derivatives of EUR 20.0 million and financial liabilities from derivatives of EUR 0.7 million. In addition, the consolidated income statement reports foreign exchange gains of EUR 57.0 million under other operating income and foreign exchange losses of EUR 60.0 million under other operating expenses on net income for the year of EUR 192.2 million. Furthermore, positive changes in the market value of derivative financial instruments in a hedging relationship recognised directly in other comprehensive derivative financial instruments in a hedging relationship recognised directly in other comprehensive income in the amount of EUR 15.8 million are shown in the consolidated statement of profit or loss and other comprehensive income. The cumulative changes in market value of derivative financial instruments recognised directly in the Group's equity amounted EUR 11.2 million as of the reporting date.

Derivative financial instruments are measured at fair value pursuant to IFRS 13. Since quoted prices are not available, the fair values are determined using recognised financial methods for measurement. This involves complex valuation methods. These methods are based on input parameters observable in the market, which mainly involve foreign exchange rates, interest rates and counterparty default risks and which are subject to considerable volatility.

There is the risk for the financial statements that the financial instruments may not have been measured correctly.

Our audit approach

As part of the audit team, we involved our valuation experts when auditing the measurement of derivative financial instruments to hedge currency risk.

In order to audit the measurement of derivative financial instruments, we assessed the appropriateness, implementation and effectiveness of internal controls as regards the fair values measured during the financial year and as of the reporting date.

In addition, the measurement of fair values conducted by Siltronic for the portfolio of derivative financial instruments as of the reporting date was verified and assessed by us using our own calculated benchmarks. We calculated these benchmarks on the basis of the input parameters observable in the market.

Our observations

The valuation methods and input parameters used by Siltronic are appropriate for measuring derivative financial instruments.

Other information

The Executive Board is responsible for the other information. The other information comprises the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined 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 doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Executive Board 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, the Executive Board 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, the Executive Board 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, the Executive Board is responsible for the preparation of the combined 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, the Executive Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined 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 combined 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 combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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 combined 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 combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined 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 combined 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 the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.
- Conclude on the appropriateness of Executive Board'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 combined 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 combined 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 combined 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 the Executive Board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Executive Board 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 at the annual general meeting on 9 May 2017. We were engaged by the supervisory board on 22 February 2017, under the condition that we would be elected as group auditor at the annual general meeting of Siltronic AG on 9 May 2017. We have been the group auditor of Siltronic AG without interruption since financial year 2015.

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).

In addition to the financial statement audit, we have provided the following services to group entities that are not disclosed in the consolidated financial statements or in the combined management report:

We audited the separate financial statements and the related party transactions report of Siltronic AG. Audit reviews of interim financial statements were integrated into the audit. Furthermore, other assurance services were provided for statutory or contractually agreed audits, such as audits in accordance with the German Renewable Energies Act [EEG], EMIR assessments pursuant to Section 20 of the German Securities Trading Act [WpHG], certification of electricity price compensation and an assurance engagement for the non-financial statement.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Volker Specht.

Munich, 1 March 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Specht
Wirtschaftsprüfer
[German Public Auditor]

Ratkovic
Wirtschaftsprüfer
[German Public Auditor]

Responsibility statement

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 assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the significant opportunities and risks associated with the expected development of the Group.

Munich, February 22, 2017
The Executive Board of Siltronic AG



Dr. Christoph von Plotho
(CEO)



Rainer Irle
(CFO)

Further disclosures on offices held

Supervisory Board

Dr. Tobias Ohler

Chairman

Munich
Member of the Executive Board
of Wacker Chemie AG

Member of the Supervisory Board

– Pensionskasse
Wacker Chemie VVaG

Johann Hautz¹⁾

Deputy chairman

Burghausen
Chairman of the works council
of Siltronic AG, Burghausen site

Maximilian Baumgartner¹⁾

Markt
Head of Operation Processes,
Siltronic AG
Chairman of the general committee of
senior executives of Siltronic AG,
Burghausen

Sieglinde Feist

Munich
Head of Corporate Development,
Wacker Chemie AG

Gebhard Fraunhofer¹⁾

Simbach am Inn
Chairman of the general works council
of Siltronic AG

Dr. Hermann Gerlinger

Aalen
Adviser to the Management Board of
Carl Zeiss AG
Managing Partner of GeC GmbH

Board

– VAT Group AG, Switzerland

Karin Gottschalk¹⁾

Brand-Erbisdorf
Deputy chairman of the
works council of Siltronic AG,
Freiberg site

Bernd Jonas

Essen
Attorney

Gertraud Lauber¹⁾

Bad Mündel
Secretary of the Mining, Chemical and
Energy Industrial Union (IG BCE),
Energy Transition/Sustainability
Department

Member of the Supervisory Board

– Rütgers Germany GmbH,
Castrop-Rauxel (since 01.07.2017)

Member of the Advisory Board

– Work and Environment Foundation of
IG BCE

Dr. Franz Richter

Eichenau
Chief Executive Officer
of SÜSS MicroTec SE

Chairman of the Board of Directors

– Scint-X AB

Member of the Board of Directors

– Meyer Burger Technology AG
– COMET Holding AG

Harald Sikorski¹⁾

Munich
District manager at IG BCE, Altötting

Member of the Supervisory Board

– Wacker Chemie AG

Angela Wörl

Munich
Head of HR/Social Affairs,
Wacker Chemie AG

Member of the Supervisory Board

– Pensionskasse Wacker Chemie VVaG

¹⁾ Employee representative

Supervisory Board committees

Conciliation Committee

Dr. Tobias Ohler (Chairman)
Johann Hautz¹⁾
Angela Wörl
Gebhard Fraunhofer¹⁾

Audit Committee

Bernd Jonas (Chairman)
Harald Sikorski¹⁾
Dr. Tobias Ohler

Executive Committee

Dr. Tobias Ohler (Chairman)
Johann Hautz¹⁾
Dr. Hermann Gerlinger

Nomination Committee

Dr. Tobias Ohler (Chairman)
Dr. Hermann Gerlinger

Executive Board

Dr. Christoph von Plotho

Chief Executive Officer

Application Technology
Corporate Development
Engineering
Investor Relations & Communications
Legal & Compliance
Production
Quality Management & Sustainability
Sales & Marketing
Site Management,
Burghausen & Freiberg
Supply Chain Management
Technology
Siltronic Japan
Siltronic Singapore

Member of the Board of Directors of the following affiliated companies:

- Siltronic Silicon Wafer Pte. Ltd.
- Siltronic Singapore Pte. Ltd.
- Siltronic Corporation
- Siltronic Japan Corporation

Rainer Irle

Chief Financial Officer & Labor director

Controlling & Finance
Accounting & Tax
Human Resources
IT
Procurement
Risk Management & Audit
Siltronic USA

Member of the Board of Directors of the following affiliated companies:

- Siltronic Corporation
- Siltronic Japan Corporation

¹⁾ Employee representative

Quarterly overview

		Q4 2017	Q3 2017	Q2 2017	Q1 2017
Statement of profit or loss					
Sales	EUR million	328.1	308.1	283.1	258.0
EBITDA	EUR million	120.9	106.5	72.7	53.0
EBITDA margin	%	36.8	34.6	25.7	20.5
EBIT	EUR million	91.1	77.8	43.4	23.4
EBIT margin	%	27.8	25.2	15.3	9.1
Net profit/loss for the period	EUR million	73.9	66.0	35.2	17.0
Earnings per share	EUR	2.37	2,12	1,13	0,56
Capital expenditure and free cash flow					
Capital expenditure on property, plant and equipment, and intangible assets	EUR million	-61.4	-61.7	-25.5	-19.3
Free cash flow	EUR million	38.2	58.2	41.8	31.3
Statement of financial position					
Total assets	EUR million	1,252.4	1,184.7	1,112.5	1,097.2
Equity	EUR million	637.9	588.3	522.1	475.1
Equity ratio	%	50.9	49.7	46.9	43.3
ROCE	%	48.8	43.4	24.0	12.9
Net financial assets	EUR million	342.1	294.8	241.2	175.0

Multi-year overview

		2017	2016	2015	2014
Statement of profit or loss					
Sales	EUR million	1,177.3	933.4	931.3	846.0
Gross profit	EUR million	370.3	171.9	162.9	76.6
Gross margin	%	31.5	18.4	17.5	9.1
EBIT	EUR million	235.7	27.0	2.7	-17.1
EBIT margin	%	20.0	2.9	0.3	-2.0
EBITDA	EUR million	353.1	146.0	124.0	132.1
EBITDA margin	%	30.0	15.6	13.3	15.6
Financial result	EUR million	-8.5	-11.1	-12.2	-7.7
Income taxes	EUR million	-35.0	-7.2	-10.6	-2.2
Net profit/loss for the period	EUR million	192.2	8.7	-20.1	-27.0
Earnings per share	EUR	6.18	0.40	-0.50	-0.64
Capital expenditure and free cash flow					
Capital expenditure on property, plant and equipment, and intangible assets	EUR million	-123.2	-88.8	-75.0	-40.7
Free cash flow	EUR million	169.6	19.0	37.4	113.5
Adjusted key financial indicators ¹⁾					
Adjusted sales	EUR million	1,177.3	933.4	931.3	853.4
Adjusted EBIT	EUR million	235.7	27.0	2.7	-31.6
Adjusted EBIT margin	%	20.0	2.9	0.3	-3.7
Adjusted EBITDA	EUR million	235.7	146.0	124.0	117.7
Adjusted EBITDA margin	%	30.0	15.6	13.3	13.8
Adjusted capital expenditure in property, plant and equipment, and intangible assets	EUR million	-123.2	-88.8	-75.0	-40.7
Adjusted free cash flow	EUR million	169.6	19.0	37.4	86.3
Statement of financial position					
Total assets	EUR million	1,252.4	1,056.8	1,040.8	1,070.5
Equity	EUR million	637.9	425.3	497.3	311.8
Equity ratio	%	50.9	40.2	47.8	29.1
ROCE	%	31.3	3.7	0.4	-2.4
Net financial assets (+)/debt (-)	EUR million	342.1	175.0	155.9	-24.5
Employees ²⁾		3,730	3,757	3,894	4,163

¹⁾ The adjustments relate to the year 2014 and are based on the assumption that SSW would have been consolidated prior to January 1, 2012. Initial consolidation of SSW into the consolidated financial statements was made as of January 24, 2014.

²⁾ Increase in 2014 mainly attributable to consolidation of SSW

Glossary

ASP

Average selling prices

Capabilities

The capabilities relate to the ability of Siltronic to meet the increasing technological requirements of customers, at consistent quality.

Cash flow

A financial metric representing the net amount of cash and cash equivalents flowing into and out of a business during a period. Net cash flow is the sum of cash flow from operating activities (excluding the change in advance payments received) and cash flow from current investing activities (excluding securities but including additions from finance leases).

EBIT

Earnings before interest and taxes. This standardized metric is used by many companies, making it useful for comparing profit.

EBITDA

Earnings before interest, taxes, depreciation and amortization = EBIT + depreciation and amortization.

Equity ratio

A company's equity expressed as a percentage of its total assets. This metric provides an indication of a company's economic and financial stability.

IFRS

International Financial Reporting Standards (until 2001: International Accounting Standards, IAS). These standards are developed and published by the International Accounting Standards Board (IASB), which is based in London, UK. Under the IAS Regulation, adoption of IFRS has been mandatory for listed companies headquartered in the European Union since 2005.

Semiconductor

A substance whose electrical conductivity is much lower than that of a metal but increases rapidly as the temperature rises. Semiconductors can be changed by deliberately introducing impurities in order to adapt them for a particular purpose.

HAP

Hazardous air pollutants

ROCE

Return on capital employed. This metric is calculated from a company's profit relative to the amount of capital it has used.

NM VOC

Non-methane volatile organic compounds

NOx

Nitrogen oxides

PM

Particulate matter

Polysilicon

Hyperpure silicon used to manufacture silicon wafers for the electronics and solar industries. Raw silicon is added to liquid trichlorosilane and extensively distilled before being separated again in a hyperpure form at a temperature of 1,000 degrees Celsius.

POP

Persistent organic pollutant

Silicon

The second most abundant element on Earth after oxygen. In nature, silicon can only be found in the form of compounds, predominantly silicon dioxide and silicates. Silicon is obtained in an energy-intensive reaction between quartz sand and carbon. It is the most important raw material for the electronics industry.

Silicon wafer

A round disk with a thickness of approximately 200 to 800µm. Silicon wafers are used by the semiconductor industry to manufacture semiconductor components, i.e. integrated circuits and individual components (known as discrete components).

SOx

Sulfur oxides

Financial calendar

March 5, 2018	Annual Report 2017
April 19, 2018	Annual General Meeting, Munich
April 25, 2018	Interim Reporting Q1 2018
July 25, 2018	Interim Report Q2 2018
October 25, 2018	Interim Reporting Q3 2018

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Annual report concept, design and realization
HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg

Note on the Annual Report

This Annual Report is also available in German. If there are differences between the two, the German version takes priority. The Annual Report is available as a pdf document.

Note on rounding

Please note that slight differences may arise as a result of the use of rounded amounts and percentages.

Disclaimer

This annual report contains forward-looking statements based on assumptions and estimates made by Siltronic's Executive Board. Although we assume that the expectations in these forwardlooking 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. Siltronic does not plan to update the forwardlooking statements, nor does it assume the obligation to do so. Due to rounding, it is possible that individual figures in this report and other reports do not exactly add up to the total stated and that percentages shown may not exactly reflect the absolute values to which they refer.

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